

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2015**

DRAFT - PRELIMINARY & TENTATIVE
For Discussion Purposes Only
6/27/16

CITY OF MOUNTAIN IRON, MINNESOTA

TABLE OF CONTENTS

December 31, 2015

	<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	24
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 Plans	59
Schedule of City Contributions	60
Schedule of Changes in Net Pension Liability/Asset	61
Notes to Required Supplementary Information	62
Other Supplementary Information	
General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance	63
Schedule of Sources and Uses of Public Funds for Mountain Iron Tax Increment District No. 14	65
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	66
SCHEDULE OF FINDINGS AND RESPONSES	69
MANAGEMENT LETTER	71

CITY OF MOUNTAIN IRON, MINNESOTA

ORGANIZATION December 31, 2015

CITY COUNCIL

Mayor

Gary Skalko

Council Members

Joe Prebeg, Jr.
Alan Stanaway
Susan Tuomela
Anthony Zupancich

ADMINISTRATION

Administrator

Craig J. Wainio

FINANCIAL SECTION

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, 2015, 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 7 percent, 3 percent, and 5 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, 2015, 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.

Change in Accounting Principle

As described in Notes 1, 15 and 16 to the financial statements, for the year ended December 31, 2015, the City adopted new accounting guidance. Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Emphasis of Matter Paragraph

Management has declined to allocate the net pension liability and related accounts to all departments and funds of the City. Our opinion on the basic financial statements is not affected.

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 plans, schedule of City's contributions, and schedule of changes in net pension liability/asset 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 schedule of sources and uses of public funds for Mountain Iron tax increment district No.14 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 schedule of sources and uses of public funds for Mountain Iron tax increment district No. 14 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 schedule of sources and uses of public funds for Mountain Iron tax increment district No. 14 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 28, 2016 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 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 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 City of Mountain Iron, Minnesota's internal control over financial reporting and compliance.

Virginia, Minnesota
June 28, 2016

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

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, 2015. 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 \$10,594,007 of which \$9,529,090 represents net investment in capital assets.
- Business-type activities have total net position of \$8,283,266. Net investment in capital assets represents \$7,136,774 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net position of \$3,120,866, of which \$2,480,646 represents net investment in capital assets.
- The City of Mountain Iron's primary government's net position increased by \$1,054,944 for the year ended December 31, 2015. Of the increase \$487,637 was an increase in the governmental activities' net position and \$567,307 represented the increase in business-type activities' net position.
- The EDA's net position decreased by \$93,570.
- The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which records the City's proportionate share of collective net pension asset and liability for PERA, deferred outflows of resources and deferred inflows of resources, and pension expense on the City's government-wide statements. This change in accounting principle is discussed in Notes 1, 15 and 16.
- The net cost of governmental activities was \$2,603,843 for the current fiscal year. The net cost was funded by general revenues and other items totaling \$3,885,822.
- Governmental funds' fund balances decreased by \$256,619.

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.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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 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.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the required supplementary information for 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 plans, schedule of City contributions and schedule of changes in net pension liability/asset. Individual fund financial statements and schedule of sources and uses of public funds for Mountain Iron's tax increment district 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 \$18,877,273, an increase from the prior year.

**Table 1
Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 4,193,224	\$ 4,722,681	\$ 2,373,203	\$ 2,417,857	\$ 6,566,427	\$ 7,140,538
Capital assets	<u>10,784,090</u>	<u>10,434,640</u>	<u>8,551,327</u>	<u>7,956,482</u>	<u>19,335,417</u>	<u>18,391,122</u>
Total assets	<u>14,977,314</u>	<u>15,157,321</u>	<u>10,924,530</u>	<u>10,374,339</u>	<u>25,901,844</u>	<u>25,531,660</u>
Deferred outflows related to pensions	<u>180,528</u>	-	-	-	<u>180,528</u>	-
Long-term liabilities	4,148,811	3,614,173	2,246,747	2,027,917	6,395,558	5,642,090
Other liabilities	<u>327,728</u>	<u>721,114</u>	<u>394,517</u>	<u>376,118</u>	<u>722,245</u>	<u>1,097,232</u>
Total liabilities	<u>4,476,539</u>	<u>4,335,287</u>	<u>2,641,264</u>	<u>2,404,035</u>	<u>7,117,803</u>	<u>6,739,322</u>
Deferred inflows related to pensions	<u>87,296</u>	-	-	-	<u>87,296</u>	-
Net position						
Net investment in capital assets	9,529,090	8,631,640	7,136,774	6,450,119	16,665,864	15,081,759
Restricted	1,145,890	1,166,963	6,791	110,946	1,152,681	1,277,909
Unrestricted	<u>(80,973)</u>	<u>1,023,431</u>	<u>1,139,701</u>	<u>1,409,239</u>	<u>1,058,728</u>	<u>2,432,670</u>
Total net position	<u>\$ 10,594,007</u>	<u>\$ 10,822,034</u>	<u>\$ 8,283,266</u>	<u>\$ 7,970,304</u>	<u>\$ 18,877,273</u>	<u>\$ 18,792,338</u>

Net position of the City's governmental activities decreased by 2.1 percent (\$10,594,007 compared to \$10,822,034). 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 \$1,023,431 surplus at December 31, 2014 to a \$80,973 deficit at the end of this year, due to the implementation of GASB 68.

Net position of the City's business-type activities increased by 3.9 percent (\$8,283,266 compared to \$7,970,304).

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues						
Program revenues:						
Fees, fines, charges and other charges for services	\$ 218,558	\$ 341,041	\$ 3,924,131	\$ 3,912,250	\$ 4,142,689	\$ 4,253,291
Operating grants and contributions	20,782	6,231	-	-	20,782	6,231
Capital grants and contributions	1,070,658	1,162,920	-	-	1,070,658	1,162,920
General revenues:						
Property and other taxes	1,356,959	1,527,866	-	-	1,356,959	1,527,866
Grants and contributions not restricted to specific programs	2,448,812	2,378,363	-	-	2,448,812	2,378,363
Other general revenues	<u>34,617</u>	<u>32,900</u>	<u>48,708</u>	<u>57,476</u>	<u>83,325</u>	<u>90,376</u>
Total revenues	<u>5,150,386</u>	<u>5,449,321</u>	<u>3,972,839</u>	<u>3,969,726</u>	<u>9,123,225</u>	<u>9,419,047</u>
Program expenses:						
General government	1,234,048	1,169,511	-	-	1,234,048	1,169,511
Public safety	834,701	747,554	-	-	834,701	747,554
Streets	1,163,479	1,150,222	-	-	1,163,479	1,150,222
Culture and recreation	637,320	614,836	-	-	637,320	614,836
Interest	44,293	57,749	-	-	44,293	57,749
Electric utility	-	-	2,607,386	2,524,359	2,607,386	2,524,359
Water treatment	-	-	335,074	349,409	335,074	349,409
Wastewater treatment	-	-	549,704	545,646	549,704	545,646
Refuse removal and recycling	-	-	475,915	433,602	475,915	433,602
Mountain Manor Apartments	-	-	231,795	245,740	231,795	245,740
Total program expenses	<u>3,913,841</u>	<u>3,739,872</u>	<u>4,199,874</u>	<u>4,098,756</u>	<u>8,113,715</u>	<u>7,838,628</u>
Excess (deficiency) before gain (loss) on sale of capital assets and transfers	1,236,545	1,709,449	(227,035)	(129,030)	1,009,510	1,580,419
Gain on sale of capital assets	45,434	-	-	-	45,434	-
Transfers	<u>(794,342)</u>	<u>(389,218)</u>	<u>794,342</u>	<u>389,218</u>	<u>-</u>	<u>-</u>
Increase in net position	487,637	1,320,231	567,307	260,188	1,054,944	1,580,419
Net position, January 1	10,822,034	9,501,803	7,970,304	7,710,116	18,792,338	17,211,919
Prior period adjustment	<u>(715,664)</u>	<u>-</u>	<u>(254,345)</u>	<u>-</u>	<u>(970,009)</u>	<u>-</u>
Net position, December 31	<u>\$10,594,007</u>	<u>\$10,822,034</u>	<u>\$ 8,283,266</u>	<u>\$ 7,970,304</u>	<u>\$ 18,877,273</u>	<u>\$ 7,710,116</u>

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

Governmental Activities

The most significant revenues of the governmental activities are grants and contributions not restricted to specific programs at 48% of revenues. Capital grants and contributions, 21% of revenues, include grants for major projects or purchases of equipment. Property taxes levied for general purposes amount to \$1,285,152, 25% of revenues.

