

**CITY OF MOUNTAIN IRON, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2016**

# CITY OF MOUNTAIN IRON, MINNESOTA

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**CITY OF MOUNTAIN IRON, MINNESOTA**

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**CITY OF MOUNTAIN IRON, MINNESOTA**

**ORGANIZATION  
December 31, 2016**

**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, 2016, and the related notes to the financial statements, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Mountain Manor Apartments Enterprise Fund which is both a major fund and represents 7 percent, 2 percent, and 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mountain Iron, Minnesota's basic financial statements. The individual fund financial statement and schedules of sources and uses of public funds for Mountain Iron Tax Increment District No. 14 and No. 15, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statement and schedules of sources and uses of public funds for Mountain Iron Tax Increment District No. 14 and No. 15 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017 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 the City of Mountain Iron, Minnesota's internal control over financial reporting and compliance.

*Walker, Giroux & Helne, LLC*

Virginia, Minnesota  
June 27, 2017



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **CITY OF MOUNTAIN IRON, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2016**

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, 2016. 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 \$11,875,592 of which \$10,541,373 represents net investment in capital assets.
- Business-type activities have total net position of 7,421,205. Net investment in capital assets represents \$6,954,168 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net position of \$2,758,560, of which \$2,408,769 represents net investment in capital assets.
- The City of Mountain Iron's primary government's net position increased by \$577,082 for the year ended December 31, 2016. Of the increase, \$997,129 was an increase in the governmental activities' net position and \$420,047 represented a decrease in business-type activities' net position.
- The EDA's net position decreased by \$362,306.
- The net cost of governmental activities was \$3,089,936 for the current fiscal year. The net cost was funded by general revenues and other items totaling 3,802,822.
- Governmental funds' fund balances increased by \$76,695.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

#### **Government-wide Financial Statements**

The statement of net position and the statement of activities report information about the City as a whole and about its activities in a way that helps the reader determine whether the City's financial condition has improved or declined as a result of the year's activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These government-wide statements report the City's net position and how they have changed. You can think of the City's net position—the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources—as one way to measure the City's financial health or financial position. Increases or decreases in the City's net position is one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors, such as changes

## **CITY OF MOUNTAIN IRON, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2016**

in the City's property tax base and state aid and the condition of City buildings also need to be considered in assessing the overall health of the City.

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

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

#### **Fund Financial Statements**

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

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

#### **Notes to the Financial Statements**

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

# CITY OF MOUNTAIN IRON, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the required supplementary information for budgetary comparison schedule, schedule of funding progress for postemployment benefit plan, schedules of City's proportionate share of net pension liability and City's contribution for defined benefit pension plan, schedule of changes in net pension liability/asset and schedule of City contributions. An individual fund financial statement and schedules of sources and uses of public funds for Mountain Iron's tax increment districts are presented as supplementary information.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that in the case of the City of Mountain Iron, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,296,797, an increase from the prior year.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,989,489	\$ 4,193,224	\$2,252,261	\$2,373,203	\$ 7,241,750	\$ 6,566,427
Capital assets	11,401,373	10,784,090	8,275,236	8,551,327	19,676,609	19,335,417
Total assets	16,390,862	14,977,314	10,527,497	10,924,530	26,918,359	25,901,844
Deferred outflows related to pensions	503,657	180,528	255,320	-	758,977	180,528
Long-term liabilities	3,919,553	4,148,811	2,906,058	2,246,747	6,825,611	6,395,558
Other liabilities	955,965	327,728	389,923	394,517	1,345,888	722,245
Total liabilities	4,875,518	4,476,539	3,295,981	2,641,264	8,171,499	7,117,803
Deferred inflows related to pensions	143,409	87,296	65,631	-	209,040	87,296
Net position						
Net investment in capital assets	10,541,373	9,529,090	6,954,168	7,136,774	17,495,541	16,665,864
Restricted	1,240,519	1,145,890	137,257	6,791	1,377,776	1,152,681
Unrestricted	93,700	(80,973)	329,780	1,139,701	423,480	1,058,728
Total net position	\$11,875,592	\$10,594,007	\$7,421,205	\$8,283,266	\$19,296,797	\$18,877,273

Net position of the City's governmental activities increased by 12.1 percent (\$11,875,592 compared to \$10,594,007). 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 - increased from a \$80,973 deficit at December 31, 2015 to a \$93,700 surplus at the end of this year, due primarily to a correction in the PERA pension allocation.

Net position of the City's business-type activities decreased by 10.4 percent (\$7,421,205 compared to \$8,283,266).

