

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017**

CITY OF MOUNTAIN IRON, MINNESOTA

TABLE OF CONTENTS
December 31, 2017

	<u>Page</u>
ORGANIZATION	1
FINANCIAL SECTION	
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds	
Balance Sheet	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	18
Statement of Revenues, Expenditures, and Changes in Fund Balances	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Proprietary Funds	
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Net Position	22
Statement of Cash Flows	23
Notes to Financial Statements	25
Required Supplementary Information	
General Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	57
Schedule of Funding Progress for Postemployment Benefit Plan	58
Schedules of City's Proportionate Share of Net Pension Liability and City's Contributions for Defined Benefit Pension Plan	59
Schedule of Changes in Net Pension Liability/Asset	60
Schedule of City Contributions	61
Notes to Required Supplementary Information	62
Other Supplementary Information	
General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance	64
Schedule of Sources and Uses of Public Funds for Mountain Iron Tax Increment District No. 14	66
Schedule of Sources and Uses of Public Funds for Mountain Iron Tax Increment District No. 15	67

CITY OF MOUNTAIN IRON, MINNESOTA

TABLE OF CONTENTS (CONTINUED)

December 31, 2017

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	68
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	71
SCHEDULE OF FINDINGS AND RESPONSES	72
REPRESENTATION OF THE CITY OF MOUNTAIN IRON, MINNESOTA - CORRECTIVE ACTION PLAN	74
MANAGEMENT LETTER.....	75

CITY OF MOUNTAIN IRON, MINNESOTA

**ORGANIZATION
December 31, 2017**

CITY COUNCIL

Mayor

Gary Skalko

Council Members

Joe Prebeg, Jr.
Alan Stanaway
Susan Tuomela
Steve Skogman

ADMINISTRATION

Administrator

Craig J. Wainio

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Mountain Iron, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2017, and the related notes to the financial statements, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 represents 7 percent, 2 percent, and 6 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mountain Manor Apartments Enterprise Fund, is based solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Mountain Iron, Minnesota, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress for postemployment benefit plan, and schedules of City's proportionate share of net pension liability and City's contributions for defined benefit pension plan, schedule of changes in net pension liability/asset, and schedule of City's contributions, 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 and other auditors 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.

Other Information

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 of sources and uses of public funds for Mountain Iron Tax Increment District No. 14 and No. 15, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statement and schedules of sources and uses of public funds for Mountain Iron Tax Increment District No. 14 and No. 15 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic

financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the individual fund financial statement and schedules of sources and uses of public funds for Mountain Iron Tax Increment District No. 14 and No. 15 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2018 on our consideration of the 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 solely 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 effectiveness of the City of Mountain Iron, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mountain Iron, Minnesota's internal control over financial reporting and compliance.

Walker, Giroux & Helne, LLC

Virginia, Minnesota
June 4, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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, 2017. 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 position is \$12,111,506 of which \$10,575,204 represents net investment in capital assets.
- Business-type activities have total net position of \$7,494,745. Net investment in capital assets represents \$7,197,505 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net position of \$2,627,989, of which \$2,336,602 represents net investment in capital assets.
- The City of Mountain Iron's primary government's net position increased by \$309,454 for the year ended December 31, 2017. Of the increase, \$235,914 was an increase in the governmental activities' net position and \$73,540 represented an increase in business-type activities' net position.
- The EDA's net position decreased by \$130,571.
- The net cost of governmental activities was \$3,370,629 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$3,889,200.
- Governmental funds' fund balances increased by \$218,041.

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 position 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 position 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 position and how they have changed. You can think of the City's net position—the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources—as one way to measure the City's financial health or financial position. Increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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 position 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 position 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 position 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.

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the required supplementary information for budgetary comparison schedule, schedule of funding progress for postemployment benefit plan, schedules of City's proportionate share of net pension liability and City's contribution for defined benefit pension plan, schedule of changes in net pension liability/asset and schedule of City contributions. An individual fund financial statement 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 position 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,517,710, an increase from the prior year.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 4,750,741	\$ 4,989,489	\$2,062,557	\$2,202,841	\$ 6,813,298	\$ 7,192,330
Capital assets	11,365,204	11,401,373	8,417,227	8,275,236	19,782,431	19,676,609
Total assets	<u>16,115,945</u>	<u>16,390,862</u>	<u>10,479,784</u>	<u>10,478,077</u>	<u>26,595,729</u>	<u>26,868,939</u>
Deferred outflows related to pensions	240,660	503,657	123,975	255,319	364,635	758,976
Long-term liabilities	3,584,821	3,919,553	2,625,510	2,906,058	6,210,331	6,825,611
Other liabilities	403,942	955,965	364,402	389,923	768,344	1,345,888
Total liabilities	<u>3,988,763</u>	<u>4,875,518</u>	<u>2,989,912</u>	<u>3,295,981</u>	<u>6,978,675</u>	<u>8,171,499</u>
Deferred inflows related to pensions	256,336	143,409	119,102	65,631	375,438	209,040
Net position						
Net investment in capital assets	10,575,204	10,541,373	7,197,505	6,954,168	17,772,709	17,495,541
Restricted	1,585,157	1,240,519	153,428	137,257	1,738,585	1,377,776
Unrestricted	(48,855)	93,700	143,812	329,780	94,957	423,480
Total net position	<u>\$12,111,506</u>	<u>\$11,875,592</u>	<u>\$7,494,745</u>	<u>\$7,421,205</u>	<u>\$19,606,251</u>	<u>\$19,296,797</u>

Net position of the City's governmental activities increased by 2.0 percent (\$12,111,506 compared to \$11,875,592). Unrestricted net position – the part of net position 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 \$93,700 surplus at December 31, 2016 to a \$48,855 deficit at the end of this year.

Net position of the City's business-type activities increased by 0.1 percent (\$7,494,745 compared to \$7,421,205).

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 336,943	\$ 355,251	\$4,007,327	\$4,033,585	\$ 4,344,270	\$ 4,388,836
Operating grants and contributions	2,311	18,576	294,912	82,715	297,223	101,291
Capital grants and contributions	562,713	791,357	-	-	562,713	791,357
General revenues:						
Property and other taxes	1,370,229	1,398,295	-	-	1,370,229	1,398,295
Grants and contributions not restricted to specific programs	2,487,120	2,338,860	-	-	2,487,120	2,338,860
Other general revenues	31,851	61,032	7,747	19,381	39,598	80,413
Total revenues	<u>4,791,167</u>	<u>4,963,371</u>	<u>4,309,986</u>	<u>4,135,681</u>	<u>9,101,153</u>	<u>9,099,052</u>
Program expenses:						
General government	1,355,111	1,379,035	-	-	1,355,111	1,379,035
Public safety	930,817	831,143	-	-	930,817	831,143
Streets	1,378,129	1,370,791	-	-	1,378,129	1,370,791
Culture and recreation	594,015	634,625	-	-	594,015	634,625
Interest	14,524	39,526	-	-	14,524	39,526
Electric utility	-	-	2,684,248	2,692,657	2,684,248	2,692,657
Water treatment	-	-	351,971	327,999	351,971	327,999
Wastewater treatment	-	-	795,882	681,974	795,882	681,974
Refuse removal and recycling	-	-	488,560	491,342	488,560	491,342
Mountain Manor Apartments	-	-	235,115	261,226	235,115	261,226
Total program expenses	<u>4,272,596</u>	<u>4,255,120</u>	<u>4,555,776</u>	<u>4,455,198</u>	<u>8,828,372</u>	<u>8,710,318</u>
Excess before transfers	518,571	708,251	(245,790)	(319,517)	272,781	388,734
Transfers	<u>(282,657)</u>	<u>284,243</u>	<u>319,330</u>	<u>(100,530)</u>	<u>36,673</u>	<u>183,713</u>
Increase (decrease) in net position	235,914	992,494	73,540	(420,047)	309,454	572,447
Net position, January 1	11,875,592	10,598,642	7,421,205	8,283,266	19,296,797	18,881,908
Prior period adjustment	-	284,456	-	(442,014)	-	(157,558)
Net position, December 31	<u>\$12,111,506</u>	<u>\$11,875,592</u>	<u>\$7,494,745</u>	<u>\$7,421,205</u>	<u>\$19,606,251</u>	<u>\$19,296,797</u>

Governmental Activities

The most significant revenues of the governmental activities are grants and contributions not restricted to specific programs at 52% of revenues. Capital grants and contributions, 12% of revenues, include grants for major projects or purchases of equipment. Property taxes and other taxes amount to \$1,370,229, 29% of revenues.

General government expense (32%) and streets expense (32%) are the most significant, followed by public safety expense (22%) and culture and recreation expense (14%).

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

Governmental revenues during 2017 were \$4,791,167 compared to \$4,968,006 in the prior year, which is a decrease of \$176,839. Our taxpayers paid \$1,370,229 in property and other taxes during the current year, which is a decrease of \$28,066.

The cost of all governmental activities this year was \$4,272,596 compared to \$4,255,120 last year. Governmental expenses increased by \$17,476 in the current year. The most significant increase occurred in the City's public safety expenses. A capital contribution was received from the Mountain Iron EDA for \$36,673 for the Woodland Estates Residential Development project.

Business-Type Activities

Revenues of the City's business-type activities were \$4,309,986 and expenses were \$4,555,776, (see Table 2). There was an increase in net position of \$73,540 during the year ended December 31, 2017, which compares to a decrease in net position of \$420,047 for the year ended December 31, 2016. Factors driving this result include:

- Operations produced a loss of \$226,593 for the year ended December 31, 2017. The electric utility enterprise fund recorded the most significant operating loss of \$215,255. The wastewater treatment enterprise fund also recorded an operating loss of \$50,957. The water treatment enterprise fund, refuse removal and recycling enterprise fund, and Mountain Manor Apartments enterprise fund each recorded operating income of \$22,531, \$15,650, and \$1,438 respectively.
- The wastewater treatment enterprise fund received MPCA grants of \$294,912 to help fund the decommissioning of Nichols Pond in 2017.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a decrease in net position of \$130,571 for the year ended December 31, 2017. Net program revenues over expenses were \$(207,383). General tax revenues, interest earnings, and miscellaneous revenues were \$113,485. The Mountain Iron EDA provided a capital contribution to the City of \$36,673 for the Woodland Estates Residential Development project.

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, 2017, the City's governmental funds reported total ending fund balances of \$3,898,361, an increase of \$218,041 in comparison with the prior year. Assigned fund balance, which is intended to be used for cash flow, insurance, and buildings, made up nearly 66% or \$2,565,370 of the total ending fund balance. The restricted fund balance of \$1,332,991 is considered unavailable for appropriation for general operations. More detailed information about the City's fund balances is presented in Note 8 to the financial statements.