General government expense is the most significant (32%), followed by streets (30%), public safety (21%) and culture and recreation (16%).

Governmental revenues during 2015 were \$5,195,820 compared to \$5,449,321 in the prior year, which is a decrease of \$253,501. Our taxpayers paid \$1,356,959 in property and other taxes during the current year, which is a decrease of \$170,907.

The cost of all governmental activities this year was \$3,913,841 compared to \$3,739,872 last year. Governmental expenses increased by \$173,969 in the current year. The most significant increase occurred in the City's public safety program due to an increase in repairs and maintenance in the Fire Department. The increase in the City's general government program occurred due to the implementation of GASB 68 and the related pension expense recorded.

Business-Type Activities

Revenues and transfers in of the City's business-type activities were \$4,767,181 and expenses were \$4,199,874, (see Table 2). There was an increase in net position of \$567,307 during the year ended December 31, 2015, which compares to an increase in net position of \$260,188 for the year ended December 31, 2014. Factors driving this result include:

- Operations produced a loss of \$232,522 for the year ended December 31, 2015. The wastewater treatment enterprise fund recorded the most significant operating loss of \$147,944. The electric utility enterprise fund recorded an operating loss of \$113,654 and Mountain Manor Apartments enterprise fund recorded an operating loss of \$8,365. The water treatment enterprise fund and the refuse removal and recycling fund each recorded operating income of \$14,100 and \$23,341 respectively.
- The water treatment enterprise fund received capital contributions in the amount of \$530,829 from the City for County Road 102 water infrastructure capitalized during the current year. The wastewater treatment enterprise fund received capital contributions in the amount of \$307,513 for County Road 102 sewer infrastructure and the Mud Lake force main capitalized during the current year.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had a decrease in net position of \$93,570 for the year ended December 31, 2015. Net program revenues over expenses were \$(225,375). General tax revenues, interest earnings, miscellaneous revenues and gain on sale of capital assets were \$131,805.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

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

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

At December 31, 2015, the City's governmental funds reported total ending fund balances of \$3,639,818, a decrease of \$256,619 in comparison with the prior year. Assigned fund balance, which is intended to be used for cash flow, insurance, and buildings, made up nearly 71% or \$2,583,356 of the total ending fund balance. The restricted fund balance of \$1,056,462 is considered unavailable for appropriation for general operations. More detailed information about the City's fund balances is presented in Note 7 to the financial statements.

At the end of the year, the general fund reported a fund balance of \$2,554,392, decreasing \$52,333 from the prior year. General fund revenues were \$96,462 less than the prior year's and expenditures increased by \$225,095. During the current year, the general fund transfers to other funds were \$1,102,155, which were more than the prior year's transfers out of \$847,079.

The debt service fund recorded a decrease in fund balance of \$203,161 compared to an increase in fund balance of \$92,660 last year. Other financing sources included a \$280,000 transfer from the general fund and \$44,000 transfer from the enterprise funds for debt principal and interest payments.

The capital projects fund recorded a decrease in fund balance of \$1,852, resulting in an assigned fund balance of \$20,756. Other financing sources included a transfer of \$822,155 from the general fund for capital projects.

Proprietary Funds

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

The electric utility enterprise fund accounts for the electric operations of the City. In 2015, operating revenues decreased by \$27,134 compared to the prior year. Operating expenses increased by \$83,027. The electric operations produced an operating loss of \$113,654 in 2015. A transfer out of \$16,000 was made to governmental funds. These transactions resulted in a decrease of \$118,417 in net position in the current year. A prior period adjustment in the amount of \$81,195 was recorded to increase the postemployment benefit obligation and reduce net position.

The water treatment enterprise fund accounts for the water operations of the City. In 2015, operating revenues decreased by \$64 compared to the prior year. Operating expenses decreased by \$13,257. In 2015, operating income of \$14,100 was recorded compared to an operating income of \$907 in the prior year. Interest expense charged to the water operations was \$16,635. Transfers to the debt service governmental fund were made in the amount of \$28,000 during 2015. A capital contribution of \$530,829 from the City was recorded for County Road 102 infrastructure capitalized in 2015. These transactions resulted in an increase of \$502,835 in net position in the current year. A prior period adjustment in the amount of \$24,776 was recorded to increase the postemployment benefit obligation and reduce net position.

The wastewater treatment enterprise fund accounts for the wastewater treatment operations of the City. In 2015, operating revenues decreased by \$115 compared to the prior year. Operating expenses increased by \$4,650 in the current year. In 2015, an operating loss of \$147,944 was recorded compared to an operating loss of \$143,179 in the prior year. Interest expense charged to the wastewater treatment operations was \$10,431. A capital contribution of \$307,513 from the City was recorded for County Road 102 and Mud Lake force main infrastructure capitalized in 2015. These transactions resulted in an increase of \$155,456 in net position in the current year. A prior period adjustment in the amount of \$9,562 was recorded to decrease the postemployment benefit obligation and increase net position.

The refuse removal and recycling enterprise fund accounts for the refuse removal and recycling operations of the City. In 2015, operating revenues increased \$61,802 compared to the prior year. Operating expenses

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

increased by \$42,313. In 2015, operating income of \$23,341 was recorded compared to an operating income of \$5,033 in the prior year. These transactions resulted in an increase of \$47,153 in net position in the current year. A prior period adjustment in the amount of \$157,936 was recorded to increase the postemployment benefit obligation and reduce net position.

The Mountain Manor Apartments enterprise fund accounts for the operations of the Mountain Manor Apartments. In 2015, operating revenues decreased by \$1,802 compared to the prior year. Operating expenses decreased by \$14,821 compared to the prior year. In 2015, an operating loss of \$8,365 was recorded compared to an operating loss of \$21,384 in the prior year. Interest expense charged to the Mountain Manor Apartments operations was \$16,155. These transactions resulted in a decrease of \$19,720 in net position in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were \$58,189 over the final budget amounts. The most significant negative variance in the amount of (\$112,453) occurred in the City public safety department. 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 2015, the City's primary government had \$19,335,417 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 \$944,295 over last year. The Mountain Iron Economic Development Authority component unit had \$5,961,184 invested in capital assets, which consisted of land and infrastructure.

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

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 409,300	\$ 409,300	\$ 26,370	\$ 26,370	\$ 435,670	435,670
Construction in progress	991,279	1,214,372	-	-	991,279	1,214,372
Land improvements	658,405	698,144	18,017	-	676,422	698,144
Buildings	2,470,916	2,371,329	3,683,100	3,872,287	6,154,016	6,243,616
Infrastructure	5,379,203	4,837,010	4,464,957	3,700,721	9,844,160	8,537,731
Machinery and equipment	503,470	527,282	70,786	35,548	574,256	562,830
Licensed vehicles	371,517	377,203	288,097	321,556	659,614	698,759
Totals	<u>\$ 10,784,090</u>	<u>\$10,434,640</u>	<u>\$ 8,551,327</u>	<u>\$ 7,956,482</u>	<u>\$ 19,335,417</u>	<u>\$ 18,391,122</u>
EDA						
Land	\$ 2,533,256	\$ 2,533,256	\$ -	\$ -	\$ 2,533,256	\$ 2,533,256
Infrastructure	3,427,928	3,500,095	-	-	3,427,928	3,500,095
Totals	<u>\$ 5,961,184</u>	<u>\$ 6,033,351</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,961,184</u>	<u>\$ 6,033,351</u>

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

This year's major additions included costs for relocation of County Road 102 infrastructure, Mountain Iron Drive and other street projects, Mud Lake force main, City Garage re-roof, two Ford vehicles, a garbage trailer, generator, disc golf course, portion of the electric meter and water meter project, and substation fencing.

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

Debt

At year-end, the City had \$2,669,553 in long-term debt outstanding for the primary government versus \$3,309,363 last year—as shown in Table 4. The Mountain Iron EDA component unit had \$3,480,538 in long-term debt outstanding versus \$3,546,654 last year.

Table 4
Outstanding Debt, at Year-end

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
General obligation bonds (backed by the City)	\$ 785,000	\$ 1,148,000	\$ -	\$ -	\$ 785,000	\$ 1,148,000
GO refunding bonds	470,000	655,000	-	-	470,000	655,000
Water revenue refunding bonds	-	-	400,000	450,000	400,000	450,000
Wastewater general obligation revenue note	-	-	446,000	473,000	446,000	473,000
Notes payable	-	-	568,553	583,363	568,553	583,363
Total	<u>\$ 1,255,000</u>	<u>\$ 1,803,000</u>	<u>\$ 1,414,553</u>	<u>\$ 1,506,363</u>	<u>\$ 2,669,553</u>	<u>\$ 3,309,363</u>
	Component Unit EDA					
	2015	2014				
State loan	<u>\$ 3,480,538</u>	<u>\$ 3,546,654</u>				

The State limits the amount of net debt that the City can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$470,000 is significantly below this \$5,329,719 State-imposed limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2016⁶ budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased \$22,400 over 2015.
- City property taxes did not increase in 2016.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

- The City's 2016 capital projects will include decommissioning the Nichols Township Pond, Garden Drive mill and overlay, and implementation of the automatic meter reading system.