# CITY OF MOUNTAIN IRON, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2016

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 355,251	\$ 218,558	\$4,025,168	\$3,924,131	\$ 4,380,419	\$ 4,142,689
Operating grants and contributions	18,576	20,782	82,715	-	101,291	20,782
Capital grants and contributions	791,357	1,070,658	-	-	791,357	1,070,658
General revenues:						
Property and other taxes	1,398,295	1,356,959	-	-	1,398,295	1,356,959
Grants and contributions not restricted to specific programs	2,338,860	2,448,812	-	-	2,338,860	2,448,812
Other general revenues	52,219	34,617	27,798	48,708	80,017	83,325
Total revenues	<u>4,954,558</u>	<u>5,150,386</u>	<u>4,135,681</u>	<u>3,972,839</u>	<u>9,090,239</u>	<u>9,123,225</u>
Program expenses:						
General government	1,379,035	1,234,048	-	-	1,379,035	1,234,048
Public safety	831,143	834,701	-	-	831,143	834,701
Streets	1,370,791	1,163,479	-	-	1,370,791	1,163,479
Culture and recreation	634,625	637,320	-	-	634,625	637,320
Interest	39,526	44,293	-	-	39,526	44,293
Electric utility	-	-	2,692,657	2,607,386	2,692,657	2,607,386
Water treatment	-	-	327,999	335,074	327,999	335,074
Wastewater treatment	-	-	681,974	549,704	681,974	549,704
Refuse removal and recycling	-	-	491,342	475,915	491,342	475,915
Mountain Manor Apartments	-	-	261,226	231,795	261,226	231,795
Total program expenses	<u>4,255,120</u>	<u>3,913,841</u>	<u>4,455,198</u>	<u>4,199,874</u>	<u>8,710,318</u>	<u>8,113,715</u>
Excess before gain on sale of capital assets and transfers	699,438	1,236,545	(319,517)	(227,035)	379,921	1,009,510
Gain on sale of capital assets	13,448	45,434	-	-	13,448	45,434
Transfers	<u>284,243</u>	<u>(794,342)</u>	<u>(100,530)</u>	<u>794,342</u>	<u>183,713</u>	<u>-</u>
Increase (decrease) in net position	997,129	487,637	(420,047)	567,307	577,082	1,054,944
Net position, January 1	10,594,007	10,822,034	8,283,266	7,970,304	18,877,273	18,792,338
Prior period adjustment	284,456	(715,664)	(442,014)	(254,345)	(157,558)	(970,009)
Net position, December 31	<u>\$11,875,592</u>	<u>\$10,594,007</u>	<u>\$7,421,205</u>	<u>\$8,283,266</u>	<u>\$19,296,797</u>	<u>\$18,877,273</u>

### Governmental Activities

The most significant revenues of the governmental activities are grants and contributions not restricted to specific programs at 47% of revenues. Capital grants and contributions, 16% of revenues, include grants for major projects or purchases of equipment. Property taxes and other taxes amount to \$1,398,295, 28% of revenues.

General government expense (32%) and streets expense (32%) are the most significant, followed by public safety expense (20%) and culture and recreation expense (15%).

## **CITY OF MOUNTAIN IRON, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2016**

Governmental revenues during 2016 were \$4,954,558 compared to 5,150,386 in the prior year, which is a decrease of \$195,828. Our taxpayers paid \$1,398,295 in property and other taxes during the current year, which is an increase of \$41,336.

The cost of all governmental activities this year was \$4,255,120 compared to \$3,913,841 last year. Governmental expenses increased by \$341,279 in the current year. The most significant increases occurred in the City's street department and general government expenses. A capital contribution was received from the Mountain Iron EDA for \$183,713 for the Woodland Estates Residential Development project.

Prior period adjustments were made to record the fire relief net pension asset, deferred outflows of resources related to pensions and deferred inflows of resources related to pensions as of December 31, 2015 measurement date, increasing beginning net position by \$4,926; to correct beginning severance payable, decreasing beginning net position by \$98,257; and to record the enterprise funds' proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions, increasing beginning net position \$377,787. These prior period adjustments increased beginning net position by \$284,456 in total.

#### **Business-Type Activities**

Revenues of the City's business-type activities were \$4,135,681 and expenses were \$4,455,198, (see Table 2). There was a decrease in net position of \$420,047 during the year ended December 31, 2016, which compares to an increase in net position of \$567,307 for the year ended December 31, 2015. Factors driving this result include:

- Operations produced a loss of \$392,052 for the year ended December 31, 2016. The wastewater treatment enterprise fund recorded the most significant operating loss of \$236,086. The electric utility enterprise fund recorded an operating loss of \$167,211 and Mountain Manor Apartments enterprise fund recorded an operating loss of \$54,693. The water treatment enterprise fund and the refuse removal and recycling fund each recorded operating income of \$47,408 and \$18,530, respectively.
- The wastewater treatment enterprise fund received MPCA grants of \$82,715 to help fund the decommissioning of Nichols Pond in 2016.
- Prior period adjustments were made to correct beginning severance payable, decreasing beginning net position by \$13,394; to record the enterprise funds' proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions, decreasing beginning net position \$377,787; and to correct the beginning electric inventory valuation, decreasing net position by \$50,833. These prior period adjustments decreased beginning net position by \$442,014 in total.

#### **Mountain Iron EDA Component Unit Activity**

The Mountain Iron EDA had a decrease in net position of \$67,197 for the year ended December 31, 2016. Net program revenues over expenses were \$(295,109). General tax revenues, interest earnings, and miscellaneous revenues were \$116,516. The Mountain Iron EDA provided a capital contribution to the City of \$183,713 for the Woodland Estates Residential Development project.

## **CITY OF MOUNTAIN IRON, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2016**

#### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

##### **Governmental Funds**

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

At December 31, 2016, the City's governmental funds reported total ending fund balances of \$3,680,320, an increase of \$76,695 in comparison with the prior year. Assigned fund balance, which is intended to be used for cash flow, insurance, and buildings, made up nearly 72% or \$2,643,019 of the total ending fund balance. The restricted fund balance of \$1,037,301 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 \$2,552,836, decreasing \$1,556 from the prior year. General fund revenues were \$7,239 less than the prior year's and expenditures increased by \$289,801. During the current year, the general fund transfers to other funds were \$718,135, which were less than the prior year's transfers out of \$1,102,155.

The debt service fund recorded an increase in fund balance of \$17,032 compared to a decrease in fund balance of \$203,161 last year. Other financing sources included a \$265,000 transfer from the general fund and a \$34,000 transfer from the enterprise funds for debt principal and interest payments, and refunding bonds were issued in the amount of \$575,000, with the proceeds being used to pay down outstanding debt. A prior period adjustment was made to correct beginning special assessments receivable for \$36,193.

The capital projects fund recorded an increase in fund balance of \$62,250, resulting in an assigned fund balance of \$83,006. Other financing sources included transfers of \$453,135 from the general fund for capital projects and \$56,530 from enterprise funds for the purchase of machinery and equipment, proceeds from lot sales of \$94,495, and sales of capital assets for \$27,500.