At the end of the year, the general fund reported a fund balance of \$2,796,462, increasing \$243,626 from the prior year. General fund revenues were \$59,248 greater than the prior year's and expenditures decreased by \$100,559. During the current year, the general fund transfers to other funds were \$634,540, which were less than the prior year's transfers out of \$718,135.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

The debt service fund recorded an increase in fund balance of \$295,690 compared to an increase in fund balance of \$17,032 last year. Special assessment revenue was recorded in the amount of \$62,218. Other financing sources included a \$265,000 transfer from the general fund and a \$44,000 transfer from the enterprise funds for debt principal and interest payments.

The city projects capital projects fund recorded a decrease in fund balance of \$319,916, resulting in an unassigned fund balance of \$(236,910). Other financing sources included transfers of \$369,540 from the general fund for capital projects, and revenues included state revenue of \$304,482, a federal grant of \$147,064, and proceeds from lot sales of \$73,892.

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 2017, operating revenues decreased by \$56,453 compared to the prior year. Operating expenses decreased by \$8,409. The electric operations produced an operating loss of \$285,213 in 2017. A transfer out of \$16,000 was made to the debt service fund. These transactions resulted in a decrease of \$223,917 in net position in the current year.

The water treatment enterprise fund accounts for the water operations of the City. In 2017, operating revenues increased by \$540 compared to the prior year. Operating expenses decreased by \$25,417. In 2017, operating income of \$22,531 was recorded compared to operating income of \$47,408 in the prior year. Interest expense charged to the water operations was \$13,816. A capital contribution of \$101,652 was received from the city projects capital projects fund for the completion of the water treatment enterprise fund's portion of the Mountain Iron Drive project. A transfer out of \$28,000 was made to the debt service fund. These transactions resulted in an increase of \$83,762 in net position in the current year.

The wastewater treatment enterprise fund accounts for the wastewater treatment operations of the City. In 2017, operating revenues increased by \$4,740 compared to the prior year. Operating expenses decreased by \$180,389 in the current year, as a significant amount of repairs and maintenance was performed in 2016. In 2017, an operating loss of \$50,957 was recorded compared to an operating loss of \$236,086 in the prior year. Interest expense charged to the wastewater treatment operations was \$9,209. MPCA grants of \$294,912 were received regarding the decommissioning of Nichols Pond. A capital contribution of \$261,678 was received from the city projects capital projects fund for the completion of the wastewater treatment enterprise fund's portion of the Mountain Iron Drive project. These transactions resulted in an increase of \$205,302 in net position in the current year.

The refuse removal and recycling enterprise fund accounts for the refuse removal and recycling operations of the City. In 2017, operating revenues decreased \$5,662 compared to the prior year. Operating expenses decreased by \$2,782. In 2017, operating income of \$15,650 was recorded compared to an operating income of \$18,530 in the prior year. These transactions resulted in an increase of \$17,419 in net position in the current year.

The Mountain Manor Apartments enterprise fund accounts for the operations of the Mountain Manor Apartments. In 2017, operating revenues increased by \$31,795 compared to the prior year. Operating expenses decreased by \$24,336 compared to the prior year. In 2017, operating income of \$1,438 was recorded compared to an operating loss of \$54,693 in the prior year. Interest expense charged to the Mountain Manor Apartments operations was \$10,196. These transactions resulted in a decrease of \$9,026 in net position in the current year.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were \$82,431 over the final budget amounts. The most significant negative variance in the amount of (\$108,836) occurred in the streets department, followed by public safety (\$32,814), and culture and recreation (\$10,251). Resources available for appropriation were above the final budgeted amounts. The City received more taxes, intergovernmental aids, charges for services, and investment income than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the City's primary government had \$19,782,431 invested in a broad range of capital assets (net of accumulated depreciation), including land, construction in progress, land improvements, buildings, infrastructure, machinery and equipment and licensed vehicles. (See Table 3 below.) This amount represents a net increase (including additions and deductions) of \$105,822 over last year. The Mountain Iron Economic Development Authority component unit had \$5,816,850 invested in capital assets, which consisted of land and buildings.

**Table 3
Capital Assets at Year-end
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 409,300	\$ 409,300	\$ 26,370	\$ 26,370	\$ 435,670	\$ 435,670
Construction in progress	1,309,304	1,998,371	104,845	23,565	1,414,149	2,021,936
Land improvements	945,551	622,126	16,157	17,087	961,708	639,213
Buildings	2,336,867	2,391,231	3,334,888	3,509,755	5,671,755	5,900,986
Infrastructure	5,388,480	5,088,737	4,657,218	4,365,841	10,045,698	9,454,578
Machinery and equipment	583,862	648,878	73,511	77,146	657,373	726,024
Licensed vehicles	391,840	242,730	204,238	255,472	596,078	498,202
Totals	<u>\$11,365,204</u>	<u>\$11,401,373</u>	<u>\$8,417,227</u>	<u>\$8,275,236</u>	<u>\$19,782,431</u>	<u>\$19,676,609</u>
EDA						
Land	\$ 2,533,256	\$ 2,533,256	\$ -	\$ -	\$ 2,533,256	\$ 2,533,256
Buildings	3,283,594	3,355,761	-	-	3,283,594	3,355,761
Totals	<u>\$ 5,816,850</u>	<u>\$ 5,889,017</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,816,850</u>	<u>\$ 5,889,017</u>

This year's major additions included a dump/plow truck, a bucket truck, costs for the Woodland Estates Residential Development project, the water and electric meter project, the Mountain Iron Entrance/Highway 169 project, land improvements on the bike and pedestrian trail, and the Mountain Iron Drive project.

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

Debt

At year-end, the City had \$2,009,722 in long-term debt outstanding for the primary government versus \$2,181,068 last year—as shown in Table 4. The Mountain Iron EDA component unit had \$3,480,248 in long-term debt outstanding, the same as last year.

Table 4
Outstanding Debt, at Year-end

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
GO refunding bonds	\$ 790,000	\$ 860,000	\$ -	\$ -	\$ 790,000	\$ 860,000
Water revenue refunding bonds	-	-	295,000	350,000	295,000	350,000
Wastewater GO revenue note	-	-	391,000	419,000	391,000	419,000
Notes payable	-	-	533,722	552,068	533,722	552,068
Total	<u>\$ 790,000</u>	<u>\$ 860,000</u>	<u>\$ 1,219,722</u>	<u>\$ 1,321,068</u>	<u>\$ 2,009,722</u>	<u>\$ 2,181,068</u>
	Component Unit EDA					
	2017	2016				
State loan	<u>\$3,480,248</u>	<u>\$3,480,248</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 is significantly below the State-imposed limit.

Additional information on the City's long-term debt can be found in Note 6 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 2018 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased 1.4% over 2017.
- City property taxes will not increase in 2018.
- The City's 2018 capital projects will include technology upgrades at the Community Center, slip-lining sewers, and a new municipal well.

The City's 2018 capital budget calls for it to spend another \$1,100,000.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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.

BASIC FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	\$ 1,864,317	\$ 478,618	\$ 2,342,935	\$ 102,802
Investments	1,506,991	659,158	2,166,149	-
Taxes receivable	35,006	-	35,006	-
Special assessments receivable current	49,632	-	49,632	-
Special assessments receivable noncurrent	224,921	-	224,921	-
Accounts receivable	-	572,575	572,575	1,053
Grants receivable	247,560	243,376	490,936	-
Internal balances	452,478	(452,478)	-	-
Due from component unit	11,186	-	11,186	-
Due from other governments	207,589	-	207,589	-
Due from primary government	-	-	-	164,439
Loans receivable	-	-	-	104,147
Inventories	-	407,051	407,051	-
Prepaid items	-	829	829	-
Fire Relief net pension asset	151,061	-	151,061	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	153,428	153,428	-
Capital assets not being depreciated:				
Land	409,300	26,370	435,670	2,533,256
Construction in progress	1,309,304	104,845	1,414,149	-
Capital assets net of accumulated depreciation:				
Land improvements	945,551	16,157	961,708	-
Buildings	2,336,867	3,334,888	5,671,755	3,283,594
Infrastructure	5,388,480	4,657,218	10,045,698	-
Machinery and equipment	583,862	73,511	657,373	-
Licensed vehicles	391,840	204,238	596,078	-
TOTAL ASSETS	16,115,945	10,479,784	26,595,729	6,189,291
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	240,660	123,975	364,635	-
LIABILITIES				
Accounts payable	163,570	266,425	429,995	69,868
Salaries payable	44,900	11,018	55,918	-
Accrued interest payable	5,821	4,686	10,507	-
Due to primary government	-	-	-	11,186
Due to component unit	164,439	-	164,439	-
Customer deposits	7,752	82,273	90,025	-
Unearned revenues	17,460	-	17,460	-
Noncurrent liabilities:				
Due within one year				
Bonds and notes payable	195,000	98,873	293,873	-
Due in more than one year				
Bonds and notes payable	595,000	1,120,849	1,715,849	3,480,248
Other postemployment benefits	1,777,860	942,364	2,720,224	-
Severance payable	144,788	14,123	158,911	-
PERA net pension liability	872,173	449,301	1,321,474	-
TOTAL LIABILITIES	3,988,763	2,989,912	6,978,675	3,561,302
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	256,336	119,102	375,438	-
NET POSITION				
Net investment in capital assets	10,575,204	7,197,505	17,772,709	2,336,602
Restricted for:				
Debt service	1,585,157	153,428	1,738,585	-
Community development	-	-	-	22,002
Unrestricted	(48,855)	143,812	94,957	269,385
TOTAL NET POSITION	\$ 12,111,506	\$ 7,494,745	\$ 19,606,251	\$ 2,627,989

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 1,355,111	\$ 230,769	\$ 2,311
Public safety	930,817	17,218	-
Streets	1,378,129	-	-
Culture and recreation	594,015	88,956	-
Interest on long-term debt	14,524	-	-
Total Governmental Activities	<u>4,272,596</u>	<u>336,943</u>	<u>2,311</u>
Business-type Activities			
Electric utility	2,684,248	2,475,645	-
Water treatment	351,971	360,705	-
Wastewater treatment	795,882	440,838	294,912
Refuse removal and recycling	488,560	504,248	-
Mountain Manor Apartments	235,115	225,891	-
Total Business-type Activities	<u>4,555,776</u>	<u>4,007,327</u>	<u>294,912</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 8,828,372</u>	<u>\$ 4,344,270</u>	<u>\$ 297,223</u>
COMPONENT UNIT			
EDA	<u>\$ 207,883</u>	<u>\$ 1,553</u>	<u>\$ -</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Mineral rents and royalties