The City's 201⁶~~5~~ capital budget calls for it to spend another \$1,999,000.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information, or for the separate financial statements for the Mountain Iron EDA and Mountain Manor Apartments, should be addressed to the City's Administrator, Craig J. Wainio, City of Mountain Iron, 8586 Enterprise Drive South, Mountain Iron, Minnesota 55768, or e-mail cwainio@ci.mountain-iron.mn.us.

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	\$ 1,899,984	\$ 628,753	\$ 2,528,737	\$ 647,515
Investments	1,475,548	680,935	2,156,483	-
Taxes receivable	36,337	-	36,337	-
Special assessments receivable	115,527	-	115,527	-
Accounts receivable	9,810	501,721	511,531	-
Grants receivable	525,000	-	525,000	-
Due from component unit	8,281	-	8,281	-
Due from other governments	27,695	-	27,695	-
Loans receivable	-	-	-	89,371
Inventories	-	400,794	400,794	-
Prepaid items	-	1,155	1,155	-
Fire Relief net pension asset	95,042	-	95,042	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	159,845	159,845	-
Capital assets not being depreciated:				
Land	409,300	26,370	435,670	2,533,256
Construction in progress	991,279	-	991,279	-
Capital assets net of accumulated depreciation:				
Land improvements	658,405	18,017	676,422	-
Buildings	2,470,916	3,683,100	6,154,016	3,427,928
Infrastructure	5,379,203	4,464,957	9,844,160	-
Machinery and equipment	503,470	70,786	574,256	-
Licensed vehicles	371,517	288,097	659,614	-
TOTAL ASSETS	14,977,314	10,924,530	25,901,844	6,698,070
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	180,528	-	180,528	-
LIABILITIES				
Accounts payable	223,297	262,893	486,190	88,385
Salaries payable	78,191	35,288	113,479	-
Accrued interest payable	16,340	5,708	22,048	-
Due to primary government	-	-	-	8,281
Customer deposits	9,900	90,628	100,528	-
Noncurrent liabilities:				
Due within one year				
Bonds and notes payable	295,000	91,123	386,123	-
Severance payable	23,740	-	23,740	-
Due in more than one year				
Bonds and notes payable	960,000	1,323,430	2,283,430	3,480,538
Other postemployment benefits	1,629,157	818,800	2,447,957	-
Severance payable	38,570	13,394	51,964	-
PERA net pension liability	1,202,344	-	1,202,344	-
TOTAL LIABILITIES	4,476,539	2,641,264	7,117,803	3,577,204
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	87,296	-	87,296	-
NET POSITION				
Net investment in capital assets	9,529,090	7,136,774	16,665,864	2,480,646
Restricted for:				
Debt service	1,145,890	6,791	1,152,681	-
Unrestricted	(80,973)	1,139,701	1,058,728	640,220
TOTAL NET POSITION	\$ 10,594,007	\$ 8,283,266	\$ 18,877,273	\$ 3,120,866

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental Activities			
General government	\$ 1,234,048	\$ 137,019	\$ 6,170
Public safety	834,701	5,895	14,612
Streets	1,163,479	-	-
Culture and recreation	637,320	75,644	-
Interest on long-term debt	44,293	-	-
Total Governmental Activities	<u>3,913,841</u>	<u>218,558</u>	<u>20,782</u>
Business-type Activities			
Electric utility	2,607,386	2,493,732	-
Water treatment	335,074	332,539	-
Wastewater treatment	549,704	391,329	-
Refuse removal and recycling	475,915	499,256	-
Mountain Manor Apartments	231,795	207,275	-
Total Business-type Activities	<u>4,199,874</u>	<u>3,924,131</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 8,113,715</u>	<u>\$ 4,142,689</u>	<u>\$ 20,782</u>
COMPONENT UNIT			
EDA	<u>\$ 350,875</u>	<u>\$ 125,500</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

Miscellaneous

Gain on sale of capital assets

Transfers**Total General Revenues and Transfers****CHANGE IN NET POSITION****NET POSITION - JANUARY 1****Prior period adjustment****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
\$ 54,359	\$ (1,036,500)	\$ -	\$ (1,036,500)	
600	(813,594)	-	(813,594)	
1,015,699	(147,780)	-	(147,780)	
-	(561,676)	-	(561,676)	
-	(44,293)	-	(44,293)	
1,070,658	(2,603,843)	-	(2,603,843)	
-	-	(113,654)	(113,654)	
-	-	(2,535)	(2,535)	
-	-	(158,375)	(158,375)	
-	-	23,341	23,341	
-	-	(24,520)	(24,520)	
-	-	(275,743)	(275,743)	
\$ 1,070,658	(2,603,843)	(275,743)	(2,879,586)	
\$ -				(225,375)
	1,285,152	-	1,285,152	31,064
	-	-	-	96,491
	23,404	-	23,404	-
	48,403	-	48,403	-
	2,448,812	-	2,448,812	-
	34,617	15,587	50,204	3,466
	-	33,121	33,121	784
	45,434	-	45,434	-
	(794,342)	794,342	-	-
	3,091,480	843,050	3,934,530	131,805
	487,637	567,307	1,054,944	(93,570)
	10,822,034	7,970,304	18,792,338	3,214,436
	(715,664)	(254,345)	(970,009)	-
\$ 10,594,007	\$ 8,283,266	\$ 18,877,273	\$ 3,120,866	

CITY OF MOUNTAIN IRON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	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	\$ 1,305,185	\$ 586,591	\$ -	\$ 8,208	\$ 1,899,984
Investments	1,031,776	443,772	-	-	1,475,548
Taxes receivable	36,337	-	-	-	36,337
Special assessments receivable	-	115,527	-	-	115,527
Accounts receivable	9,810	-	-	-	9,810
Grants receivable	-	-	525,000	-	525,000
Due from other funds	472,416	-	-	-	472,416
Due from component unit	8,281	-	-	-	8,281
Due from other governments	27,695	-	-	-	27,695
TOTAL ASSETS	\$ 2,891,500	\$ 1,145,890	\$ 525,000	\$ 8,208	\$ 4,570,598
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 191,469	\$ -	\$ 31,828	\$ -	\$ 223,297
Salaries payable	78,191	-	-	-	78,191
Severance payable	23,739	-	-	-	23,739
Due to other funds	-	-	472,416	-	472,416
Customer deposits	9,900	-	-	-	9,900
TOTAL LIABILITIES	303,299	-	504,244	-	807,543
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	33,809	-	-	-	33,809
Unavailable revenue - special assessments	-	89,428	-	-	89,428
DEFERRED INFLOWS OF RESOURCES	33,809	89,428	-	-	123,237
FUND BALANCES					
Restricted	-	1,056,462	-	-	1,056,462
Assigned	2,554,392	-	20,756	8,208	2,583,356
TOTAL FUND BALANCES	2,554,392	1,056,462	20,756	8,208	3,639,818
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,891,500	\$ 1,145,890	\$ 525,000	\$ 8,208	\$ 4,570,598

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, 2015

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS		\$ 3,639,818
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		10,784,090
Deferred inflows of resources in governmental funds are susceptible to full accrual on the government-wide statements.		123,237
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.		(16,340)
Net pension asset used in governmental activities is not a current financial resource and, therefore, is not reported in the governmental funds.		95,042
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.		(4,125,072)
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	180,528	
Deferred inflows of resources related to pensions	<u>(87,296)</u>	
		<u>93,232</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 10,594,007</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, 2015