##### **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 2016, operating revenues increased by \$31,714 compared to the prior year. Operating expenses increased by \$85,271. The electric operations produced an operating loss of \$167,211 in 2016. Transfers out of \$51,510 were made to governmental funds. These transactions resulted in a decrease of \$207,100 in net position in the current year. Prior period adjustments were made to correct beginning severance payable, decreasing beginning net position by \$13,394; to record the fund's beginning proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions, decreasing beginning net position \$166,670; and to correct the beginning inventory valuation, decreasing net position by \$50,833. These prior period adjustments decreased beginning net position by \$230,897 in total.

The water treatment enterprise fund accounts for the water operations of the City. In 2016, operating revenues increased by \$27,607 compared to the prior year. Operating expenses decreased by \$5,701. In 2016, operating income of \$47,408 was recorded compared to an operating income of \$14,100 in the prior year. Interest expense charged to the water operations was \$15,261. Transfers out of \$38,510 were made to governmental funds. These transactions resulted in a decrease of \$2,678 in net position in the current year. A prior period adjustment to record the fund's beginning proportionate share of the PERA net pension liability, deferred outflows of

## **CITY OF MOUNTAIN IRON, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2016**

resources related to pensions, and deferred inflows of resources related to pensions, decreased beginning net position \$44,446.

The wastewater treatment enterprise fund accounts for the wastewater treatment operations of the City. In 2016, operating revenues increased by \$44,735 compared to the prior year. Operating expenses increased by \$132,877 in the current year. In 2016, an operating loss of \$236,086 was recorded compared to an operating loss of \$147,944 in the prior year. Interest expense charged to the wastewater treatment operations was \$9,824. A transfer to the capital projects fund totaled \$10,510. MPCA grants of \$82,715 were received regarding the decommissioning of Nichols Pond. These transactions resulted in a decrease of \$166,397 in net position in the current year. A prior period adjustment to record the fund's beginning proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions, decreased beginning net position \$77,780.

The refuse removal and recycling enterprise fund accounts for the refuse removal and recycling operations of the City. In 2016, operating revenues increased \$10,616 compared to the prior year. Operating expenses increased by \$15,427. In 2016, operating income of \$18,530 was recorded compared to an operating income of \$23,341 in the prior year. These transactions resulted in an increase of \$22,125 in net position in the current year. A prior period adjustment to record the fund's beginning proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions, decreased beginning net position \$88,891.

The Mountain Manor Apartments enterprise fund accounts for the operations of the Mountain Manor Apartments. In 2016, operating revenues decreased by \$13,635 compared to the prior year. Operating expenses increased by \$33,512 compared to the prior year. In 2016, an operating loss of \$55,512 was recorded compared to an operating loss of \$8,365 in the prior year. Interest expense charged to the Mountain Manor Apartments operations was \$12,074. These transactions resulted in a decrease of \$65,997 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 \$241,490 over the final budget amounts. The most significant negative variance in the amount of (\$105,935) occurred in the City public safety department, followed by general government (\$68,768), Streets (\$56,249) and culture and recreation (\$10,538). 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 2016, the City's primary government had \$19,676,609 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 \$341,192 over last year. The Mountain Iron Economic Development Authority component unit had \$5,889,017 invested in capital assets, which consisted of land and buildings.



# CITY OF MOUNTAIN IRON, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

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

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 409,300	\$ 409,300	\$ 26,370	\$ 26,370	\$ 435,670	\$ 435,670
Construction in progress	1,998,371	991,279	23,565	-	2,021,936	991,279
Land improvements	622,126	658,405	17,087	18,017	639,213	676,422
Buildings	2,391,231	2,470,916	3,509,755	3,683,100	5,900,986	6,154,016
Infrastructure	5,088,737	5,379,203	4,365,841	4,464,957	9,454,578	9,844,160
Machinery and equipment	648,878	503,470	77,146	70,785	726,024	574,255
Vehicles	242,730	371,517	255,472	288,098	498,202	659,615
Totals	<u>\$ 11,401,373</u>	<u>\$ 10,784,090</u>	<u>\$ 8,275,236</u>	<u>\$ 8,551,327</u>	<u>\$ 19,676,609</u>	<u>\$ 19,335,417</u>
<b>EDA</b>						
Land	\$ 2,533,256	\$ 2,533,256	\$ -	\$ -	\$ 2,533,256	\$ 2,533,256
Buildings	3,355,761	3,427,928	-	-	3,355,761	3,427,928
Totals	<u>\$ 5,889,017</u>	<u>\$ 5,961,184</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,889,017</u>	<u>\$ 5,961,184</u>

This year's major additions included an excavator, three vehicles, costs for the Woodland Estates Residential Development project, the municipal well project, the Garden Drive project, the bike and pedestrian trail, and the water and electric meter project.

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 \$2,181,068 in long-term debt outstanding for the primary government versus \$2,669,553 last year—as shown in Table 4. The Mountain Iron EDA component unit had \$3,480,248 in long-term debt outstanding versus \$3,480,538 last year.

# CITY OF MOUNTAIN IRON, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

**Table 4**  
**Outstanding Debt, at Year-end**

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds (backed by the City)	\$ -	\$ 785,000	\$ -	\$ -	\$ -	\$ 785,000
GO refunding bonds	860,000	470,000	-	-	860,000	470,000
Water revenue refunding bonds	-	-	350,000	400,000	350,000	400,000
Wastewater GO revenue note	-	-	419,000	446,000	419,000	446,000
Notes payable	-	-	552,068	568,553	552,068	568,553
Total	<u>\$ 860,000</u>	<u>\$1,255,000</u>	<u>\$ 1,321,068</u>	<u>\$ 1,414,553</u>	<u>\$2,181,068</u>	<u>\$2,669,553</u>
	Component Unit EDA					
	2016	2015				
State loan	<u>\$3,480,248</u>	<u>\$3,480,538</u>				

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

Additional information on the City's long-term debt can be found in Note 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 2017 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased \$409,434 over 2016.
- City property taxes will not increase in 2017.
- The City's 2017 capital projects will include decommissioning the Nichols Township Pond, County Road 7/Highway 169/Enterprise Drive North Intersection, and implementation of the automatic meter reading system.