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers

Total General Revenues and Transfers

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

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

Net (Expense) Revenue and Changes in Net Position

Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
\$ 562,713	\$ (559,318)	\$ -	\$ (559,318)	
-	(913,599)	-	(913,599)	
-	(1,378,129)	-	(1,378,129)	
-	(505,059)	-	(505,059)	
-	(14,524)	-	(14,524)	
<u>562,713</u>	<u>(3,370,629)</u>	<u>-</u>	<u>(3,370,629)</u>	
-	-	(208,603)	(208,603)	
-	-	8,734	8,734	
-	-	(60,132)	(60,132)	
-	-	15,688	15,688	
-	-	(9,224)	(9,224)	
-	-	<u>(253,537)</u>	<u>(253,537)</u>	
<u>\$ 562,713</u>	<u>(3,370,629)</u>	<u>(253,537)</u>	<u>(3,624,166)</u>	
<u>\$ -</u>				<u>(206,330)</u>
	1,282,907	-	1,282,907	39,192
	-	-	-	71,579
	22,498	-	22,498	-
	64,824	-	64,824	-
	2,487,120	-	2,487,120	-
	15,476	7,747	23,223	1,661
	16,375	-	16,375	-
	<u>(282,657)</u>	<u>319,330</u>	<u>36,673</u>	<u>(36,673)</u>
	<u>3,606,543</u>	<u>327,077</u>	<u>3,933,620</u>	<u>75,759</u>
	235,914	73,540	309,454	(130,571)
	<u>11,875,592</u>	<u>7,421,205</u>	<u>19,296,797</u>	<u>2,758,560</u>
	<u>\$ 12,111,506</u>	<u>\$ 7,494,745</u>	<u>\$ 19,606,251</u>	<u>\$ 2,627,989</u>

CITY OF MOUNTAIN IRON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	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	\$ 1,085,618	\$ 734,426	\$ 38,455	\$ 5,818	\$ 1,864,317
Investments	908,426	598,565	-	-	1,506,991
Taxes receivable	35,006	-	-	-	35,006
Special assessments receivable	22,387	252,166	-	-	274,553
Grants receivable	-	-	247,560	-	247,560
Due from other funds	956,085	-	-	-	956,085
Due from component unit	11,186	-	-	-	11,186
Due from other governments	207,589	-	-	-	207,589
TOTAL ASSETS	\$ 3,226,297	\$ 1,585,157	\$ 286,015	\$ 5,818	\$ 5,103,287
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 161,712	\$ -	\$ 1,858	\$ -	\$ 163,570
Salaries payable	44,900	-	-	-	44,900
Due to other funds	-	-	503,607	-	503,607
Due to component unit	164,439	-	-	-	164,439
Customer deposits	7,752	-	-	-	7,752
Unearned revenue	-	-	17,460	-	17,460
TOTAL LIABILITIES	378,803	-	522,925	-	901,728
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	28,645	-	-	-	28,645
Unavailable revenue - special assessments	22,387	252,166	-	-	274,553
DEFERRED INFLOWS OF RESOURCES	51,032	252,166	-	-	303,198
FUND BALANCES					
Restricted	-	1,332,991	-	-	1,332,991
Assigned	2,796,462	-	-	5,818	2,802,280
Unassigned	-	-	(236,910)	-	(236,910)
TOTAL FUND BALANCES	2,796,462	1,332,991	(236,910)	5,818	3,898,361
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 3,226,297	\$ 1,585,157	\$ 286,015	\$ 5,818	\$ 5,103,287

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 POSITION**

December 31, 2017

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS		\$ 3,898,361
Net pension asset used in governmental activities is not a current financial resource and, therefore, is not reported in the governmental funds.		151,061
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		11,365,204
Deferred inflows of resources in governmental funds are susceptible to full accrual on the government-wide statements.		303,198
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.		(5,821)
Long-term liabilities, including bonds and notes payable, other post employment benefits, severance payable and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(3,584,821)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred outflows of resources related to pensions	240,660	
Deferred inflows of resources related to pensions	<u>(256,336)</u>	
		<u>(15,676)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 12,111,506</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended December 31, 2017

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,376,489	\$ -	\$ -	\$ -	\$ 1,376,489
Special assessments	2,947	62,218	-	-	65,165
Licenses and permits	14,009	-	-	-	14,009
Intergovernmental	2,487,117	-	451,546	-	2,938,663
Charges for services	195,470	-	73,892	-	269,362
Fines	12,855	-	-	-	12,855
Gifts and contributions	-	-	-	2,311	2,311
Investment earnings	8,935	6,459	77	5	15,476
TOTAL REVENUES	<u>4,097,822</u>	<u>68,677</u>	<u>525,515</u>	<u>2,316</u>	<u>4,694,330</u>
EXPENDITURES					
Current					
General government	1,149,630	-	129,132	3,675	1,282,437
Public safety	701,314	-	177,641	-	878,955
Streets	883,836	-	11,799	-	895,635
Culture and recreation	488,251	-	12,637	-	500,888
Debt Service					
Principal	-	70,000	-	-	70,000
Interest and other charges	-	11,987	-	-	11,987
Capital Outlay					
General government	-	-	155,723	-	155,723
Public safety	-	-	24,876	-	24,876
Streets	-	-	664,435	-	664,435
Culture and recreation	-	-	38,728	-	38,728
TOTAL EXPENDITURES	<u>3,223,031</u>	<u>81,987</u>	<u>1,214,971</u>	<u>3,675</u>	<u>4,523,664</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>874,791</u>	<u>(13,310)</u>	<u>(689,456)</u>	<u>(1,359)</u>	<u>170,666</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	309,000	369,540	-	678,540
Transfers out	(634,540)	-	-	-	(634,540)
Sale of capital assets	3,375	-	-	-	3,375
TOTAL OTHER FINANCING SOURCES (USES)	<u>(631,165)</u>	<u>309,000</u>	<u>369,540</u>	<u>-</u>	<u>47,375</u>
NET CHANGE IN FUND BALANCES	243,626	295,690	(319,916)	(1,359)	218,041
FUND BALANCES - JANUARY 1	<u>2,552,836</u>	<u>1,037,301</u>	<u>83,006</u>	<u>7,177</u>	<u>3,680,320</u>
FUND BALANCES - DECEMBER 31	<u>\$ 2,796,462</u>	<u>\$ 1,332,991</u>	<u>\$ (236,910)</u>	<u>\$ 5,818</u>	<u>\$ 3,898,361</u>

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, 2017

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 218,041
<p>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.</p>		
Expenditures for capital assets	904,606	
Less current year depreciation	<u>(614,118)</u>	
Net capital assets		290,488
Capital assets were contributed to the Enterprise Funds		(363,330)
A capital asset contribution was received from Mountain Iron Economic Development Authority.		36,673
<p>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.</p>		
Change in unavailable revenue - delinquent property taxes	(6,259)	
Change in unavailable revenue - special assessments	<u>71,335</u>	
Net change		65,076
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		70,000
<p>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.</p>		
Change in accrued interest payable on long-term debt	(2,535)	
Change in severance payable	(16,269)	
Change in other postemployment benefits payable	(41,855)	
Change in net pension liability, change in net pension asset, and related deferred inflows and outflows	<u>(20,375)</u>	
Net change		<u>(81,034)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 235,914</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2017

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	\$ 100	\$ 88,585	\$ -	\$ 373,434	\$ 16,499	\$ 478,618
Investments	3,487	110,321	460,763	84,587	-	659,158
Accounts receivable	382,273	53,455	60,992	75,016	839	572,575
Grants receivable	-	-	243,376	-	-	243,376
Inventories	289,600	117,451	-	-	-	407,051
Prepaid items	-	-	-	-	829	829
TOTAL CURRENT ASSETS	675,460	369,812	765,131	533,037	18,167	2,361,607
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	130,039	130,039
Escrow deposits	-	-	-	-	19,215	19,215
Tenant security deposits	-	-	-	-	4,174	4,174
Total restricted cash and cash equivalents	-	-	-	-	153,428	153,428
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Construction in progress	81,280	23,565	-	-	-	104,845
Land improvements	18,600	-	-	-	-	18,600
Buildings	741,987	2,190,764	2,718,281	12,761	1,682,353	7,346,146
Infrastructure	884,353	4,360,895	5,221,788	-	-	10,467,036
Machinery and equipment	-	60,271	309,080	-	340,106	709,457
Licensed vehicles	366,090	-	20,546	573,891	-	960,527
Less accumulated depreciation	(1,138,304)	(3,497,151)	(4,672,175)	(416,427)	(1,491,697)	(11,215,754)
Total capital assets (net of accumulated depreciation)	972,040	3,138,344	3,597,520	170,225	539,098	8,417,227
TOTAL NONCURRENT ASSETS	972,040	3,138,344	3,597,520	170,225	692,526	8,570,655
TOTAL ASSETS	1,647,500	3,508,156	4,362,651	703,262	710,693	10,932,262
DEFERRED OUTFLOWS OF RESOURCES						
Related to pensions	54,695	14,585	25,524	29,171	-	123,975
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	225,678	3,843	6,959	11,567	18,378	266,425
Salaries payable	7,155	-	1,277	2,586	-	11,018
Accrued interest payable	-	983	2,930	-	773	4,686
Due to other funds	270,636	-	181,842	-	-	452,478
Customer deposits payable	77,146	1,696	-	-	3,431	82,273
Bonds and notes payable - current	-	55,000	29,000	-	14,873	98,873
TOTAL CURRENT LIABILITIES	580,615	61,522	222,008	14,153	37,455	915,753
NONCURRENT LIABILITIES						
Bonds and notes payable	-	240,000	362,000	-	518,849	1,120,849
Other postemployment benefit obligation	417,749	106,866	204,017	213,732	-	942,364
Severance payable	14,123	-	-	-	-	14,123
PERA net pension liability	198,221	52,859	92,503	105,718	-	449,301
TOTAL NONCURRENT LIABILITIES	630,093	399,725	658,520	319,450	518,849	2,526,637
TOTAL LIABILITIES	1,210,708	461,247	880,528	333,603	556,304	3,442,390
DEFERRED INFLOWS OF RESOURCES						
Related to pensions	52,545	14,012	24,521	28,024	-	119,102
NET POSITION						
Net investment in capital assets	972,040	2,843,344	3,206,520	170,225	5,376	7,197,505
Restricted for other purposes	-	-	-	-	153,428	153,428
Unrestricted	(533,098)	204,138	276,606	200,581	(4,415)	143,812
TOTAL NET POSITION	\$ 438,942	\$ 3,047,482	\$ 3,483,126	\$ 370,806	\$ 154,389	\$ 7,494,745