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
REVENUES					
Taxes	\$ 1,357,986	\$ -	\$ -	\$ -	\$ 1,357,986
Special assessments	-	61,406	-	-	61,406
Licenses and permits	24,301	-	-	-	24,301
Intergovernmental	2,448,812	-	1,015,699	-	3,464,511
Charges for services	181,880	-	-	-	181,880
Fines	12,378	-	-	-	12,378
Gifts and contributions	-	-	600	6,170	6,770
Investment earnings	20,456	13,565	589	7	34,617
TOTAL REVENUES	<u>4,045,813</u>	<u>74,971</u>	<u>1,016,888</u>	<u>6,177</u>	<u>5,143,849</u>
EXPENDITURES					
Current					
General government	1,055,154	-	42,163	5,450	1,102,767
Public safety	763,953	-	63,295	-	827,248
Streets	707,143	-	-	-	707,143
Culture and recreation	507,539	-	17,018	-	524,557
Debt Service					
Principal	-	548,000	-	-	548,000
Interest and other charges	-	54,132	-	-	54,132
Capital Outlay					
General government	-	-	203,295	-	203,295
Public safety	-	-	31,924	-	31,924
Streets	-	-	1,459,731	-	1,459,731
Culture and recreation	-	-	41,638	-	41,638
TOTAL EXPENDITURES	<u>3,033,789</u>	<u>602,132</u>	<u>1,859,064</u>	<u>5,450</u>	<u>5,500,435</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,012,024</u>	<u>(527,161)</u>	<u>(842,176)</u>	<u>727</u>	<u>(356,586)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	324,000	822,155	-	1,146,155
Transfers out	(1,102,155)	-	-	-	(1,102,155)
Sale of capital assets	37,798	-	18,169	-	55,967
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,064,357)</u>	<u>324,000</u>	<u>840,324</u>	<u>-</u>	<u>99,967</u>
NET CHANGE IN FUND BALANCES	(52,333)	(203,161)	(1,852)	727	(256,619)
FUND BALANCES - JANUARY 1	<u>2,606,725</u>	<u>1,259,623</u>	<u>22,608</u>	<u>7,481</u>	<u>3,896,437</u>
FUND BALANCES - DECEMBER 31	<u>\$ 2,554,392</u>	<u>\$ 1,056,462</u>	<u>\$ 20,756</u>	<u>\$ 8,208</u>	<u>\$ 3,639,818</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, 2015

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (256,619)**

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

Expenditures for capital assets	1,773,599	
Less current year depreciation	<u>(575,274)</u>	
Net capital assets		1,198,325

Capital assets were contributed to the Enterprise Funds (838,342)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the net book value of the asset sold. (10,533)

Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.

Change in unavailable revenue - delinquent property taxes	(1,027)	
Change in unavailable revenue - special assessments	<u>(7,047)</u>	
Net change		(8,074)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 548,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest payable on long-term debt	9,839	
Change in severance payable	19,457	
Change in other postemployment benefits payable	(130,355)	
Change in net pension liability, change in net pension asset, and related deferred inflows and outflows.	<u>(44,061)</u>	
Net change		<u>(145,120)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ 487,637**

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2015

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	\$ 99,779	\$ 120,054	\$ 197,007	\$ 193,452	\$ 18,461	\$ 628,753
Investments	170,979	141,245	284,870	83,841	-	680,935
Accounts receivable	338,364	45,323	46,742	69,936	1,356	501,721
Inventories	345,171	55,623	-	-	-	400,794
Prepaid items	-	-	-	-	1,155	1,155
TOTAL CURRENT ASSETS	954,293	362,245	528,619	347,229	20,972	2,213,358
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	126,960	126,960
Escrow deposits	-	-	-	-	26,000	26,000
Tenant security deposits	-	-	-	-	6,885	6,885
Total restricted cash and cash equivalents	-	-	-	-	159,845	159,845
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Land improvements	18,600	-	-	-	-	18,600
Buildings	741,987	2,190,764	2,718,281	12,761	1,680,554	7,344,347
Infrastructure	779,027	4,193,140	4,960,110	-	-	9,932,277
Machinery and equipment	-	60,271	309,079	-	321,284	690,634
Licensed vehicles	325,214	-	20,546	573,891	-	919,651
Less accumulated depreciation	(1,030,130)	(3,293,667)	(4,367,301)	(310,609)	(1,378,845)	(10,380,552)
Total capital assets (net of accumulated depreciation)	852,732	3,150,508	3,640,715	276,043	631,329	8,551,327
TOTAL NONCURRENT ASSETS	852,732	3,150,508	3,640,715	276,043	791,174	8,711,172
TOTAL ASSETS	1,807,025	3,512,753	4,169,334	623,272	812,146	10,924,530
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	223,467	6,089	13,323	12,080	7,934	262,893
Salaries payable	22,554	-	7,402	5,332	-	35,288
Accrued interest payable	-	1,281	3,342	-	1,085	5,708
Customer deposits payable	83,781	1,685	-	-	5,162	90,628
Bonds and notes payable - current	-	50,000	27,000	-	14,123	91,123
TOTAL CURRENT LIABILITIES	329,802	59,055	51,067	17,412	28,304	485,640
NONCURRENT LIABILITIES						
Bonds and notes payable	-	350,000	419,000	-	554,430	1,323,430
Other postemployment benefit obligation	362,973	92,854	177,266	185,707	-	818,800
Severance payable	13,394	-	-	-	-	13,394
TOTAL NONCURRENT LIABILITIES	376,367	442,854	596,266	185,707	554,430	2,155,624
TOTAL LIABILITIES	706,169	501,909	647,333	203,119	582,734	2,641,264
NET POSITION						
Net investment in capital assets	852,732	2,750,508	3,194,715	276,043	62,776	7,136,774
Restricted for other purposes	-	-	-	-	6,791	6,791
Unrestricted	248,124	260,336	327,286	144,110	159,845	1,139,701
TOTAL NET POSITION	\$ 1,100,856	\$ 3,010,844	\$ 3,522,001	\$ 420,153	\$ 229,412	\$ 8,283,266

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, 2015

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	\$ 2,493,732	\$ 332,539	\$ 391,329	\$ 499,256	\$ 207,275	\$ 3,924,131
OPERATING EXPENSES						
Cost of sales	1,762,613	-	-	-	-	1,762,613
Salaries	312,363	75,117	125,269	127,150	27,600	667,499
Employee benefits	128,622	35,308	60,415	49,356	3,262	276,963
Contract services	-	-	22,320	-	23,810	46,130
Insurance	17,079	5,083	14,644	5,022	14,315	56,143
Miscellaneous	57,132	11,865	28,328	16,075	9,161	122,561
Other postemployment benefits	100,090	28,381	23,868	35,573	-	187,912
Repairs and maintenance	147,010	36,995	38,357	10,967	35,882	269,211
Solid waste management and tipping fees	-	-	-	158,498	-	158,498
Supplies	17,137	9,802	20,314	16,999	10,990	75,242
Telephone	2,955	51	1,885	704	2,252	7,847
Utilities	-	32,480	59,825	-	25,296	117,601
Depreciation	62,385	83,357	144,048	55,571	63,072	408,433
TOTAL OPERATING EXPENSES	2,607,386	318,439	539,273	475,915	215,640	4,156,653
OPERATING INCOME (LOSS)	(113,654)	14,100	(147,944)	23,341	(8,365)	(232,522)
NONOPERATING REVENUES (EXPENSES)						
Investment income	4,409	2,541	6,318	2,022	297	15,587
Miscellaneous income	6,828	-	-	21,790	4,503	33,121
Interest expense	-	(16,635)	(10,431)	-	(16,155)	(43,221)
TOTAL NONOPERATING REVENUES (EXPENSES)	11,237	(14,094)	(4,113)	23,812	(11,355)	5,487
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(102,417)	6	(152,057)	47,153	(19,720)	(227,035)
Capital contributions	-	530,829	307,513	-	-	838,342
Transfers out	(16,000)	(28,000)	-	-	-	(44,000)
CHANGE IN NET POSITION	(118,417)	502,835	155,456	47,153	(19,720)	567,307
TOTAL NET POSITION - JANUARY 1	1,300,468	2,532,785	3,356,983	530,936	249,132	7,970,304
Prior period adjustment	(81,195)	(24,776)	9,562	(157,936)	-	(254,345)
TOTAL NET POSITION - DECEMBER 31	\$ 1,100,856	\$ 3,010,844	\$ 3,522,001	\$ 420,153	\$ 229,412	\$ 8,283,266