The City's 2017 capital budget calls for it to spend another \$1,540,000.

## 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](mailto:cwainio@ci.mountain-iron.mn.us).

## **BASIC FINANCIAL STATEMENTS**

## CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION  
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,901,481	\$ 372,244	\$ 3,273,725	\$ 283,559
Investments	1,351,228	830,314	2,181,542	-
Taxes receivable	44,314	-	44,314	-
Special assessments receivable	206,918	-	206,918	-
Accounts receivable	-	627,208	627,208	1,007
Grants receivable	247,560	-	247,560	-
Internal balances	82,522	(82,522)	-	-
Due from component unit	9,401	-	9,401	-
Due from other governments	27,698	-	27,698	-
Due from primary government	-	-	-	53,669
Loans receivable	-	-	-	67,134
Inventories	-	366,590	366,590	-
Prepaid items	-	1,170	1,170	-
Fire Relief net pension asset	118,367	-	118,367	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	137,257	137,257	-
Capital assets not being depreciated:				
Land	409,300	26,370	435,670	2,533,256
Construction in progress	1,998,371	23,565	2,021,936	-
Capital assets net of accumulated depreciation:				
Land improvements	622,126	17,087	639,213	-
Buildings	2,391,231	3,509,755	5,900,986	3,355,761
Infrastructure	5,088,737	4,365,841	9,454,578	-
Machinery and equipment	648,878	77,146	726,024	-
Licensed vehicles	242,730	255,472	498,202	-
<b>TOTAL ASSETS</b>	<b>16,390,862</b>	<b>10,527,497</b>	<b>26,918,359</b>	<b>6,294,386</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	503,657	255,320	758,977	-
<b>LIABILITIES</b>				
Accounts payable	809,962	271,509	1,081,471	46,177
Salaries payable	81,999	30,709	112,708	-
Accrued interest payable	3,285	5,244	8,529	-
Due to primary government	-	-	-	9,401
Due to component unit	53,669	-	53,669	-
Customer deposits	7,050	82,461	89,511	-
Noncurrent liabilities:				
Due within one year				
Bonds and notes payable	70,000	97,493	167,493	-
Severance payable	-	28,490	28,490	-
Due in more than one year				
Bonds and notes payable	790,000	1,223,575	2,013,575	3,480,248
Other postemployment benefits	1,736,006	920,178	2,656,184	-
Severance payable	128,519	20,701	149,220	-
PERA net pension liability	1,195,028	615,621	1,810,649	-
<b>TOTAL LIABILITIES</b>	<b>4,875,518</b>	<b>3,295,981</b>	<b>8,171,499</b>	<b>3,535,826</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions	143,409	65,631	209,040	-
<b>NET POSITION</b>				
Net investment in capital assets	10,541,373	6,954,168	17,495,541	2,408,769
Restricted for:				
Debt service	1,240,519	137,257	1,377,776	-
Unrestricted	93,700	329,780	423,480	349,791
<b>TOTAL NET POSITION</b>	<b>\$ 11,875,592</b>	<b>\$ 7,421,205</b>	<b>\$ 19,296,797</b>	<b>\$ 2,758,560</b>

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

## CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
General government	\$ 1,379,035	\$ 271,698	\$ 3,589
Public safety	831,143	9,673	14,987
Streets	1,370,791	-	-
Culture and recreation	634,625	73,880	-
Interest on long-term debt	39,526	-	-
<b>Total Governmental Activities</b>	<u>4,255,120</u>	<u>355,251</u>	<u>18,576</u>
<b>Business-type Activities</b>			
Electric utility	2,692,657	2,525,446	-
Water treatment	327,999	360,146	-
Wastewater treatment	681,974	436,064	82,715
Refuse removal and recycling	491,342	509,872	-
Mountain Manor Apartments	261,226	193,640	-
<b>Total Business-type Activities</b>	<u>4,455,198</u>	<u>4,025,168</u>	<u>82,715</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 8,710,318</u>	<u>\$ 4,380,419</u>	<u>\$ 101,291</u>
<b>COMPONENT UNIT</b>			
EDA	<u>\$ 342,609</u>	<u>\$ 47,500</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
\$ 489,357	\$ (614,391)	\$ -	\$ (614,391)	
2,000	(804,483)	-	(804,483)	
300,000	(1,070,791)	-	(1,070,791)	
-	(560,745)	-	(560,745)	
-	(39,526)	-	(39,526)	
791,357	(3,089,936)	-	(3,089,936)	
-	-	(167,211)	(167,211)	
-	-	32,147	32,147	
-	-	(163,195)	(163,195)	
-	-	18,530	18,530	
-	-	(67,586)	(67,586)	
-	-	(347,315)	(347,315)	
\$ 791,357	(3,089,936)	(347,315)	(3,437,251)	
\$ -				(295,109)
	1,293,224	-	1,293,224	36,423
	-	-	-	76,332
	22,849	-	22,849	-
	82,222	-	82,222	-
	2,338,860	-	2,338,860	-
	47,584	19,380	66,964	2,754
	4,635	8,418	13,053	1,007
	13,448	-	13,448	-
	284,243	(100,530)	183,713	(183,713)
	4,087,065	(72,732)	4,014,333	(67,197)
	997,129	(420,047)	577,082	(362,306)
	10,594,007	8,283,266	18,877,273	3,120,866
	284,456	(442,014)	(157,558)	-
\$ 11,875,592	\$ 7,421,205	\$ 19,296,797	\$ 2,758,560	