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

CITY OF MOUNTAIN IRON, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2017

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	\$ 2,468,993	\$ 360,686	\$ 440,804	\$ 504,210	\$ 225,435	\$ 4,000,128
OPERATING EXPENSES						
Cost of sales	1,871,325	-	-	-	-	1,871,325
Salaries	306,870	67,609	79,032	121,201	26,300	601,012
Employee benefits	292,781	72,168	82,852	111,680	3,668	563,149
Contract services	-	-	26,268	-	26,389	52,657
Insurance	13,369	4,688	8,201	4,777	10,591	41,626
Miscellaneous	85,505	20,168	25,898	20,475	4,495	156,541
Real estate taxes	-	-	-	-	9,984	9,984
Repairs and maintenance	37,536	22,316	21,000	17,951	40,729	139,532
Solid waste management and tipping fees	-	-	-	145,036	-	145,036
Supplies	17,756	13,520	20,401	20,874	14,451	87,002
Telephone	8,294	30	1,949	879	1,434	12,586
Utilities	-	35,178	73,723	-	23,480	132,381
Depreciation	50,812	102,478	152,437	45,687	62,476	413,890
TOTAL OPERATING EXPENSES	<u>2,684,248</u>	<u>338,155</u>	<u>491,761</u>	<u>488,560</u>	<u>223,997</u>	<u>4,226,721</u>
OPERATING INCOME (LOSS)	<u>(215,255)</u>	<u>22,531</u>	<u>(50,957)</u>	<u>15,650</u>	<u>1,438</u>	<u>(226,593)</u>
NONOPERATING REVENUES (EXPENSES)						
MPCA grant	-	-	294,912	-	-	294,912
Investment income	686	1,376	3,756	1,731	198	7,747
Miscellaneous income	6,652	19	34	38	456	7,199
Interest expense	-	(13,816)	(9,209)	-	(10,196)	(33,221)
Decommission Nichols Pond	-	-	(294,912)	-	-	(294,912)
Loss on disposal of capital assets	-	-	-	-	(922)	(922)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>7,338</u>	<u>(12,421)</u>	<u>(5,419)</u>	<u>1,769</u>	<u>(10,464)</u>	<u>(19,197)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>(207,917)</u>	<u>10,110</u>	<u>(56,376)</u>	<u>17,419</u>	<u>(9,026)</u>	<u>(245,790)</u>
Capital contributions	-	101,652	261,678	-	-	363,330
Transfers out	(16,000)	(28,000)	-	-	-	(44,000)
CHANGE IN NET POSITION	<u>(223,917)</u>	<u>83,762</u>	<u>205,302</u>	<u>17,419</u>	<u>(9,026)</u>	<u>73,540</u>
TOTAL NET POSITION - JANUARY 1	<u>662,859</u>	<u>2,963,720</u>	<u>3,277,824</u>	<u>353,387</u>	<u>163,415</u>	<u>7,421,205</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 438,942</u>	<u>\$ 3,047,482</u>	<u>\$ 3,483,126</u>	<u>\$ 370,806</u>	<u>\$ 154,389</u>	<u>\$ 7,494,745</u>

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, 2017

	Business-type Activities - Enterprise Funds					Totals
	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 2,476,313	\$ 360,639	\$ 488,815	\$ 502,153	\$ 228,653	\$ 4,054,573
Cash paid to suppliers	(2,361,736)	(165,009)	(273,840)	(322,505)	(133,933)	(3,257,023)
Cash paid to employees	(315,144)	(62,916)	(99,059)	(111,670)	(26,300)	(615,089)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(200,567)</u>	<u>132,714</u>	<u>113,916</u>	<u>67,978</u>	<u>68,420</u>	<u>182,461</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers out to other funds	(16,000)	(28,000)	-	-	-	(44,000)
Decommission Nichols Pond	-	-	(294,912)	-	-	(294,912)
MPCA grant	-	-	51,535	-	-	51,535
Miscellaneous income	6,652	20	34	38	456	7,200
Advances to other funds	-	(38,463)	-	-	-	(38,463)
Advances from other funds	226,576	-	181,842	-	-	408,418
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>217,228</u>	<u>(66,443)</u>	<u>(61,501)</u>	<u>38</u>	<u>456</u>	<u>89,778</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of capital assets	(152,760)	(29,188)	-	-	(11,524)	(193,472)
Principal paid on long-term debt	-	(55,000)	(28,000)	-	(18,346)	(101,346)
Interest paid on long-term debt	-	(14,000)	(9,419)	-	(10,360)	(33,779)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(152,760)</u>	<u>(98,188)</u>	<u>(37,419)</u>	<u>-</u>	<u>(40,230)</u>	<u>(328,597)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	135,413	81,410	-	293	-	217,116
Purchase of investments	-	-	(45,960)	-	-	(45,960)
Interest and dividends received	686	1,376	3,756	1,731	198	7,747
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>136,099</u>	<u>82,786</u>	<u>(42,204)</u>	<u>2,024</u>	<u>198</u>	<u>178,903</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	50,869	(27,208)	70,040	28,844	122,545
CASH AND CASH EQUIVALENTS, JANUARY 1 (including \$137,257 in restricted accounts)	<u>100</u>	<u>37,716</u>	<u>27,208</u>	<u>303,394</u>	<u>141,083</u>	<u>509,501</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including \$153,428 in restricted accounts)	<u>\$ 100</u>	<u>\$ 88,585</u>	<u>\$ -</u>	<u>\$ 373,434</u>	<u>\$ 169,927</u>	<u>\$ 632,046</u>

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, 2017

	Business-type Activities - Enterprise Funds					Totals
	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ (285,213)	\$ 3,948	\$ (50,957)	\$ 15,650	\$ 1,438	\$ (315,134)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	50,812	102,478	152,437	45,687	62,476	413,890
Other postemployment benefit obligation	9,835	2,516	4,803	5,032	-	22,186
Net pension liability, deferred outflows and deferred inflows related to pensions	8,159	2,177	3,809	4,351	-	18,496
Changes in assets and liabilities:						
(Increase) decrease in:						
Accounts receivable	7,657	(97)	46,011	(2,057)	3,119	54,633
Inventories	26,460	21,620	-	-	-	48,080
Prepaid items	-	-	-	-	341	341
Increase (decrease) in:						
Accounts payable	8,328	22	(13,548)	(833)	947	(5,084)
Salaries payable	(11,901)	-	(7,938)	148	-	(19,691)
Customer deposits	(337)	50	-	-	99	(188)
Severance payable	(14,367)	-	(20,701)	-	-	(35,068)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (200,567)	\$ 132,714	\$ 113,916	\$ 67,978	\$ 68,420	\$ 182,461
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
Contributions of capital assets from primary government	\$ -	\$ 101,652	\$ 261,678	\$ -	\$ -	\$ 363,330
Capital assets reclassified from inventory	15,190	-	-	-	-	15,190
NET NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	\$ 15,190	\$ 101,652	\$ 261,678	\$ -	\$ -	\$ 378,520

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

NOTES TO FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies and practices are discussed in subsequent sections of this Note.

A. Financial Reporting Entity

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 councilors.

The City complies with GAAP and includes all component units for which the City appointed a voting majority of the organization's board; and the City is either able to impose its will on the organization or a financial benefit or burden relationship exists. As a result of applying these component unit criteria, the Mountain Iron Housing and Redevelopment Authority (HRA) is considered a component unit and is presented in the City's financial statements as a blended component unit; meaning it is reported as if it were a part of the City. The Mountain Iron Economic Development Authority (EDA) is considered a component unit of the City and operates as a separate legal entity, and meets the component unit criteria to be discretely presented in the City's government-wide financial statements. Each component unit prepares separate financial statements, which can be obtained by contacting the City Administrator's office, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768.

Blended Component Unit

The HRA was created in 1974 by the City to assume primary responsibility for housing and redevelopment services in the local area. In 1980 and 1981, the HRA entered into two promissory notes with Rural Development (a division of the United States Department of Agriculture) for the construction of a 39-unit non-profit housing development, Mountain Manor Apartments (the Project), located in the City of Mountain Iron, Minnesota. The Project has a rental agreement with Rural Development for interest credit and rental assistance; and, is regulated by Rural Development as to rent charges and operating methods. The HRA governing board consists of City Council members.

Discretely Presented Component Unit

The EDA was created in 2004 to assume primary responsibility for development activities within the City. The EDA entered into a State loan for the construction of a manufacturing facility. The EDA accounts for the building lease revenues from the manufacturing facility and revolving loan funds. The EDA governing board is appointed by the City Council.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements (i.e. the statement of net position 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,

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Fund Financial Statements

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

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

Governmental Funds

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

Major Governmental Funds:

The General Fund is 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.

Nonmajor Governmental Funds:

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the statement of net position. 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 for electric services to the residential and commercial users of the City.

The Water Treatment Enterprise Fund is used to account for revenues generated from the charges for 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.

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, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

D. Cash and Cash Equivalents

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

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or 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) Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 3) The enterprise funds report accounts receivable net of uncollectible accounts. The allowance amounts of \$1,500 in the water treatment enterprise fund, \$2,500 in the wastewater treatment 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.
- 4) 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.
- 5) 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.
- 6) 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.

- 7) 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.
- 8) 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 \$5,000 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9) Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item in this category related to pensions. See notes 16 and 17 for details.

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

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

11) 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 position. Debt premiums and discounts are netted against debt payable and debt issuance costs are recognized as an outflow of resources in the period incurred. On the government-wide and proprietary fund type statement of activities, unamortized debt premiums and discounts are deferred and amortized over the life of the debt. The governmental fund financial statements report debt premiums and discounts as other financing sources and uses, separately from the face amount of the debt issued. Debt issuance costs are reported as debt service expenditures. The long-term liabilities consists primarily of general obligation bonds payable, revenue bonds, a general obligation revenue note, State loan, notes payable, severance payable, other postemployment benefit obligation, and net pension liability.

12) For purposes of measuring the net pension liability/asset, deferred outflows/inflows of resources, and pension expenses, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13) Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources; property taxes, which are reported in the general fund and special assessments, which are reported in the debt service fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second type of deferred inflows of resources is related to pensions. See Notes 16 and 17 for details.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 14) Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets 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 position is 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, proprietary fund equity is classified the same as in the government-wide financial statements. Fund balances of the governmental funds represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. 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.

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.