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, 2015

	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	\$ 2,550,054	\$ 332,878	\$ 391,812	\$ 490,608	\$ 215,241	\$ 3,980,593
Cash paid to suppliers	(2,233,602)	(148,799)	(265,173)	(288,956)	(126,572)	(3,063,102)
Cash paid to employees	(283,415)	(67,687)	(110,040)	(115,275)	(27,600)	(604,017)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>33,037</u>	<u>116,392</u>	<u>16,599</u>	<u>86,377</u>	<u>61,069</u>	<u>313,474</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers out to other funds	(16,000)	(28,000)	-	-	-	(44,000)
Miscellaneous income	8,638	-	-	21,790	4,503	34,931
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(7,362)</u>	<u>(28,000)</u>	<u>-</u>	<u>21,790</u>	<u>4,503</u>	<u>(9,069)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of capital assets	(18,600)	-	(28,019)	(43,227)	(6,892)	(96,738)
Principal paid on long-term debt	-	(50,000)	(27,000)	-	(14,810)	(91,810)
Interest paid on long-term debt	-	(16,750)	(10,633)	-	(1,212)	(28,595)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(18,600)</u>	<u>(66,750)</u>	<u>(65,652)</u>	<u>(43,227)</u>	<u>(22,914)</u>	<u>(217,143)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	-	-	-	115,746	-	115,746
Purchase of investments	(36,903)	(105,837)	-	-	(15,076)	(157,816)
Interest and dividends received	4,409	2,541	4,184	2,022	297	13,453
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(32,494)</u>	<u>(103,296)</u>	<u>4,184</u>	<u>117,768</u>	<u>(14,779)</u>	<u>(28,617)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,419)	(81,654)	(44,869)	182,708	27,879	58,645
CASH AND CASH EQUIVALENTS, JANUARY 1 (including \$144,957 in restricted accounts)	<u>125,198</u>	<u>201,708</u>	<u>241,876</u>	<u>10,744</u>	<u>150,427</u>	<u>729,953</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including \$159,845 in restricted accounts)	<u>\$ 99,779</u>	<u>\$ 120,054</u>	<u>\$ 197,007</u>	<u>\$ 193,452</u>	<u>\$ 178,306</u>	<u>\$ 788,598</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ (113,654)	\$ 14,100	\$ (147,944)	\$ 23,341	\$ (8,365)	\$ (232,522)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	62,385	83,357	144,048	55,571	63,072	408,433
Other postemployment benefit obligation	29,043	7,430	14,183	14,859	-	65,515
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	50,989	59	483	(8,648)	2,655	45,538
Other receivables	-	10,547	-	-	6,004	16,551
Inventories	198	-	-	-	-	198
Prepaid items	-	-	-	-	132	132
Increase (decrease) in:						
Accounts payable	(1,162)	619	4,783	4,238	(1,736)	6,742
Salaries payable	809	-	1,046	5,332	-	7,187
Customer deposits	5,333	280	-	-	(693)	4,920
Severance payable	(904)	-	-	(8,316)	-	(9,220)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 33,037</u>	<u>\$ 116,392</u>	<u>\$ 16,599</u>	<u>\$ 86,377</u>	<u>\$ 61,069</u>	<u>\$ 313,474</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES						
Contributions of capital assets from primary government	\$ -	\$ 530,829	\$ 307,513	\$ -	\$ -	\$ 838,342
Capital assets reclassified from inventory	33,683	34,515	-	-	-	68,198
NET NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	<u>\$ 33,683</u>	<u>\$ 565,344</u>	<u>\$ 307,513</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 906,540</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Nonmajor Governmental Funds:

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

Proprietary Funds

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets, 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Changes in Accounting Principle

The beginning net position of the governmental activities has been decreased to reflect a change in accounting principle. As mentioned in Notes 15 and 16, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which records the City's proportionate share of collective net pension liability and/or asset for PERA and Mountain Iron Fire Relief Association, deferred inflows of resources and deferred outflows of resources, and pension expense on the City's government-wide financial statements. Beginning governmental activities net position has been restated from \$10,822,034 to \$9,852,025 (a decrease of \$970,009).

E. Cash and Cash Equivalents

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$2,500 or more for capitalizing machinery and equipment and \$10,000 or more for capitalizing land, land improvements, buildings, infrastructure and vehicles. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

- 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 only has two items that qualify for reporting in this category. The first item is the deferred charge on refunding reported in the proprietary funds and government-wide statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions. See notes 15 and 16 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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) 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 15 and 16 for details.
- 13) Defined Benefit Pension Plans
- Public Employees Retirement Association Pension
- 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.
- 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

G. Revenues and Expenditures

- 1) The property tax calendar in Minnesota follows the calendar year. Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Property taxes become a lien on the property the following January 1. The County generally remits

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

H. 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 - 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 and 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	2,688,082	647,515
Investments	2,156,483	-
Total	<u>\$ 4,845,065</u>	<u>\$ 647,515</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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

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 \$2,688,082; the bank balance was \$2,527,025. At year end, the City's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the City's name. At year-end, the carrying amount of the Mountain Iron EDA's deposits, which includes cash, was \$647,515; the bank balance was \$647,515. At year-end, the Mountain Iron EDA's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the Mountain Iron EDA's name.

Investments

Custodial Credit Risk – Investments

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

Credit Risk and Concentration of Credit Risk

The City has a formal investment policy for credit risk or concentration of credit risk. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper and guaranteed investment contracts. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City places no limit on the amount the City may invest in any one issuer and, as of December 31, 2015, 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 \$194,074 in Federal Home Loan Banks Fixed Rate Bonds. At December 31, 2015, the bonds were rated as AAA by Moody's and AA+ by S & P. The City has \$1,265,765 invested in certificates of deposit at Morgan Stanley and \$696,644 invested in certificates of deposit at Northland Securities.

Interest Rate Risk

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 3 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses received revolving loans from Mountain Iron EDA in 2015 and prior years. The unpaid principal balance on these loans at December 31, 2015 was \$89,371 and is recorded as loans receivable in the Mountain Iron EDA general fund.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2015

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, 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	<u>1,214,372</u>	<u>1,314,152</u>	<u>-</u>	<u>(1,537,245)</u>	<u>991,279</u>
Total capital assets, not being depreciated	<u>1,623,672</u>	<u>1,314,152</u>	<u>-</u>	<u>(1,537,245)</u>	<u>1,400,579</u>
Capital assets, being depreciated:					
Land improvements	1,081,847	-	-	9,998	1,091,845
Buildings	3,509,961	169,863	-	-	3,679,824
Infrastructure	9,301,465	177,222	-	688,905	10,167,592
Machinery and equipment	1,067,527	33,432	-	-	1,100,959
Licensed vehicles	<u>2,230,863</u>	<u>78,930</u>	<u>(54,731)</u>	<u>-</u>	<u>2,255,062</u>
Total capital assets, being depreciated	<u>17,191,663</u>	<u>459,447</u>	<u>(54,731)</u>	<u>698,903</u>	<u>18,295,282</u>
Less accumulated depreciation for:					
Land improvements	(383,703)	(49,737)	-	-	(433,440)
Buildings	(1,138,632)	(70,276)	-	-	(1,208,908)
Infrastructure	(4,464,455)	(323,934)	-	-	(4,788,389)
Machinery and equipment	(540,245)	(57,244)	-	-	(597,489)
Licensed vehicles	<u>(1,853,660)</u>	<u>(74,083)</u>	<u>44,198</u>	<u>-</u>	<u>(1,883,545)</u>
Total accumulated depreciation	<u>(8,380,695)</u>	<u>(575,274)</u>	<u>44,198</u>	<u>-</u>	<u>(8,911,771)</u>
Total capital assets, being depreciated, net	<u>8,810,968</u>	<u>(115,827)</u>	<u>(10,533)</u>	<u>698,903</u>	<u>9,383,511</u>
Governmental activities capital assets, net	<u>\$ 10,434,640</u>	<u>\$ 1,198,325</u>	<u>\$ (10,533)</u>	<u>\$ (838,342)</u>	<u>\$ 10,784,090</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 26,370	\$ -	\$ -	\$ -	\$ 26,370
Capital assets, being depreciated:					
Land improvements	-	18,600	-	-	18,600
Building	7,342,652	1,695	-	-	7,344,347
Infrastructure	9,025,737	68,198	-	838,342	9,932,277
Machinery and equipment	657,417	33,217	-	-	690,634
Licensed vehicles	<u>876,425</u>	<u>43,226</u>	<u>-</u>	<u>-</u>	<u>919,651</u>
Total capital assets, being depreciated	<u>17,902,231</u>	<u>164,936</u>	<u>-</u>	<u>838,342</u>	<u>18,905,509</u>
Less accumulated depreciation for:					
Land improvements	-	(583)	-	-	(583)
Building	(3,470,365)	(176,553)	-	-	(3,661,247)
Infrastructure	(5,325,016)	(142,304)	-	-	(5,467,320)
Machinery and equipment	(621,869)	(12,308)	-	-	(619,848)
Licensed vehicles	<u>(554,869)</u>	<u>(76,685)</u>	<u>-</u>	<u>-</u>	<u>(631,554)</u>
Total accumulated depreciation	<u>(9,972,119)</u>	<u>(408,433)</u>	<u>-</u>	<u>-</u>	<u>(10,380,552)</u>
Total capital assets, being depreciated, net	<u>7,930,112</u>	<u>(243,497)</u>	<u>-</u>	<u>838,342</u>	<u>8,524,957</u>
Business-type activities capital assets, net	<u>\$ 7,956,482</u>	<u>\$ (243,497)</u>	<u>\$ -</u>	<u>\$ 838,342</u>	<u>\$ 8,551,327</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 53,210
Public safety	46,886
Streets	398,368
Culture and recreation	<u>76,810</u>
Total depreciation expense- governmental activities	\$ <u>575,274</u>