## CITY OF MOUNTAIN IRON, MINNESOTA

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2016

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,732,121	\$ 1,123,805	\$ 38,378	\$ 7,177	\$ 2,901,481
Investments	751,654	599,574	-	-	1,351,228
Taxes receivable	44,314	-	-	-	44,314
Special assessments receivable	-	206,918	-	-	206,918
Grants receivable	-	-	247,560	-	247,560
Due from other funds	285,454	-	-	-	285,454
Due from component unit	9,401	-	-	-	9,401
Due from other governments	27,698	-	-	-	27,698
<b>TOTAL ASSETS</b>	<b>\$ 2,850,642</b>	<b>\$ 1,930,297</b>	<b>\$ 285,938</b>	<b>\$ 7,177</b>	<b>\$ 5,074,054</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 120,184	\$ 689,778	\$ -	\$ -	\$ 809,962
Salaries payable	81,999	-	-	-	81,999
Due to other funds	-	-	202,932	-	202,932
Due to component unit	53,669	-	-	-	53,669
Customer deposits	7,050	-	-	-	7,050
<b>TOTAL LIABILITIES</b>	<b>262,902</b>	<b>689,778</b>	<b>202,932</b>	<b>-</b>	<b>1,155,612</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - property taxes	34,904	-	-	-	34,904
Unavailable revenue - special assessments	-	203,218	-	-	203,218
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>34,904</b>	<b>203,218</b>	<b>-</b>	<b>-</b>	<b>238,122</b>
<b>FUND BALANCES</b>					
Restricted	-	1,037,301	-	-	1,037,301
Assigned	2,552,836	-	83,006	7,177	2,643,019
<b>TOTAL FUND BALANCES</b>	<b>2,552,836</b>	<b>1,037,301</b>	<b>83,006</b>	<b>7,177</b>	<b>3,680,320</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 2,850,642</b>	<b>\$ 1,930,297</b>	<b>\$ 285,938</b>	<b>\$ 7,177</b>	<b>\$ 5,074,054</b>

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, 2016**

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>	<b>\$ 3,680,320</b>
Net pension asset used in governmental activities is not a current financial resource and, therefore, is not reported in the governmental funds.	118,367
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	11,401,373
Deferred inflows of resources in governmental funds are susceptible to full accrual on the government-wide statements.	238,122
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(3,285)
Long-term liabilities, including bonds and notes payable, other post employment benefits, severance payable and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(3,919,553)
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	503,657
Deferred inflows of resources related to pensions	<u>(143,409)</u>
	<u>360,248</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 11,875,592</u></b>

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, 2016**

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Other Governmental Fund - Charitable Gambling Special Revenue Fund	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 1,397,200	\$ -	\$ -	\$ -	\$ 1,397,200
Special assessments	-	164,201	-	-	164,201
Licenses and permits	37,997	-	-	-	37,997
Intergovernmental	2,338,860	-	549,560	-	2,888,420
Charges for services	206,199	-	94,495	-	300,694
Fines	16,561	-	-	-	16,561
Gifts and contributions	-	-	-	3,589	3,589
Investment earnings	41,757	5,344	451	30	47,582
<b>TOTAL REVENUES</b>	<u>4,038,574</u>	<u>169,545</u>	<u>644,506</u>	<u>3,619</u>	<u>4,856,244</u>
<b>EXPENDITURES</b>					
Current					
General government	1,234,368	-	29,144	4,650	1,268,162
Public safety	769,435	-	1,283	-	770,718
Streets	831,249	-	-	-	831,249
Culture and recreation	488,538	-	10,106	-	498,644
Debt Service					
Principal	-	970,000	-	-	970,000
Interest and other charges	-	52,583	-	-	52,583
Bond issuance costs	-	13,930	-	-	13,930
Capital Outlay					
General government	-	-	518,908	-	518,908
Public safety	-	-	27,729	-	27,729
Streets	-	-	205,194	-	205,194
Culture and recreation	-	-	327,057	-	327,057
<b>TOTAL EXPENDITURES</b>	<u>3,323,590</u>	<u>1,036,513</u>	<u>1,119,421</u>	<u>4,650</u>	<u>5,484,174</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>714,984</u>	<u>(866,968)</u>	<u>(474,915)</u>	<u>(1,031)</u>	<u>(627,930)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	309,000	509,665	-	818,665
Transfers out	(718,135)	-	-	-	(718,135)
Refunding bonds issued	-	575,000	-	-	575,000
Sale of capital assets	1,595	-	27,500	-	29,095
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(716,540)</u>	<u>884,000</u>	<u>537,165</u>	<u>-</u>	<u>704,625</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1,556)	17,032	62,250	(1,031)	76,895
<b>FUND BALANCES - JANUARY 1</b>	2,554,392	1,056,462	20,756	8,208	3,639,818
Prior period adjustment	-	(36,193)	-	-	(36,193)
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 2,552,836</u>	<u>\$ 1,037,301</u>	<u>\$ 83,006</u>	<u>\$ 7,177</u>	<u>\$ 3,680,320</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, 2016**

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ 76,695**

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	1,161,825	
Less current year depreciation	<u>(627,608)</u>	
Net capital assets		534,217

Capital asset contribution from Mountain Iron Economic Development Authority		183,713
--	--	---------

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. (100,647)

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	1,095	
Change in unavailable revenue - special assessments	<u>77,597</u>	
Net change		78,692

Governmental funds report bond proceeds as current financial resources; in contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure; in contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded the proceeds. 395,000

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	13,055	
Change in severance payable	8,308	
Change in other postemployment benefits payable	(106,849)	
Change in net pension liability, change in net pension asset, and related deferred inflows and outflows	<u>(85,055)</u>	
Net change		<u>(170,541)</u>