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. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

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. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Revenues and Expenditures

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

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

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

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Deficits

The following fund had a deficit fund balance at December 31, 2017:

	Deficit
City Projects Capital Projects Fund	<u>\$ 236,910</u>

The deficit occurred because expenditures exceeded revenues and transfers. The City plans to eliminate the deficit through transfers.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

	Primary Government	Component Unit EDA
Petty cash	\$ 500	\$ -
Cash	2,495,863	102,802
Investments	2,166,149	-
Total	<u>\$ 4,662,512</u>	<u>\$ 102,802</u>
Statement of Net Position		
Cash and cash equivalents	\$ 2,342,935	\$ 102,802
Investments	2,166,149	-
Temporarily restricted cash and cash equivalents	153,428	-
Total	<u>\$ 4,662,512</u>	<u>\$ 102,802</u>

Deposits

Custodial Credit Risk – Deposits

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

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits was \$2,342,435; the bank balance was \$2,611,253. At year-end, the City's bank balances were entirely insured or collateralized with Federal Home Loan Bank letters of credit and 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 \$102,802; the bank balance was \$102,802. At year-end, the Mountain Iron EDA's bank balances were entirely insured.

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,

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

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 issuer and, as of December 31, 2017, had no investments in any issuer (other than U.S. government or U.S. government guaranteed obligations) that exceeded five percent of total investments.

The City has invested \$192,452 in Federal National Mortgage Association Bonds. At December 31, 2017, the bonds were rated as AAA by Moody's and AA+ by S & P. The City has \$1,475,040 invested in certificates of deposit at Morgan Stanley, and \$198,314 invested in certificates of deposit and \$300,343 invested in money market funds at Northland Securities. Money market funds are not rated as to credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investment. 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.

Fair Value of Investments

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability – either directly or indirectly.
- Level 3: Unobservable inputs – market data are not available and are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The City's investment of \$192,624 in Federal National Mortgage Association Bonds at December 31, 2017 is categorized as Level 1.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses were issued revolving loans. The unpaid principal balance at December 31, 2017 was \$104,147 and is recorded as loans receivable in the Mountain Iron EDA general fund.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 409,300	\$ -	\$ -	\$ -	\$ 409,300
Construction in progress	1,998,371	680,972	-	(1,370,039)	1,309,304
Total capital assets not being depreciated	2,407,671	680,972	-	(1,370,039)	1,718,604
Capital assets, being depreciated:					
Land improvements	1,105,955	-	-	374,367	1,480,322
Buildings	3,679,824	-	-	25,322	3,705,146
Infrastructure	10,227,334	-	-	643,693	10,871,027
Machinery and equipment	1,313,229	7,277	-	-	1,320,506
Licensed vehicles	2,104,229	216,357	(85,500)	-	2,235,086
Total capital assets, being depreciated	18,430,571	223,634	(85,500)	1,043,382	19,612,087
Less accumulated depreciation for:					
Land improvements	(483,829)	(50,942)	-	-	(534,771)
Buildings	(1,288,593)	(79,686)	-	-	(1,368,279)
Infrastructure	(5,138,597)	(343,950)	-	-	(5,482,547)
Machinery and equipment	(664,351)	(72,293)	-	-	(736,644)
Licensed vehicles	(1,861,499)	(67,247)	85,500	-	(1,843,246)
Total accumulated depreciation	(9,436,869)	(614,118)	85,500	-	(9,965,487)
Total capital assets, being depreciated, net	8,993,702	(390,484)	-	1,043,382	9,646,600
Governmental activities capital assets, net	\$ 11,401,373	\$ 290,488	\$ -	\$ (326,657)	\$ 11,365,204
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 26,370	\$ -	\$ -	\$ -	\$ 26,370
Construction in progress	23,565	81,280	-	-	104,845
Total capital assets, being depreciated	49,935	81,280	-	-	131,215
Capital assets, being depreciated:					
Land improvements	18,600	-	-	-	18,600
Buildings	7,346,146	-	-	-	7,346,146
Infrastructure	10,003,038	100,668	-	363,330	10,467,036
Machinery and equipment	701,104	11,524	(3,171)	-	709,457
Licensed vehicles	960,527	-	-	-	960,527
Total capital assets, being depreciated	19,029,415	112,192	(3,171)	363,330	19,501,766
Less accumulated depreciation for:					
Land improvements	(1,513)	(930)	-	-	(2,443)
Buildings	(3,836,391)	(174,867)	-	-	(4,011,258)
Infrastructure	(5,637,196)	(172,622)	-	-	(5,809,818)
Machinery and equipment	(623,958)	(14,237)	2,249	-	(635,946)
Licensed vehicles	(705,055)	(51,234)	-	-	(756,289)
Total accumulated depreciation	(10,804,113)	(413,890)	2,249	-	(11,215,754)
Total capital assets, being depreciated, net	8,225,302	(301,698)	(922)	363,330	8,286,012
Business-type activities capital assets, net	\$ 8,275,237	\$ (220,418)	\$ (922)	\$ 363,330	\$ 8,417,227

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 5 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 54,586
Public safety	52,322
Streets	433,776
Culture and recreation	<u>73,434</u>
Total depreciation expense - governmental activities	<u>\$ 614,118</u>

Business-type activities

Electric utility	\$ 50,812
Water treatment	102,478
Wastewater treatment	152,437
Refuse removal and recycling	45,687
Mountain Manor Apartments	<u>62,476</u>
Total depreciation expense - business-type activities	<u>\$ 413,890</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2017, is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Beginning Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 2,533,256	\$ -	\$ -	\$ -	\$ 2,533,256
Construction in progress	-	36,673	-	(36,673)	-
Total capital assets, not being depreciated	<u>2,533,256</u>	<u>36,673</u>	<u>-</u>	<u>(36,673)</u>	<u>2,533,256</u>
Capital assets, being depreciated:					
Building	<u>3,608,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,608,345</u>
Less accumulated depreciation for:					
Building	<u>(252,584)</u>	<u>(72,167)</u>	<u>-</u>	<u>-</u>	<u>(324,751)</u>
Total capital assets, being depreciated, net	<u>3,355,761</u>	<u>(72,167)</u>	<u>-</u>	<u>-</u>	<u>3,283,594</u>
Governmental activities capital assets, net	<u>\$ 5,889,017</u>	<u>\$ (35,494)</u>	<u>\$ -</u>	<u>\$ (36,673)</u>	<u>\$ 5,816,850</u>

Depreciation expense was charged to functions/programs of discretely presented component unit as follows:

Governmental activities

Economic development	<u>\$ 72,167</u>
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CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 - LONG-TERM DEBT

The City previously 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 since been entered into to advance refund these general obligation bonds, as well as 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 are generally liquidated by the General Fund.

The Mountain Iron EDA entered into a state loan for the construction of a manufacturing facility. This loan is considered an obligation of the Mountain Iron EDA and will be repaid with net rent revenues.

Components of long-term debt are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental activities					
General Obligation Bonds					
2016 Refunding	11/01/2016	1.625-2.25%	\$ 575,000	02/01/2028	\$ 575,000
2012 Refunding	11/01/2012	1.0-1.35%	\$ 840,000	02/01/2020	<u>215,000</u>
Governmental activities long-term debt					<u>790,000</u>
Business-type activities					
Revenue Bonds					
2009 Water Revenue Refunding Bonds	09/01/2009	1.5-4.0%	\$ 650,000	12/01/2022	<u>295,000</u>
General Obligation Revenue Notes					
2009 PFA Wastewater Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	<u>391,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	09/01/2030	382,773
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	10/01/2030	<u>150,949</u>
Total Notes Payable					<u>533,722</u>
Business-type activities long-term debt					<u>1,219,722</u>
Total primary government long-term debt					<u>2,009,722</u>
Discretely presented component unit					
EDA					
State Loan					
2010 IRRRB					<u>3,480,248</u>
Total reporting entity					<u>\$5,489,970</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities					
Bonds Payable					
2016 GO Refunding	\$ 575,000	\$ -	\$ -	\$ 575,000	\$ 125,000
2012 GO Refunding	<u>285,000</u>	<u>-</u>	<u>70,000</u>	<u>215,000</u>	<u>70,000</u>
Governmental activities - long-term debt	<u>860,000</u>	<u>-</u>	<u>70,000</u>	<u>790,000</u>	<u>195,000</u>
Business-type activities					
Bonds Payable					
2009 Water Revenue Refunding Bonds	<u>350,000</u>	<u>-</u>	<u>55,000</u>	<u>295,000</u>	<u>55,000</u>
Revenue Notes					
2009 GO PFA Wastewater	<u>419,000</u>	<u>-</u>	<u>28,000</u>	<u>391,000</u>	<u>29,000</u>
Notes Payable					
1980 Rural Development	396,106	-	13,333	382,773	10,709
1981 Rural Development	<u>155,962</u>	<u>-</u>	<u>5,013</u>	<u>150,949</u>	<u>4,164</u>
Total Notes Payable	<u>552,068</u>	<u>-</u>	<u>18,346</u>	<u>533,722</u>	<u>14,873</u>
Business-type activities - long-term debt	<u>1,321,068</u>	<u>-</u>	<u>101,346</u>	<u>1,219,722</u>	<u>98,873</u>
Total primary government	<u>2,181,068</u>	<u>-</u>	<u>171,346</u>	<u>2,009,722</u>	<u>293,873</u>
Discretely presented component unit					
EDA					
State loan					
2010 IRRRB	<u>3,480,538</u>	<u>-</u>	<u>290</u>	<u>3,480,248</u>	<u>-</u>
Total reporting entity	<u>\$5,661,606</u>	<u>\$ -</u>	<u>\$ 171,636</u>	<u>\$5,489,970</u>	<u>\$ 293,873</u>

Minimum annual principal and interest payments required to retire long-term debt are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities		Government-wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 195,000	\$ 12,370	\$ 98,873	\$ 38,481	\$ 293,873	\$ 50,851
2019	115,000	9,939	99,262	35,277	214,262	45,216
2020	110,000	8,310	105,663	32,061	215,663	40,371
2021	45,000	7,147	107,073	28,611	152,073	35,758
2022	45,000	6,416	108,294	25,127	153,294	31,543
2023-2027	230,000	19,000	235,745	95,478	465,745	114,478
2028-2032	<u>50,000</u>	<u>563</u>	<u>464,812</u>	<u>36,069</u>	<u>514,812</u>	<u>36,632</u>
Total	<u>\$ 790,000</u>	<u>\$ 63,745</u>	<u>\$ 1,219,722</u>	<u>\$ 291,104</u>	<u>\$ 2,009,722</u>	<u>\$ 354,849</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 - LONG-TERM DEBT (CONTINUED)

No interest was capitalized during 2017 for the City or Mountain Iron EDA. Interest incurred and charged to expense totaled \$47,745 for the City. No interest was incurred or charged to expense for Mountain Iron EDA.

Pledged Revenue

Governmental Funds

In 2016, the City issued \$575,000 general obligation refunding bonds of which the proceeds were used to prepay part of the outstanding balance of the City's \$1,455,000 general obligation improvement bonds of 2007. Principal or interest paid in the current year was \$8,484. Principal and interest to maturity in 2028 to be paid from a combination of special assessments levied upon the benefited property and ad valorem property taxes total \$634,513.