Business-type activities

Electric utility	\$ 62,385
Water treatment	83,357
Wastewater treatment	144,048
Refuse removal and recycling	55,571
Mountain Manor Apartments	<u>63,072</u>
Total depreciation expense - business-type activities	\$ <u>408,433</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2015, is as follows:

	Balance 01/01/15	Additions	Deletions	Balance 12/31/15
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ <u>2,533,256</u>	\$ -	\$ -	\$ <u>2,533,256</u>
Capital assets, being depreciated:				
Buildings	<u>3,608,345</u>	-	-	<u>3,608,345</u>
Less accumulated depreciation for:				
Buildings	<u>(108,250)</u>	<u>(72,167)</u>	-	<u>(180,417)</u>
Total capital assets, being depreciated, net	<u>3,500,095</u>	<u>(72,167)</u>	-	<u>3,427,928</u>
Governmental activities capital assets, net	\$ <u>6,033,351</u>	\$ <u>(72,167)</u>	\$ -	\$ <u>5,961,184</u>

NOTE 5 - LONG-TERM DEBT

The City issued general obligation bonds to finance the purchase of major capital items and the acquisition or construction of major capital facilities or improvements. Bonded indebtedness has also been entered into to advance refund general obligation bonds and water revenue bonds. General obligation notes have been issued for business-type activities and are being repaid from the applicable resources. The water revenue refunding bonds are payable solely from the net revenues of the Water Treatment Enterprise Fund. The Mountain Iron Housing and Redevelopment Authority entered into a mortgage note for the construction of a housing facility. This note is guaranteed by the City of Mountain Iron, Minnesota. For governmental activities, claims and judgments and severance payable are generally liquidated by the General Fund.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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					
2012 Refunding	11/01/2012	1.0-1.35%	\$ 840,000	02/01/2020	\$ 470,000
2005 Library Upgrade	08/01/2005	4.125%	\$ 300,000	08/01/2035	-
2007 Improvements	09/11/2007	4.0-4.65%	\$1,455,000	02/01/2028	<u>785,000</u>
Governmental activities long-term debt					<u>1,255,000</u>
Business-type activities					
Revenue Bonds					
2009 Water Revenue					
Refunding Bonds	09/01/2009	1.5-4.0%	\$ 650,000	12/01/2022	<u>400,000</u>
General Obligation Revenue Notes					
2009 PFA Wastewater					
Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	<u>446,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	09/01/2030	408,086
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	10/01/2030	<u>160,467</u>
Total Notes Payable					<u>568,553</u>
Business-type activities long-term debt					<u>1,414,553</u>
Total primary government long-term debt					<u>2,669,553</u>
Discretely presented component unit					
EDA					
State Loan					
2010 IRRRB					<u>3,480,538</u>
Total reporting entity					<u>\$ 6,150,091</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 5 - LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2015 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					
2012 GO Refunding	\$ 655,000	\$ -	\$ 185,000	\$ 470,000	\$ 185,000
2005 GO Library Upgrade	253,000	-	253,000	-	-
2007 GO Improvement	<u>895,000</u>	<u>-</u>	<u>110,000</u>	<u>785,000</u>	<u>110,000</u>
Governmental activities - long-term debt	<u>1,803,000</u>	<u>-</u>	<u>548,000</u>	<u>1,255,000</u>	<u>295,000</u>
Business-type activities					
Bonds Payable					
2009 Water Revenue Refunding Bonds	<u>450,000</u>	<u>-</u>	<u>50,000</u>	<u>400,000</u>	<u>50,000</u>
Revenue Notes					
2009 GO PFA Wastewater	<u>473,000</u>	<u>-</u>	<u>27,000</u>	<u>446,000</u>	<u>27,000</u>
Notes Payable					
1980 Rural Development	418,549	-	10,763	408,086	10,169
1981 Rural Development	<u>164,514</u>	<u>-</u>	<u>4,047</u>	<u>160,467</u>	<u>3,954</u>
Total Notes Payable	<u>583,363</u>	<u>-</u>	<u>14,810</u>	<u>568,553</u>	<u>14,123</u>
Business-type activities - long-term debt	<u>1,506,363</u>	<u>-</u>	<u>91,810</u>	<u>1,414,553</u>	<u>91,123</u>
Total primary government	<u>3,309,363</u>	<u>-</u>	<u>639,810</u>	<u>2,669,553</u>	<u>386,123</u>
Discretely presented component unit					
EDA					
State loan					
2010 IRRRB	<u>3,546,654</u>	<u>-</u>	<u>66,116</u>	<u>3,480,538</u>	<u>-</u>
Total reporting entity	<u>\$ 6,856,017</u>	<u>\$ -</u>	<u>\$ 705,926</u>	<u>\$ 6,150,091</u>	<u>\$ 386,123</u>

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

<u>Year Ending December 31</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Government-wide</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 295,000	\$ 36,065	\$ 91,123	\$ 43,964	\$ 386,123	\$ 80,029
2017	190,000	30,102	97,493	41,652	287,493	71,754
2018	190,000	24,452	98,873	38,481	288,873	62,933
2019	110,000	20,354	99,262	35,277	209,262	55,631
2020	105,000	17,870	101,531	32,061	206,531	49,931
2021-2025	210,000	60,601	349,538	114,591	559,538	175,192
2026-2030	<u>155,000</u>	<u>11,044</u>	<u>576,733</u>	<u>70,694</u>	<u>731,733</u>	<u>81,738</u>
Total	<u>\$ 1,255,000</u>	<u>\$ 200,488</u>	<u>\$ 1,414,533</u>	<u>\$ 376,720</u>	<u>\$ 2,669,553</u>	<u>\$ 577,208</u>

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

No interest was capitalized during 2015 for the City or Mountain Iron EDA. Interest incurred and charged to expense totaled \$87,514 for the City and \$58,884 for Mountain Iron EDA.

Pledged Revenue

Governmental Funds

The City issued \$840,000 GO 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 \$191,132. 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 \$481,521.

The City issued \$1,455,000 GO improvement bonds to finance a portion of the costs of local public improvements within the City in 2007. Principal and interest paid for the current year was \$146,210. At December 31, 2015 principal and interest on the bonds to be paid to maturity in 2028 from special assessments levied upon the benefitted property and ad valorem taxes totaled \$973,967.

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 \$66,750. At December 31, 2015, principal and interest to maturity in 2022 to be paid from pledged future revenues totaled \$465,775.

The City has pledged net revenues of the Wastewater Treatment Enterprise Fund to pay principal and interest on the \$599,250 general obligation revenue note issued in 2009. Proceeds from this note were used to update the wastewater treatment plant. Principal and interest paid for the current year was \$37,633. At December 31, 2015, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$524,950.

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 2014, Mountain Iron EDA received the final loan proceeds to be drawn from the loan for a total amount of \$3,546,664.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2015 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	City Project Capital Projects Fund	\$ <u>472,416</u>

The balances resulted from the payments made between funds to eliminate cash deficits.

Interfund transfers for the year ended December 31, 2015 consisted of the following:

	<u>Transfers in</u>		
	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Total</u>
Transfers out			
General Fund	\$ 280,000	\$ 822,155	\$ 1,102,155
Electric Utility Enterprise Fund	16,000	-	16,000
Water Treatment Enterprise Fund	<u>28,000</u>	<u>-</u>	<u>28,000</u>
Total	\$ <u>324,000</u>	\$ <u>822,155</u>	\$ <u>1,146,155</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, 2015

NOTE 7 - FUND EQUITY

As of December 31, 2015, 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	\$ -	\$ 1,056,462	\$ -	\$ -	\$ 1,056,462
Assigned:					
Cash flow	250,000	-	-	-	250,000
Insurance	768,131	-	-	-	768,131
Buildings	768,131	-	-	-	768,131
Rate stabilization	768,130	-	-	-	768,130
Capital projects	-	-	20,756	-	20,756
Community contributions	-	-	-	8,208	8,208
Total assigned	<u>2,554,392</u>	<u>-</u>	<u>20,756</u>	<u>8,208</u>	<u>2,583,356</u>
Total fund balances	<u>\$ 2,554,392</u>	<u>\$ 1,056,462</u>	<u>\$ 20,756</u>	<u>\$ 8,208</u>	<u>\$ 3,639,818</u>

NOTE 8 - PRIOR PERIOD ADJUSTMENT

Prior period adjustments have been made in the financial statements, which are reported as adjustments to beginning net position.