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ 997,129**

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

## CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
December 31, 2016

## 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
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 100	\$ 37,716	\$ 27,208	\$ 303,394	\$ 3,826	\$ 372,244
Investments	138,900	191,731	414,803	84,880	-	830,314
Accounts receivable	389,930	53,358	107,003	72,959	3,958	627,208
Inventories	246,102	120,488	-	-	-	366,590
Prepaid items	-	-	-	-	1,170	1,170
<b>TOTAL CURRENT ASSETS</b>	<u>775,032</u>	<u>403,293</u>	<u>549,014</u>	<u>461,233</u>	<u>8,954</u>	<u>2,197,526</u>
<b>NONCURRENT ASSETS</b>						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	121,190	121,190
Escrow deposits	-	-	-	-	12,000	12,000
Tenant security deposits	-	-	-	-	4,067	4,067
Total restricted cash and cash equivalents	-	-	-	-	137,257	137,257
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Construction in progress	-	23,565	-	-	-	23,565
Land improvements	18,600	-	-	-	-	18,600
Buildings	741,987	2,190,764	2,718,281	12,761	1,682,353	7,346,146
Infrastructure	812,873	4,230,055	4,960,110	-	-	10,003,038
Machinery and equipment	-	60,271	309,079	-	331,754	701,104
Licensed vehicles	366,090	-	20,546	573,891	-	960,527
Less accumulated depreciation	(1,087,492)	(3,394,673)	(4,519,738)	(370,740)	(1,431,471)	(10,804,114)
Total capital assets (net of accumulated depreciation)	<u>870,092</u>	<u>3,109,982</u>	<u>3,488,278</u>	<u>215,912</u>	<u>590,972</u>	<u>8,275,236</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>870,092</u>	<u>3,109,982</u>	<u>3,488,278</u>	<u>215,912</u>	<u>728,229</u>	<u>8,412,493</u>
<b>TOTAL ASSETS</b>	<u>1,645,124</u>	<u>3,513,275</u>	<u>4,037,292</u>	<u>677,145</u>	<u>737,183</u>	<u>10,610,019</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Related to pensions	112,641	30,038	52,566	60,075	-	255,320
<b>LIABILITIES</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	217,350	3,821	20,507	12,400	17,431	271,509
Salaries payable	19,056	-	9,215	2,438	-	30,709
Accrued interest payable	-	1,167	3,140	-	937	5,244
Due to other funds	44,060	38,462	-	-	-	82,522
Customer deposits payable	77,483	1,646	-	-	3,332	82,461
Bonds and notes payable - current	-	55,000	28,000	-	14,493	97,493
Severance payable - current	28,490	-	-	-	-	28,490
<b>TOTAL CURRENT LIABILITIES</b>	<u>386,439</u>	<u>100,096</u>	<u>60,862</u>	<u>14,838</u>	<u>36,193</u>	<u>598,428</u>
<b>NONCURRENT LIABILITIES</b>						
Bonds and notes payable	-	295,000	391,000	-	537,575	1,223,575
Other postemployment benefit obligation	407,914	104,350	199,214	208,700	-	920,178
Severance payable	-	-	20,701	-	-	20,701
PERA net pension liability	271,598	72,426	126,745	144,852	-	615,621
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>679,512</u>	<u>471,776</u>	<u>737,660</u>	<u>353,552</u>	<u>537,575</u>	<u>2,780,075</u>
<b>TOTAL LIABILITIES</b>	<u>1,065,951</u>	<u>571,872</u>	<u>798,522</u>	<u>368,390</u>	<u>573,768</u>	<u>3,378,503</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Related to pensions	28,955	7,721	13,512	15,443	-	65,631
<b>NET POSITION</b>						
Net investment in capital assets	870,092	2,759,982	3,069,278	215,912	38,904	6,954,168
Restricted for other purposes	-	-	-	-	137,257	137,257
Unrestricted	(207,233)	203,738	208,546	137,475	(12,746)	329,780
<b>TOTAL NET POSITION</b>	<u>\$ 662,859</u>	<u>\$ 2,963,720</u>	<u>\$ 3,277,824</u>	<u>\$ 353,387</u>	<u>\$ 163,415</u>	<u>\$ 7,421,205</u>

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, 2016

	<b>Business-type Activities - Enterprise Funds</b>					
	<b>Electric Utility Enterprise Fund</b>	<b>Water Treatment Enterprise Fund</b>	<b>Wastewater Treatment Enterprise Fund</b>	<b>Refuse Removal and Recycling Enterprise Fund</b>	<b>Mountain Manor Apartments Enterprise Fund</b>	<b>Totals</b>
<b>REVENUES</b>						
Charges for sales and services	\$ 2,525,446	\$ 360,146	\$ 436,064	\$ 509,872	\$ 193,640	\$ 4,025,168
<b>OPERATING EXPENSES</b>						
Cost of sales	1,778,430	-	-	-	-	1,778,430
Salaries	276,642	66,493	144,196	105,315	26,500	619,146
Employee benefits	157,520	40,274	81,763	71,793	3,422	354,772
Contract services	-	-	30,468	-	23,574	54,042
Insurance	12,056	4,495	6,614	3,468	14,280	40,913
Miscellaneous	57,627	5,813	26,745	12,062	4,029	106,276
Other postemployment benefits	134,082	37,384	34,420	50,624	-	256,510
Real estate taxes	-	-	-	-	35,821	35,821
Repairs and maintenance	202,598	19,184	113,867	17,671	39,907	393,227
Solid waste management and tipping fees	-	-	-	155,150	-	155,150
Supplies	13,361	9,029	13,243	14,535	12,223	62,391
Telephone	2,978	15	1,671	593	1,708	6,965
Utilities	-	29,045	66,726	-	25,254	121,025
Depreciation	57,363	101,006	152,437	60,131	61,615	432,552
<b>TOTAL OPERATING EXPENSES</b>	<b>2,692,657</b>	<b>312,738</b>	<b>672,150</b>	<b>491,342</b>	<b>248,333</b>	<b>4,417,220</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(167,211)</b>	<b>47,408</b>	<b>(236,086)</b>	<b>18,530</b>	<b>(54,693)</b>	<b>(392,052)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
MPCA grant	-	-	82,715	-	-	82,715
Investment income	5,914	3,404	6,816	3,033	213	19,380
Miscellaneous income	5,707	281	492	562	1,376	8,418
Interest expense	-	(15,261)	(9,824)	-	(12,074)	(37,159)
Loss on disposal of capital assets	-	-	-	-	(819)	(819)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>11,621</b>	<b>(11,576)</b>	<b>80,199</b>	<b>3,595</b>	<b>(11,304)</b>	<b>72,535</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(155,590)</b>	<b>35,832</b>	<b>(155,887)</b>	<b>22,125</b>	<b>(65,997)</b>	<b>(319,517)</b>
Transfers out	(51,510)	(38,510)	(10,510)	-	-	(100,530)
<b>CHANGE IN NET POSITION</b>	<b>(207,100)</b>	<b>(2,678)</b>	<b>(166,397)</b>	<b>22,125</b>	<b>(65,997)</b>	<b>(420,047)</b>
<b>TOTAL NET POSITION - JANUARY 1</b>	<b>1,100,856</b>	<b>3,010,844</b>	<b>3,522,001</b>	<b>420,153</b>	<b>229,412</b>	<b>8,283,266</b>
<b>Prior period adjustment</b>	<b>(230,897)</b>	<b>(44,446)</b>	<b>(77,780)</b>	<b>(88,891)</b>	<b>-</b>	<b>(442,014)</b>
<b>TOTAL NET POSITION - DECEMBER 31</b>	<b>\$ 662,859</b>	<b>\$ 2,963,720</b>	<b>\$ 3,277,824</b>	<b>\$ 353,387</b>	<b>\$ 163,415</b>	<b>\$ 7,421,205</b>