In 2012, the City issued \$840,000 general obligation refunding bonds of which the proceeds were used to prepay the outstanding principal of the City's \$1,645,000 GO crossover refunding bonds of 2005. Principal and interest paid in the current year was \$73,008. Principal and interest to maturity in 2020 to be paid from a combination of special assessments levied upon the benefited property and ad valorem property taxes total \$219,232.

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 \$69,000. At December 31, 2017, principal and interest to maturity in 2022 to be paid from pledged future revenues totaled \$331,400.

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 \$37,419. At December 31, 2017, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$450,505.

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. In 2013, Mountain Iron EDA received the final loan proceeds to be drawn from the loan for a total amount of \$3,546,664. At December 31, 2017, the principal balance outstanding totals \$3,480,248.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 7 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2017 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	City Projects Capital Projects Fund	\$ 503,607
General Fund	Electric Utility Enterprise Fund	270,636
General Fund	Wastewater Treatment Enterprise Fund	<u>181,842</u>
		<u>\$ 956,085</u>

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payment between funds are made; and (4) to eliminate cash deficits.

Interfund transfers for the year ended December 31, 2017 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ -	\$ 634,540
Debt Service Fund	309,000	-
City Projects Capital Projects Fund	<u>369,540</u>	<u>-</u>
Total governmental funds	<u>678,540</u>	<u>634,540</u>
Enterprise funds:		
Electric Utility Enterprise Fund	-	16,000
Water Treatment Enterprise Fund	<u>-</u>	<u>28,000</u>
Total enterprise funds	<u>-</u>	<u>44,000</u>
Total	<u>\$ 678,540</u>	<u>\$ 678,540</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 8 - FUND EQUITY

As of December 31, 2017, fund balances are comprised of the following:

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total
Restricted:					
Debt service	\$ -	\$ 1,332,991	\$ -	\$ -	\$ 1,332,991
Assigned:					
Cash flow	250,000	-	-	-	250,000
Insurance	848,821	-	-	-	848,821
Buildings	848,821	-	-	-	848,821
Rate stabilization	848,820	-	-	-	848,820
Community contributions	-	-	-	5,818	5,818
Total assigned	<u>2,796,462</u>	<u>-</u>	<u>-</u>	<u>5,818</u>	<u>2,802,280</u>
Unassigned, reported in:					
Capital projects funds	-	-	(236,910)	-	(236,910)
Total fund balances	<u>\$2,796,462</u>	<u>\$1,332,991</u>	<u>\$ (236,910)</u>	<u>\$ 5,818</u>	<u>\$ 3,898,361</u>

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 retain the risk for the deductible portions of the insurance. The League of Minnesota Cities Insurance Trust is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of the limits set by the Trustees. The City and Mountain Iron EDA carry commercial insurance for faithful performance of employee duties. There were no significant increases or reductions in insurance from the previous year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 10 - TAX INCREMENT FINANCING DISTRICTS

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

<u>Tax Increment Financing District</u>	<u>No. 14</u>	<u>No. 15</u>
Economic development district established in:	2008	2016
Anticipated last tax increment year:	2021	2026
Original net tax capacity:	<u>\$ 3,862</u>	<u>\$ 2,684</u>
Current net tax capacity:	<u>\$ 89,595</u>	<u>\$ 2,684</u>
Fiscal disparity deduction	<u>\$ (24,676)</u>	<u>\$ -</u>
Captured net tax capacity retained by Authority:	<u>\$ 61,057</u>	<u>\$ -</u>
Total bonds issued		
Tax increment bonds	\$ -	\$ -
Amounts redeemed	-	-
Outstanding bonds at 12/31/17	<u>\$ -</u>	<u>\$ -</u>

NOTE 11 - TAX ABATEMENTS

The City is authorized by *Minnesota Statutes*, Section 469.1812 through 469.1815, to enter into property tax abatements for the purpose of attracting or retaining businesses. Tax abatements may not exceed ten percent of the net tax capacity of the political subdivision for the taxes payable year to which the abatement applies, or \$200,000, whichever is greater. Tax abatements may be granted to any business located within or promising to relocate to the City if:

- 1) the City expects its benefits of the proposed abatement agreement to at least equal the costs to the political subdivision of the proposed agreement, or intends the abatement to phase in a property tax increase; and
- 2) finds that doing so is in the public interest because it will:
 - a. increase or preserve the tax base;
 - b. provide employment opportunities in the City;
 - c. provide or help acquire or construct public facilities;
 - d. help redevelop or renew blighted areas;
 - e. help provide access to service for residents of the City;
 - f. finance or provide public infrastructure;
 - g. phase in a property tax increase on the parcel resulting from an increase of 50 percent or more in one year on the estimated market value of the parcel, other than increase attributable to improvement of the parcel; or
 - h. stabilize the tax base through equalization of property tax revenues for a specified period of time with respect to a taxpayer whose real and personal property is subject to valuation under Minnesota Rules, chapter 8100.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 11 - TAX ABATEMENTS (CONTINUED)

For the year ended December 31, 2017, the City abated \$10,000 of property taxes for L & M Supply and \$7,500 of property taxes for Iron Range Investment LLC, for a total of \$17,500.

NOTE 12 - 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 collectability of any related receivable at December 31, 2017, 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, 2019. 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 two outstanding construction projects as of December 31, 2017. The projects are evidenced by contractual commitments with contractors:

Project	Spent to Date	Commitments Remaining
Decommission Nichols Pond	\$ 247,109	\$ 415,806
Woodland Estates Residential Development	634,066	89,811
	<u>\$ 881,175</u>	<u>\$ 505,617</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 13 - JOINT VENTURES

Tri-Cities Biosolids Disposal Authority

The City is a member in a joint authority agreement with the Cities of Eveleth and Gilbert for the operation of the Tri-Cities Biosolids Disposal Authority, which owns and operates a biosolids truck for the member cities. Each city appoints one member to the Tri-Cities Biosolids Disposal Authority which oversees the daily operations. Upon termination, if the expenses and liabilities of the Authority exceed the proceeds received from the sale, the loss shall be divided between the members on the same basis as member contributions to capital and operation cost. If upon termination the assets of the Authority exceed its liabilities, the net proceeds from the sale thereof shall be divided between the members on the same basis as the contributions to capital and operation cost.

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Mountain Iron's contribution to the Authority's budget during 2017 was \$20,328. 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 2010 Census. The City of Mountain Iron's contribution to the Authority's budget during 2017 was \$5,940. Complete financial information can be obtained from the Biosolids Disposal Site Authority, Eveleth, Minnesota 55734.

Quad Cities Joint Recreational Authority

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 13 - JOINT VENTURES (CONTINUED)

The City of Mountain Iron's contribution to the Authority's budget during 2017 was \$6,577. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 14 - SEVERANCE BENEFITS 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. The City incurred \$33,239 of expenditures for this benefit in 2017.

All 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 less the amount paid as outlined in the above paragraph. 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. Severance activity for the year ended December 31, 2017 was as follows:

	Balance 12/31/16	Additions	Reductions	Balance 12/31/17
Governmental activities	\$ 128,519	\$ 16,269	\$ -	\$ 144,788
Business-type activities	<u>49,190</u>	<u>18,872</u>	<u>(53,939)</u>	<u>14,123</u>
Total Primary Government	<u>\$ 177,709</u>	<u>\$ 35,141</u>	<u>\$ (53,939)</u>	<u>\$ 158,911</u>

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 into eligible employee's accounts were \$25,363 for the year ended December 31, 2017.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 15 - 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 23 active and 14 retired members in the plan as of January 1, 2015. Benefits and eligibility are established and amended through contracts with bargaining units or other employment contracts. The City subsidizes the premium rates of the retirees by allowing them to participate in the plan at reduced or blended (implicitly subsidized) premium rates for both active and retired employees. These rates provided an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance at a lower (explicitly subsidized) premium rate than active employees.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

	12/31/17
Normal cost	\$ 87,135
Amortization of unfunded actuarial accrued liability	394,460
Interest to the end of the year	19,264
Annual required contribution	500,859
Interest on NOO	106,247
Adjustment to ARC	(153,607)
Annual OPEB cost (expense)	453,499
Contributions made including implicit rate subsidy	(389,459)
Increase in net OPEB obligation	64,040
Net OPEB obligation, beginning of year	2,656,184
Net OPEB obligation, end of year	\$ 2,720,224

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, 2017 and the two preceding years were as follows:

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Year Ended	Increase in Net OPEB Obligation	Contribution (ARC)	OPEB Cost Contributed	% of ARC Contributed	OPEB Obligation
12/31/17	\$ 208,226	\$ 453,499	\$ 389,459	85.9%	\$2,720,224
12/31/16	\$ 208,227	\$ 540,470	\$ 332,243	61.5%	\$2,656,184
12/31/15	\$ 232,248	\$ 451,754	\$ 219,506	49.2%	\$2,656,184

Funded Status and Funding Progress

The funding status of the plan as of January 1, 2015, 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)
1/1/2015	\$ -	\$ 6,825,321	\$ 6,825,321	0.0%	\$1,373,027	497.1%

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 terminations, 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.

In the January 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The medical plan was changed to provide age-based premiums and post-Medicare coverage is provided through a Medicare Supplement. The actuarial assumptions include a rate of 4% to discount expected liabilities to the valuation date. The initial healthcare trend rate was 10% reduced by .5% per year to an ultimate rate of 5% after 7 years. The 2000 United States Life Tables for Males and United States Life Tables for Females was used. The UAAL is being amortized using the level dollar amount over a 30 year open period.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City participates in the following cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

The benefit provisions stated in the following 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.

General Employees Plan Benefits

General Employees Plan 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 ten 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 ten 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 members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

B. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2017. The City was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2017. The City's contributions to the General Employees Fund for the year ended December 31, 2017, were \$106,757. The City's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

General Employees Fund Pension Costs

At December 31, 2017, the City reported a liability of \$1,321,474 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$16,649. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion share was 0.0207% which was a decrease of 0.0016% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the City recognized pension expense of \$54,204 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$481 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2017, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 43,552	\$ 92,370
Changes in actuarial assumptions	236,351	132,478
Difference between projected and actual investment earnings	28,745	-
Changes in proportion	-	125,452
Contributions paid to PERA subsequent to the measurement date	55,987	-
Total	\$ 364,635	\$ 350,300

\$55,987 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Pension Expense Amount
2018	\$ 21,175
2019	\$ 46,078
2020	\$ (52,811)
2021	\$ (56,094)
2022	\$ -
Thereafter	\$ -

D. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for the General Employees Plan through 2044 and then 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.0%
Total	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for the plan it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of Net Pension Liability at Current Single Discount Rate		
General Employees Fund		
1% Lower	6.50%	\$ 2,049,705
Current Discount Rate	7.50%	\$ 1,321,474
1% Higher	8.50%	\$ 725,285

G. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 17 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT

Plan Description

The City of Mountain Iron, Minnesota, Volunteer Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2017, the plan covered fifteen active firefighters and five vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

Benefits Provided

The Volunteer Firefighter Plan provides retirement, death, and supplemental benefits to covered firefighters and survivors. Benefits are paid based on the number of years of service multiplied by a benefit level per year of service approved by the City. Members are eligible for a lump-sum retirement benefit at 50 years of age with five years of service. Plan provisions include a pro-rated vesting schedule that increases from 5 years at 40 percent through 20 years at 100 percent.

Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$15,064 in fire state aid to the fund for the year ended December 31, 2017. Required employer contributions are calculated annually based on statutory provisions. The City made no required or voluntary contributions to the Volunteer Firefighter Plan for the year ended December 31, 2017.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 17 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

Pension Costs

At December 31, 2017, the City reported a net pension asset of \$151,061 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2017. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension asset during the year.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/16	\$ 236,186	\$ 354,553	\$ (118,367)
Changes for the Year			
Service Cost	13,717	-	13,717
Interest on Pension Liability	13,344	-	13,344
Actuarial Experience (Gains)/Losses	(3,174)	-	(3,174)
Projected Investment Earnings	-	21,273	(21,273)
Contributions (Employer)	-	-	-
Contributions (State)	-	15,064	(15,064)
Asset (Gain)/Loss	-	20,864	(20,864)
Benefit Payouts	(55,000)	(55,000)	-
PERA Administrative Fee	-	(620)	620
Net Changes	(31,113)	1,581	(32,694)
Balance End of Year 12/31/17	\$ 205,073	\$ 356,134	\$ (151,061)

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2017, the City recognized pension expense of \$(461).

At December 31, 2017, the City reported deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 13,593
Difference between projected and actual investment earnings	-	11,545
Total	\$ -	\$ 25,138

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 17 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

Year Ended December 31:	Pension Expense Amount
2018	\$ (6,865)
2019	\$ (6,865)
2020	\$ (6,602)
2021	\$ (4,806)
2022	\$ -
Thereafter	\$ -

Actuarial Assumptions

The total pension liability at December 31, 2017, was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

- Retirement eligibility at the later of age 50 or 20 years of service
- Investment rate of return of 6.0 percent
- Inflation rate of 3.0 percent

Discount Rate

The discount rate used to measure the total pension liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions to the Volunteer Firefighter Fund will be made as specified in statute. Based on that assumption and considering the funding ratio of the plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Asset Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund plan, calculated using the assumed discount rate as well as what the City's net pension asset would be if it were calculated using a discount rate one percent lower or one percent higher than the current discount rate:

	1% Decrease in Discount Rate (5.0%)	Discount Rate (6.0%)	1% Increase in Discount Rate (7.0%)
Net Pension Asset	\$ 139,404	\$ 151,061	\$ 162,225

Plan Investments

Investment Policy:

The Minnesota State Board of Investment (SBI) is established by Article XI of the Minnesota Constitution to invest all state funds. Its membership as specified in the Constitution is comprised of the Governor (who is designated as chair of the Board), state auditor, secretary of state and state attorney general.

All investments undertaken by the SBI are governed by the prudent person rule and other standards codified in *Minnesota Statutes*, Chapter 11A and Chapter 356A.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 17 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

Within the requirements defined by state law, the SBI, with assistance of the SBI staff and the Investment Advisory Council, establishes investment policy for all funds under its control. These investments policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards. Studies guide the on-going management of the funds and are updated periodically.

Asset Allocation:

To match the long-term nature of the pension obligations, the SBI maintains a strategic asset allocation for the Volunteer Firefighter Plan that includes allocations to domestic equity, international equity, bonds and cash equivalents. The long-term target asset allocation and long-term expected real rate of return is the following:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Cash	5%	0.00%

The six percent long-term expected rate of return on pension plan investments was determined using a building-block method. Best estimates for expected future real rates of return (expected returns, net of inflation) were developed for each asset class using both long-term historical returns and long-term capital market expectations from a number of investment management and consulting organizations. The asset class estimates and the target allocations were then combined to produce a geometric, long-term expected real rate of return for the portfolio. Inflation expectations were applied to derive the nominal rate of return for the portfolio.

Description of significant investment policy changes during the year:

The SBI made no significant changes to their investment policy during Fiscal Year 2017 for the Statewide Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2017, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 18 - DEFINED CONTRIBUTION PLAN

Three council members of the City of Mountain Iron, Minnesota, are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan 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 five percent of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. 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 two percent of employer contributions and twenty-five hundredths of one percent (.0025) of the assets in each member's account annually.

Total contributions made by the City of Mountain Iron, Minnesota during fiscal year 2017 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$561	\$561	5%	5%	5%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 1,332,789	\$ 1,332,789	\$ 1,376,489	\$ 43,700
Special assessments	-	-	2,947	2,947
Licenses and permits	30,000	30,000	14,009	(15,991)
Intergovernmental	2,286,205	2,286,205	2,487,117	200,912
Charges for services	158,000	158,000	195,470	37,470
Fines	12,000	12,000	12,855	855
Investment income	8,000	8,000	8,935	935
TOTAL REVENUES	<u>3,826,994</u>	<u>3,826,994</u>	<u>4,097,822</u>	<u>270,828</u>
EXPENDITURES				
Current				
General government	1,219,100	1,219,100	1,149,630	69,470
Public safety	668,500	668,500	701,314	(32,814)
Streets	775,000	775,000	883,836	(108,836)
Culture and recreation	478,000	478,000	488,251	(10,251)
TOTAL EXPENDITURES	<u>3,140,600</u>	<u>3,140,600</u>	<u>3,223,031</u>	<u>(82,431)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>686,394</u>	<u>686,394</u>	<u>874,791</u>	<u>188,397</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(686,394)	(686,394)	(634,540)	51,854
Sale of capital assets	-	-	3,375	3,375
TOTAL OTHER FINANCING SOURCES (USES)	<u>(686,394)</u>	<u>(686,394)</u>	<u>(631,165)</u>	<u>55,229</u>
NET CHANGE IN FUND BALANCE	-	-	243,626	243,626
FUND BALANCE - JANUARY 1	<u>2,552,836</u>	<u>2,552,836</u>	<u>2,552,836</u>	-
FUND BALANCE - DECEMBER 31	<u>\$ 2,552,836</u>	<u>\$ 2,552,836</u>	<u>\$ 2,796,462</u>	<u>\$ 243,626</u>

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
Year Ended December 31, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (b-a)/(d)
1/1/2015	\$ -	\$6,825,321	\$6,825,321	0.0%	\$1,373,027	497.10%
1/1/2012	\$ -	\$5,928,255	\$5,928,255	0.0%	\$1,289,749	459.64%
1/1/2009	\$ -	\$7,746,539	\$7,746,539	0.0%	\$ 944,685	820.01%

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULES OF CITY PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLAN
Year Ended December 31, 2017**

**SCHEDULE OF CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND**

Fiscal Year Ending	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with City (a+b)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/17	0.0207%	\$ 1,321,474	\$ 16,649	\$ 1,338,123	\$ 1,337,361	100.06%	75.90%
6/30/16	0.0223%	\$ 1,810,649	\$ 23,552	\$ 1,834,201	\$ 1,380,707	132.85%	68.91%
6/30/15	0.0232%	\$ 1,202,344	\$ -	\$ 1,202,344	\$ 1,361,289	88.32%	78.19%

Note: This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

Note: For purposes of this schedule, covered payroll is defined as "pensionable wages".

**SCHEDULE OF CITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND**

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
12/31/17	\$ 106,757	\$ 106,757	\$ -	\$ 1,423,422	7.50%
12/31/16	\$ 100,889	\$ 100,889	\$ -	\$ 1,345,187	7.50%
12/31/15	\$ 103,946	\$ 103,946	\$ -	\$ 1,385,947	7.50%

Note: This schedule is provided prospectively beginning with the fiscal year ended December 31, 2015.

Note: For purposes of this schedule, covered payroll is defined as "pensionable wages".

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
Year Ended December 31, 2017**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
MOUNTAIN IRON VOLUNTEER FIRE DEPARTMENT**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability				
Service cost	\$ 13,717	\$ 13,369	\$ 13,192	\$ 15,601
Interest on the pension liability	13,344	13,695	13,239	13,591
Actuarial experience (gains)/losses	(3,174)	(5,760)	(18,997)	(14,167)
Benefit payments	<u>(55,000)</u>	<u>-</u>	<u>-</u>	<u>(37,000)</u>
Net Change in Total Pension Liability	(31,113)	21,304	7,434	(21,975)
Total Pension Liability - Beginning	<u>236,186</u>	<u>214,882</u>	<u>207,448</u>	<u>229,423</u>
Total Pension Liability - Ending (a)	<u>\$ 205,073</u>	<u>\$ 236,186</u>	<u>\$ 214,882</u>	<u>\$ 207,448</u>
Plan Fiduciary Net Position				
Contributions:				
Fire state aid	\$ 12,129	\$ 12,061	\$ 11,740	\$ 11,169
Fire supplemental aid	2,935	2,926	2,872	2,702
Supplemental benefit reimbursement	-	-	1,000	-
Required municipal contribution	-	-	-	5,814
Adjustment to initial asset transfer	-	-	-	3,098
Net investment income	42,137	22,288	470	19,550
PERA administrative fee	(600)	(630)	(630)	(660)
Auditor/accounting fee	-	-	-	(1,950)
SBI investment fee	(20)	(24)	(10)	-
Benefit payments	<u>(55,000)</u>	<u>-</u>	<u>-</u>	<u>(37,000)</u>
Net Change in Plan Fiduciary Net Position	1,581	36,621	15,442	2,723
Plan Fiduciary Net Position - Beginning	<u>354,553</u>	<u>317,932</u>	<u>302,490</u>	<u>299,767</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 356,134</u>	<u>\$ 354,553</u>	<u>\$ 317,932</u>	<u>\$ 302,490</u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (151,061)</u>	<u>\$ (118,367)</u>	<u>\$ (103,050)</u>	<u>\$ (95,042)</u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	173.7%	150.1%	148.0%	145.8%

This schedule is built prospectively until it contains ten years of data.

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF CITY CONTRIBUTIONS
Year Ended December 31, 2017**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
SCHEDULE OF CITY CONTRIBUTIONS
MOUNTAIN IRON VOLUNTEER FIRE DEPARTMENT**

	2017	2016	2015	2014
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ 5,814
Actual contributions paid	-	-	-	5,814
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -

The annual required contributions of the municipality and State are determined by statute.