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

Increase to other postemployment benefits liability \$ 254,345

Due to the changes in accounting principles for pensions
described in Note 1 as GASB Statement No. 68,
Accounting and Financial Reporting for Pensions,
beginning net position has been decreased

(970,009)

Total adjustment to governmental activities
in the government-wide financial statements

\$ (715,664)

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 - PRIOR PERIOD ADJUSTMENT (CONTINUED)

Adjustment to net position of the business-type activities
in the proprietary fund financial statements:

Electric Utility Enterprise Fund	
Decrease to other postemployment benefits liability	\$ (81,195)
Water Treatment Enterprise Fund	
Decrease to other postemployment benefits liability	(24,776)
Wastewater Treatment Enterprise Fund	
Increase to other postemployment benefits liability	9,562
Refuse Removal and Recycling Enterprise Fund	
Decrease to other postemployment benefits liability	<u>(157,936)</u>
Total adjustment to business-type activities in the proprietary fund financial statements	\$ <u>(254,345)</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, 2015

NOTE 10 - TAX INCREMENT FINANCING DISTRICT

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

<u>Tax Increment Financing District</u>	<u>No. 14</u>
Economic development district established in:	2008
Anticipated last tax increment year:	2021
Original net tax capacity:	\$ <u>1,063</u>
Current net tax capacity:	\$ <u>94,478</u>
Fiscal disparity deduction	\$ <u>(24,739)</u>
Captured net tax capacity retained by Authority:	\$ <u>68,676</u>
Total bonds issued	
Tax increment bonds	\$ -
Amounts redeemed	<u>-</u>
Outstanding bonds at 12/31/15	\$ <u>-</u>

NOTE 11 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2015, 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 11 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 one outstanding construction project as of December 31, 2015. The project is evidenced by contractual commitments with contractors and includes:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Mountain Iron Drive Improvement	\$ 808,506	\$ 94,800

The project is a commitment of the general fund and is being funded by grants and general fund revenues.

NOTE 12 - JOINT VENTURES

Tri-Cities Biosolids Disposal Authority

The City is a member in a joint authority agreement with the Cities of Eveleth and Gilbert for the operation of the Tri-Cities Biosolids Disposal Authority, which owns and operates a biosolids truck for the member cities. Each city appoints one member to the Tri-Cities Biosolids Disposal Authority which oversees the daily operations. 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 2015 was \$16,380. 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 12 - JOINT VENTURES (CONTINUED)

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

Each member city contributes to the budget of the Authority based on the per capita reported in the 2010 Census. The City of Mountain Iron's contribution to the Authority's budget during 2015 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.

The City of Mountain Iron's contribution to the Authority's budget during 2015 was \$6,577. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 13 - 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. During 2015, the City did not have any expenditures for this benefit.x

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, 2015 was as follows:

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 13 - SEVERANCE BENEFITS AND OTHER EMPLOYEE BENEFITS (CONTINUED)

	Balance 12/31/14	Additions	Reductions	Balance 12/31/15
Governmental activities	\$ 58,027	\$ 4,283	\$ -	\$ 62,310
Business-type activities	<u>22,614</u>	<u>-</u>	<u>(9,220)</u>	<u>13,394</u>
Total Primary Government	<u>\$ 80,641</u>	<u>\$ 4,283</u>	<u>\$ (9,220)</u>	<u>\$ 75,704</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 \$13,833 for the year ended December 31, 2015.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City operates a single-employer retiree benefit plan that provides postemployment health insurance benefits to eligible employees and their spouses. There are 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

	<u>12/31/15</u>
Normal cost	\$ 87,135
Amortization of unfunded actuarial accrued liability	379,528
Interest to the end of the year	<u>18,667</u>
Annual required contribution	485,330
Adjustment to ARC	<u>(33,576)</u>
Annual OPEB cost (expense)	451,754
Contributions made including implicit rate subsidy	<u>(219,506)</u>
Increase in net OPEB obligation	232,248
Net OPEB obligation, beginning of year	<u>2,215,709</u>
Net OPEB obligation, end of year	\$ <u>2,447,957</u>

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, 2015 and the two preceding years were as follows:

<u>Year Ended</u>	<u>Increase in Net OPEB Obligation</u>	<u>Contribution (ARC)</u>	<u>OPEB Cost Contributed</u>	<u>% of ARC Contributed</u>	<u>OPEB Obligation</u>
12/31/2015	\$ 232,248	\$ 451,754	\$ 219,506	\$ 49.2%	\$2,447,957
12/31/2014	\$ 244,012	\$ 444,311	\$ 200,299	45.1%	\$2,215,709
12/31/2013	\$ 243,340	\$ 437,684	\$ 194,344	44.4%	\$1,971,697

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:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
1/1/2015	\$ -	\$ 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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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.

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Plan Description

The City of Mountain Iron, Minnesota 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 Fund (GERF)

All full-time and certain part-time employees of the City of Mountain Iron, Minnesota are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. 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% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

GERF Benefits

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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% 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.

B. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in calendar year 2015. The City of Mountain Iron, Minnesota was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERF for the year ended December 31, 2015, were \$103,946. The City's contributions were equal to the required contributions as set by state statute.

C. Pension Costs

GERF Pension Costs

At December 31, 2015, the City reported a liability of \$1,202,344 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion share was 0.0232% which was a decrease of 0.0004% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$155,573 for its proportionate share of the GERF's pension expense.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

At December 31, 2015, the City reported its proportionate share of the GERS's deferred outflows of resources and 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	\$ -	\$ 60,619
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	113,820	-
Changes in proportion	-	14,092
Contributions paid to PERA subsequent to the measurement date	52,096	-
Total	\$ 165,916	\$ 74,711

\$52,096 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$ 3,551
2017	\$ 3,551
2018	\$ 3,552
2019	\$ 28,455
2020	\$ -
Thereafter	\$ -

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disability were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then increase to 2.5% thereafter.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic 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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City's proportionate share of the GERP net pension liability:	\$1,890,513	\$1,202,344	\$634,023

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 16 - 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 (SVF), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The SVF plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2014, the plan covered 19 active firefighters and 2 vested terminated fire fighters whose pension benefits are deferred. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353 G.

Benefits Provided

The SVF provides lump-sum 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. The benefit is selected from 71 possible levels in \$100 increments ranging from \$500 to \$7,500 per year of service. 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% through 20 years at 100%.

Contributions

The SVF 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 \$13,871 in fire state aid to the plan on behalf of the City of Mountain Iron, Minnesota Volunteer Fire Department for the year ended December 31, 2014, which was recorded as a revenue. Required employer contributions are calculated annually based on statutory provisions. The City made no required or voluntary contributions to the SVF plan for the year ended December 31, 2015.

Pension Costs

At December 31, 2015, the City reported a net pension asset of \$95,042 for the SVF plan. The net pension asset was measured as of December 31, 2014. 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 as of December 31, 2014. The following table presents the changes in net pension asset during the year.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/13	\$ 229,423	\$ 299,767	\$ (70,344)
Changes for the Year			
Service Cost	15,601	-	15,601
Interest on Pension Liability	13,591	-	13,591
Actuarial Experience (Gains)/Losses	(14,167)	-	(14,167)
Projected Investment Earnings	-	19,550	(19,550)
Contributions (Employer)	-	5,814	(5,814)
Contributions (State)	-	13,871	(13,871)
Asset (Gain)/Loss	-	3,098	(3,098)
Benefit Payouts	(37,000)	(37,000)	-
PERA Administrative Fee	-	(2,610)	2,610
Net Changes	(21,975)	2,723	(24,698)
Balance End of Year 12/31/14	\$ 207,448	\$ 302,490	\$ (95,042)

For the year ended December 31, 2015, the City recognized pension expense of \$10,670.

At December 31, 2015, the City reported deferred inflows of resources and deferred outflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 1,251
Difference between actuarial assumptions and actual experience	-	11,334
Contributions paid to PERA subsequent to the Measurement date	14,612	-
Total	\$ 14,612	\$ 12,585

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

\$14,612 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, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2016	\$(3,146)
2017	\$(3,146)
2018	\$(3,146)
2019	\$(3,147)
2020	\$ -
Thereafter	\$ -

Actuarial Assumptions

The total pension liability at December 31, 2014, 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%
- Inflation rate of 3.0%

There were no changes in actuarial assumptions in 2014.