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, 2016

	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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash received from customers	\$ 2,467,582	\$ 352,072	\$ 375,803	\$ 506,849	\$ 189,208	\$ 3,891,514
Cash paid to suppliers	(2,316,535)	(212,371)	(368,333)	(325,576)	(150,734)	(3,373,549)
Cash paid to employees	(212,255)	(49,334)	(89,823)	(73,887)	(26,500)	(451,799)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(61,208)</u>	<u>90,367</u>	<u>(82,353)</u>	<u>107,386</u>	<u>11,974</u>	<u>66,166</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers out to other funds	(51,510)	(38,510)	(10,510)	-	-	(100,530)
MPCA grant	-	-	82,715	-	-	82,715
Miscellaneous income	5,707	281	492	562	1,376	8,418
Advances from other funds	<u>44,060</u>	<u>38,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,522</u>
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(1,743)</u>	<u>233</u>	<u>72,697</u>	<u>562</u>	<u>1,376</u>	<u>73,125</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase or construction of capital assets	(74,721)	(60,480)	-	-	(22,079)	(157,280)
Principal paid on long-term debt	-	(50,000)	(27,000)	-	(16,485)	(93,485)
Interest paid on long-term debt	<u>-</u>	<u>(15,375)</u>	<u>(10,026)</u>	<u>-</u>	<u>(12,222)</u>	<u>(37,623)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(74,721)</u>	<u>(125,855)</u>	<u>(37,026)</u>	<u>-</u>	<u>(50,786)</u>	<u>(288,388)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Proceeds from sales and maturities of investments	32,079	-	-	-	-	32,079
Purchase of investments	-	(50,487)	(129,933)	(1,039)	-	(181,459)
Interest and dividends received	<u>5,914</u>	<u>3,404</u>	<u>6,816</u>	<u>3,033</u>	<u>213</u>	<u>19,380</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>37,993</u>	<u>(47,083)</u>	<u>(123,117)</u>	<u>1,994</u>	<u>213</u>	<u>(130,000)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(99,679)</u>	<u>(82,338)</u>	<u>(169,799)</u>	<u>109,942</u>	<u>(37,223)</u>	<u>(279,097)</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b> (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>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b> (including \$137,257 in restricted accounts)	<u>\$ 100</u>	<u>\$ 37,716</u>	<u>\$ 27,208</u>	<u>\$ 303,394</u>	<u>\$ 141,083</u>	<u>\$ 509,501</u>

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

## CITY OF MOUNTAIN IRON, MINNESOTA

## STATEMENT OF CASH FLOWS (CONTINUED)

## PROPRIETARY FUNDS

Year Ended December 31, 2016

	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	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ (167,211)	\$ 47,408	\$ (236,086)	\$ 18,530	\$ (54,693)	\$ (392,052)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation	57,363	101,006	152,437	60,131	61,615	432,552
Other postemployment benefit obligation	44,941	11,496	21,948	22,993	-	101,378
Net pension liability, deferred outflows and deferred inflows related to pensions	21,241	5,663	9,911	11,329	-	48,144
Changes in assets and liabilities						
(Increase) decrease in:						
Accounts receivable	(51,567)	(8,035)	(60,261)	(3,023)	(2,602)	(125,488)
Inventories	48,236	(64,865)	-	-	-	(16,629)
Prepaid items	-	-	-	-	(15)	(15)
Increase (decrease) in:						
Accounts payable	(6,118)	(2,267)	7,184	320	9,499	8,618
Salaries payable	(3,498)	-	1,813	(2,894)	-	(4,579)
Customer deposits	(6,298)	(39)	-	-	(1,830)	(8,167)
Severance payable	1,703	-	20,701	-	-	22,404
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (61,208)</u>	<u>\$ 90,367</u>	<u>\$ (82,353)</u>	<u>\$ 107,386</u>	<u>\$ 11,974</u>	<u>\$ 66,166</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, 2016**

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

##### **A. Financial Reporting Entity**

The City of Mountain Iron, Minnesota, a political subdivision of the State of Minnesota, is a statutory city, governed by an elected city council which consists of one mayor and four councilors.