Because all active plan members are volunteers, there is no actual payroll.

This schedule is built prospectively until it contains ten years of data.

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017

NOTE 1 - BUDGETING

The City Administrator prepares a proposed budget for the City's funds on the same basis as the fund financial statements. The City Council adopts an annual budget for the fiscal year for all of the City's funds.

Legal budgetary control is at the fund account level; management control is exercised at line-item levels. Budget appropriations lapse at year end, if unexpended.

Budgeted amounts are as originally adopted or as amended by the City Council. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents a comparison of budgetary data to actual results.

NOTE 2 - EXCESS OF EXPENDITURES OVER BUDGET

Expenditures exceeded appropriations in the following fund for the year ended December 31, 2017:

General Fund	<u>\$ 82,431</u>
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These overexpenditures were funded by an available fund balance.

NOTE 3 - POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTIONS AND METHODS

2015 Changes

Changes from the prior valuation are as follows:

- Retiree premiums were updated to current levels.
- Management retirees on or after 7/1/2006 are eligible for the same subsidized benefits as future AFSCME retirees.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Withdrawal, disability, retirement, mortality and salary increase rates were updated from the rates used in the 2011 PERA General Employees Retirement Plan valuation to the rates used in the 2014 PERA General Employees Retirement Plan valuation.

2012 Changes

Changes from the prior valuation are as follows:

- Retiree premiums were updated to current levels.
- Withdrawal, retirement and mortality rates were updated from 2008 PERA General Employees Retirement Plan rates to the 2011 PERA General Employees Retirement Plan rates.
- Medical trend rates were reset to reflect updated health cost increase expectations.
- The percent of future retirees not eligible for a direct subsidy assume to elect medical coverage at retirement changed from 100% to 50%.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017

**NOTE 3 - POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTION AND METHODS
(CONTINUED)**

- The percent of future retirees not eligible for a direct subsidy assumed to elect spouse coverage at retirement changed from if currently covering a spouse to 0%.
- The increase rate on the base contribution was changed from 5% per year to no future increases.

**NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN
PROVISIONS AND DISCOUNT RATE**

2017 Changes

Changes in Actuarial Assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 Changes

Changes in Plan Provisions:

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2017**

REVENUES

TAXES

General property	\$ 1,289,166
Mineral rents and royalties	64,824
Franchise	<u>22,499</u>

TOTAL TAXES

1,376,489

SPECIAL ASSESSMENTS

2,947

LICENSES AND PERMITS

14,009

INTERGOVERNMENTAL

State

Local government aid	1,301,205
Market value credit	959
Taconite production	537,730
Taconite municipal aid	496,430
Mining effects	107,717
PERA aid	4,529
Police aid	28,172
Fire aid	375
IRRRB grant	<u>10,000</u>

TOTAL INTERGOVERNMENTAL

2,487,117

CHARGES FOR SERVICES

General government	
Rent	13,844
Other reimbursements	106,784
Culture and recreation	
Recreation fees	5,085
Campground fees	<u>69,757</u>

TOTAL CHARGES FOR SERVICES

195,470

FINES

Fines and forfeits	<u>12,855</u>
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INVESTMENT INCOME

8,935

TOTAL REVENUES

4,097,822

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)
 Year Ended December 31, 2017

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 22,507
Administration	559,826
Elections	719
Assessor	179
Retiree's insurance	207,269
Donations and contributions	6,577
Other	108,758
Buildings	224,434
Planning and zoning	19,361
TOTAL GENERAL GOVERNMENT	<u>1,149,630</u>

PUBLIC SAFETY

Sheriff	583,653
Fire	96,661
Animal control	18,000
Civil defense	3,000
TOTAL PUBLIC SAFETY	<u>701,314</u>

STREETS

883,836

CULTURE AND RECREATION

Library	181,411
Recreation	216,462
Campgrounds	90,378
TOTAL CULTURE AND RECREATION	<u>488,251</u>

TOTAL EXPENDITURES

3,223,031

EXCESS OF REVENUES OVER
 EXPENDITURES

874,791

OTHER FINANCING SOURCES (USES)

Transfers out	(634,540)
Sale of capital assets	3,375
TOTAL OTHER FINANCING SOURCES (USES)	<u>(631,165)</u>

NET CHANGE IN FUND BALANCE

243,626

FUND BALANCE - JANUARY 1

2,552,836

FUND BALANCE - DECEMBER 31

\$ 2,796,462

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, 2017**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 1,025,590	\$ 332,961	71,579
Transfers from EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>1,025,590</u>	<u>338,983</u>	<u>71,579</u>
USES OF FUNDS			
Site improvements and preparation costs	1,025,590	299,665	64,421
Administrative costs	-	16,437	2,015
Transfers to EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>1,025,590</u>	<u>322,124</u>	<u>66,436</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ 16,859</u>	<u>\$ 5,143</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 15
Year Ended December 31, 2017**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 110,000	\$ -	\$ -
Interest and investment earnings	<u>5,000</u>	<u>-</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>115,000</u>	<u>-</u>	<u>-</u>
USES OF FUNDS			
Land/building acquisition	83,000	-	-
Administrative costs	11,000	7,803	2,678
Interest expense	<u>21,000</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>115,000</u>	<u>7,803</u>	<u>2,678</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ (7,803)</u>	<u>\$ (2,678)</u>



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**INDEPENDENT AUDITOR'S 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, 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, the financial statements of the governmental activities, the business-type activities, the 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, 2017, and the related notes to the financial statements, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements, and have issued our report thereon dated June 4, 2018. Our report includes a reference to other auditors who audited the financial statements of Mountain Manor Apartments Enterprise Fund, as described in our report on the City of Mountain Iron, Minnesota's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Mountain Iron, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Mountain Iron, Minnesota's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-002 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 2017-001 to be a significant deficiency.

Compliance

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, 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 audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Mountain Iron, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Mountain Iron, Minnesota's noncompliance with the above referenced provisions.

Other Matters

We noted certain matters that we reported to management of City of Mountain Iron, Minnesota in a separate letter dated June 4, 2018, included under this cover.

City of Mountain Iron, Minnesota's Response to Findings

City of Mountain Iron, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. City of Mountain Iron, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker, Miray & Helme, LLC

Virginia, Minnesota
June 4, 2018

CITY OF MOUNTAIN IRON, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2017

Prior Audit Financial Statement Findings

FINDING 2016-001. SEGREGATION OF DUTIES

Summary of Condition

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

Summary of Corrective Action Previously Reported

The City Administrator is monitoring transactions and the structure of duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

Current Status

Ongoing.

FINDING 2016-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Summary of Condition

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

Summary of Corrective Action Previously Reported

Management determined that the cost and training involved to review or prepare the City's financial statements exceeded the benefit that would result.

Current Status

Ongoing.

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

2017-001. SEGREGATION OF DUTIES

Criteria

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

Condition

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

The 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.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. The City Administrator will continue to monitor all transactions and the City's administration will 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.

2017-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Criteria and Condition

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.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2017

2017-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS (CONTINUED)

Views of Responsible Officials and Planned Corrective Action

Management agrees with the 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.

REPRESENTATION OF THE CITY OF MOUNTAIN IRON, MINNESOTA

**CORRECTIVE ACTION PLAN
Year Ended December 31, 2017**

Finding Number: 2017-001

Finding Title: SEGREGATION OF DUTIES

Name of Contact Person Responsible for Corrective Action

Craig J. Wainio, City Administrator

Corrective Action Planned

Management 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.

Anticipated Completion Date

Ongoing.

Finding Number: 2017-002

Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Name of Contact Person Responsible for Corrective Action

Craig J. Wainio, City Administrator

Corrective Action Planned

Management has determined that the cost and training involved to review or prepare the City's financial statements exceeds the benefit that would result.

Anticipated Completion Date

Ongoing.



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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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, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Mountain Iron, Minnesota's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 4, 2018 included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 4, 2018, 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 are summarized as follows:

1. The Electric Utility Enterprise Fund and Wastewater Treatment Enterprise Fund each reported an operating loss for the year ended December 31, 2017. Each fund also recorded a liability for the amount due to the General Fund in the amount \$270,636 and \$181,842, respectively, for negative cash. We suggest that the City Council review these losses and implement a plan to make the funds profitable and self-sufficient.
2. During the inventory observation, we noted that major electric utility items are stored in an unfenced area outside of the warehouse. We recommend that the administration consider fencing this area to provide adequate security over the physical inventory and deter theft, damage, loss or improper use of City assets. The physical inventory did not include prices for the items counted; therefore, the inventory cost at December 31, 2017 was not adjusted on a timely basis. We recommend that inventory items be valued at the latest purchase price prior to

the next physical count to ensure that the inventory is properly valued and reported.

3. The City budgets transfers between funds for debt service payments, capital projects and capital asset additions. The General Fund "transfers" are listed as separate line items with the expenditures on the budget summary report; however, the Enterprise Funds "transfers" appear to be included with "capital outlay" and are not listed as separate line items with the expenditures on the budget summary report. We recommend that the Enterprise Fund transfers be listed as separate line items with the expenses to be consistent with the General Fund transfer presentation, and to aid in the preparation of the note disclosures to the financial statements.
4. The City has invested in long-term certificates of deposit with two investment firms. These investment accounts are carried at market value, which may result in an investment loss if not held to maturity. We recommend that the administration monitor the market value gain or loss and hold the investments to maturity to avoid an investment loss.
5. Several reconciling items were listed on the bank reconciliation, which resulted from old outstanding checks and electronic bank receipts not being entered into the accounting system before the financial statements were prepared. We recommend that City staff review the online bank activity, prior to month end, to ensure that all receipts have been recorded and that the old outstanding checks have been resolved before preparation of the financial statements.
6. The past-due accounts receivable has increased over the past few years. We recommend that additional attention be given to these past-due accounts to ensure timely collection of utility receipts.
7. Differences were noted between the amounts billed, and the amounts reimbursed, between the City and the EDA. We recommend that City staff review and reconcile the appropriate "Due To/Due From" accounts each month.
8. One vendor's invoices selected for disbursement testing were not paid within 35 days from the date received for the period August through September. We recommend that the City follow prompt payment of bills within the 35 day period as required by state statute.
9. The following items were also noted during the audit: supporting documentation was not on file for one Merritt Days' vendor, one voided check was not on file, one legal invoice was not on file, and numerous receipt documentation was not printed for the miscellaneous receipts file. We recommend that proper documentation be maintained for all City disbursements and receipts.

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

Walker, Miroux & Helne, LLC

Virginia, Minnesota
June 4, 2018