Discount Rate

The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that contributions to the SVF plan 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 Liability Sensitivity

The following presents the City's net pension asset for the SVF plan, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City's net pension asset would be if it were calculated using a discount rate 1% lower or 1% 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	\$85,360	\$95,042	\$104,419

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2015**

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

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.

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 Statewide Volunteer Firefighter Retirement Plan (VOLP) 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%	5.50%
International Stocks	15%	6.00%
Bonds	45%	1.45%
Cash	5%	0.50%

The 6% 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. 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 2015 for the Statewide Volunteer Firefighter Retirement Plan.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 16 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the SVF plan's fiduciary net position as of June 30, 2015, 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; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

NOTE 17 - DEFINED CONTRIBUTION PLAN

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% 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 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the City of Mountain Iron, Minnesota during fiscal year 2015 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$585	\$585	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, 2015

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,332,789	\$ 1,332,789	\$ 1,357,986	\$ 25,197
Licenses and permits	30,000	30,000	24,301	(5,699)
Intergovernmental	2,242,966	2,242,966	2,448,812	205,846
Charges for services	155,000	155,000	181,880	26,880
Fines	12,000	12,000	12,378	378
Investment income	5,000	5,000	20,456	15,456
TOTAL REVENUES	<u>3,777,755</u>	<u>3,777,755</u>	<u>4,045,813</u>	<u>268,058</u>
EXPENDITURES				
Current				
General government	1,072,100	1,072,100	1,055,154	16,946
Public safety	651,500	651,500	763,953	(112,453)
Streets	745,000	745,000	707,143	37,857
Culture and recreation	507,000	507,000	507,539	(539)
TOTAL EXPENDITURES	<u>2,975,600</u>	<u>2,975,600</u>	<u>3,033,789</u>	<u>(58,189)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>802,155</u>	<u>802,155</u>	<u>1,012,024</u>	<u>209,869</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(802,155)	(802,155)	(1,102,155)	(300,000)
Sale of capital assets	-	-	37,798	37,798
TOTAL OTHER FINANCING SOURCES (USES)	<u>(802,155)</u>	<u>(802,155)</u>	<u>(1,064,357)</u>	<u>(262,202)</u>
NET CHANGE IN FUND BALANCE	-	-	(52,333)	(52,333)
FUND BALANCE - JANUARY 1	<u>2,606,725</u>	<u>2,606,725</u>	<u>2,606,725</u>	-
FUND BALANCE - DECEMBER 31	<u>\$ 2,606,725</u>	<u>\$ 2,606,725</u>	<u>\$ 2,554,392</u>	<u>\$ (52,333)</u>

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
Year Ended December 31, 2015**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
1/1/2015	\$ -	\$ 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	459.60%
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'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLANS
Year Ended December 31, 2015**

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

<u>Fiscal Year Ending</u>	<u>Employer's Proportion (Percentage) of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)</u>	<u>Employer's Covered-Employee Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2015	0.0232%	\$ 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."

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

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contribution (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered-Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/d)</u>
December 31, 2015	\$ 103,946	\$ 103,946	\$ -	\$ 1,385,944	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 CITY CONTRIBUTIONS
Year Ended December 31, 2015**

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

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

Notes:

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.

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY/ASSET
Year Ended December 31, 2015**

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

Total Pension Liability	
Service cost	\$ 15,601
Interest on the pension liability	13,591
Actuarial experience (gains)/losses	(14,167)
Benefit payments	<u>(37,000)</u>
Net Change in Total Pension Liability	(21,975)
Total Pension Liability - Beginning (12/31/13)	<u>229,423</u>
Total Pension Liability - Ending (a) (12/31/14)	<u><u>\$ 207,448</u></u>
Plan Fiduciary Net Position	
Contributions:	
Fire state aid	\$ 11,169
Fire supplemental aid	2,702
Required Municipal Contribution	5,814
Adjustment to Initial Asset Transfer	3,098
Net investment income	19,550
PERA administrative fee	(660)
Auditor/Accounting Fee	(1,950)
Benefit payments	<u>(37,000)</u>
Net Change in Plan Fiduciary Net Position	2,723
Plan Fiduciary Net Position - Beginning (12/31/13)	<u>299,767</u>
Plan Fiduciary Net Position - Ending (b) (12/31/14)	<u><u>\$ 302,490</u></u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u><u>\$ (95,042)</u></u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	145.8%

Notes:

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
December 31, 2015**

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, 2015:

General Fund	<u>\$ 58,189</u>
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These overexpenditures were funded by an available fund balance.

NOTE 3 – POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTIONS AND METHODS

Changes since the last valuation are as follows:

- Retiree premiums were updated to current levels
- Medical trend rates were reset to reflect updated health cost increases expectations

OTHER SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2015

REVENUES

TAXES

General property	\$ 1,286,179
Mineral rents and royalties	48,403
Franchise	<u>23,404</u>
TOTAL TAXES	<u>1,357,986</u>

LICENSES AND PERMITS

24,301

INTERGOVERNMENTAL

State

Local government aid	1,292,966
Market value credit	1,153
Taconite production	602,476
Taconite municipal aid	390,076
Mining effects	113,292
PERA aid	4,529
Police aid	<u>44,320</u>

TOTAL INTERGOVERNMENTAL

2,448,812

CHARGES FOR SERVICES

General government

Rent	18,270
Other reimbursements	107,731

Culture and recreation

Recreation fees	6,320
Campground fees	<u>49,559</u>

TOTAL CHARGES FOR SERVICES

181,880

FINES

Fines and forfeits	12,228
Administrative fines	<u>150</u>

TOTAL FINES

12,378

INVESTMENT INCOME

20,456

TOTAL REVENUES

4,045,813

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)
Year Ended December 31, 2015**

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 22,408
Administration	546,176
Retiree's insurance	97,110
Donations and contributions	6,577
Other	108,859
Buildings	248,790
Planning and zoning	25,234
TOTAL GENERAL GOVERNMENT	<u>1,055,154</u>

PUBLIC SAFETY

Sheriff	570,138
Fire	159,281
Animal control	18,109
Civil defense	16,425
TOTAL PUBLIC SAFETY	<u>763,953</u>

STREETS

707,143

CULTURE AND RECREATION

Library	181,916
Recreation	246,739
Campgrounds	78,884
TOTAL CULTURE AND RECREATION	<u>507,539</u>

TOTAL EXPENDITURES

3,033,789

**EXCESS OF REVENUES OVER
EXPENDITURES**

1,012,024

OTHER FINANCING SOURCES (USES)

Transfers out	(1,102,155)
Sale of capital assets	37,798
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,064,357)</u>

NET CHANGE IN FUND BALANCE

(52,333)

FUND BALANCE - JANUARY 1

2,606,725

FUND BALANCE - DECEMBER 31

\$ 2,554,392

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, 2015**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 1,025,590	\$ 160,138	\$ 96,491
Transfers from EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>1,025,590</u>	<u>166,160</u>	<u>96,491</u>
USES OF FUNDS			
Site improvements and preparation costs	1,025,590	144,124	86,842
Administrative costs	-	13,289	1,527
Transfers to EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>1,025,590</u>	<u>163,435</u>	<u>88,369</u>
DISTRICT BALANCE	\$ <u>-</u>	\$ <u>2,725</u>	\$ <u>8,122</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 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, 2015, 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 28, 2016. 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 were not 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 2015-002 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 2015-001 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 28, 2016, 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 results 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.

Virginia, Minnesota
June 28, 2016

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2015

2015-001. SEGREGATION OF DUTIES

Condition

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

Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The City Administrator will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.
3. Official Responsible for Ensuring CAP
Craig Wainio, City Administrator, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City's Administrator has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.
5. Plan to Monitor Completion of CAP
The City Council recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2015

2015-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

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

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, 2015, 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 28, 2016 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 28, 2016, 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, Wastewater Treatment Enterprise Fund, and Mountain Manor Apartments Enterprise Fund each reported an operating loss for the year ended December 31, 2015. 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 it was 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.

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. The City’s capitalization policy, adopted in 2003, maintains a capitalization threshold of \$2,500 for machinery and equipment and \$10,000 for land, land improvements, buildings, infrastructure and vehicles. We recommend that the City administration and City Council consider increasing the threshold for machinery and equipment to \$5,000 to reduce ongoing record keeping for items of relatively small value.

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.

Virginia, Minnesota
June 28, 2016