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

##### **Blended Component Unit**

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

##### **Discretely Presented Component Unit**

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

##### **B. Basic Financial Statements**

###### **Government-wide Financial Statements**

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues,



## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

#### **Fund Financial Statements**

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

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

#### **Governmental Funds**

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

#### **Major Governmental Funds:**

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

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

The City Projects Capital Projects Fund is used to account for and report financial resources that are committed to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. 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.

## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Proprietary Funds**

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

##### **Major Proprietary Funds:**

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

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

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

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

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

##### **C. Measurement Focus and Basis of Accounting**

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Depreciation expense can be specifically identified by program and is included in the direct expenses of each program.

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

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

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

#### **D. Cash and Cash Equivalents**

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

#### **E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances**

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- 3) The enterprise funds report accounts receivable net of uncollectible accounts. The allowance amounts of \$1,500 in the water 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".

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

- 7) Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- 8) Capital assets, which include land, construction in progress, land improvements, buildings, infrastructure, machinery and equipment, and licensed vehicles, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, proprietary fund financial statements, and the component unit.

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. General infrastructure assets acquired prior to January 1, 2004 are not reported in the basic financial statements. The City maintains a threshold level of \$5,000 or more for capitalizing machinery and equipment and \$10,000 or more for capitalizing land, land improvements, buildings, infrastructure and vehicles. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

- 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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

then. The City has one item in this category related to pensions. See notes 16 and 17 for details.

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

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

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

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

- 13) Defined Benefit Pension Plans

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.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

In the fund financial statements, proprietary fund equity is classified the same as in the government-wide financial statements. Fund balances of the governmental funds represent the difference between the current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources. Fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned—all other spendable amounts. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Revenues and Expenditures**

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

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

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

**G. Use of Estimates**

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

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

"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	3,410,482	283,559
Investments	<u>2,181,542</u>	<u>-</u>
Total	<u>\$ 5,592,524</u>	<u>\$ 283,559</u>

**Deposits**

*Custodial Credit Risk – Deposits*

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

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits was \$3,410,482; the bank balance was \$3,427,916. At year-end, the City's bank balances were entirely insured or collateralized with Federal Home Loan Bank letters of credit and securities held by the pledging financial institution's agent in the City's name. At year-end, the carrying amount of the Mountain Iron EDA's deposits, which includes cash, was \$283,559; the bank balance was \$283,559. At year-end, the Mountain Iron EDA's bank balances were entirely insured or collateralized with Federal Home Loan Bank letters of credit.

**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, 2016, had no investments in any issuer (other than U.S. government or U.S. government guaranteed obligations) that exceeded five percent of total investments. The City has invested \$192,624 in Federal National Mortgage Association Bonds.



## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

At December 31, 2016, the bonds were rated as AAA by Moody's and AA+ by S & P. The City has \$1,490,477 invested in certificates of deposit at Morgan Stanley and \$398,440 invested in certificates of deposit and \$100,001 invested in money market funds at Northland Securities. Money market funds are not rated as to credit risk.

##### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investment. The City has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

##### *Fair Value of Investments*

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

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

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The City's investment of \$192,624 at December 31, 2016 is categorized as Level 1.

#### NOTE 3 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses were issued revolving loans. The unpaid principal balance at December 31, 2016 was \$67,134 and is recorded as loans receivable in the Mountain Iron EDA general fund.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<b>Governmental activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land	\$ 409,300	\$ -	\$ -	\$ -	\$ 409,300
Construction in progress	991,279	823,379	-	183,713	1,998,371
<b>Total capital assets not being depreciated</b>	<u>1,400,579</u>	<u>823,379</u>	<u>-</u>	<u>183,713</u>	<u>2,407,671</u>
<b>Capital assets, being depreciated:</b>					
Land improvements	1,091,845	14,110	-	-	1,105,955
Buildings	3,679,824	-	-	-	3,679,824
Infrastructure	10,167,592	59,742	-	-	10,227,334
Machinery and equipment	1,100,959	212,270	-	-	1,313,229
Vehicles	2,255,062	52,324	(203,157)	-	2,104,229
<b>Total capital assets, being depreciated</b>	<u>18,295,282</u>	<u>338,446</u>	<u>(203,157)</u>	<u>-</u>	<u>18,430,571</u>
<b>Less accumulated depreciation for:</b>					
Land improvements	(433,440)	(50,389)	-	-	(483,829)
Building	(1,208,908)	(79,685)	-	-	(1,288,593)
Infrastructure	(4,788,389)	(350,208)	-	-	(5,138,597)
Machinery and equipment	(597,489)	(66,862)	-	-	(664,351)
Vehicles	(1,883,545)	(80,464)	102,510	-	(1,861,499)
<b>Total accumulated depreciation</b>	<u>(8,911,771)</u>	<u>(627,608)</u>	<u>102,510</u>	<u>-</u>	<u>(9,436,869)</u>
<b>Total capital assets, being depreciated, net</b>	<u>9,383,511</u>	<u>(289,162)</u>	<u>(100,647)</u>	<u>-</u>	<u>8,993,702</u>
<b>Governmental activities capital assets, net</b>	<u>\$10,784,090</u>	<u>\$ 534,217</u>	<u>\$(100,647)</u>	<u>\$183,713</u>	<u>\$11,401,373</u>
<b>Business-type activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land	\$ 26,370	\$ -	\$ -	\$ -	\$ 26,370
Construction in progress	-	23,565	-	-	23,565
<b>Total capital assets, being depreciated</b>	<u>26,370</u>	<u>23,565</u>	<u>-</u>	<u>-</u>	<u>49,935</u>
<b>Capital assets, being depreciated:</b>					
Land improvements	18,600	-	-	-	18,600
Building	7,344,347	1,799	-	-	7,346,146
Infrastructure	9,932,277	70,761	-	-	10,003,038
Machinery and equipment	690,634	20,279	(9,809)	-	701,104
Vehicles	919,651	40,876	-	-	960,527
<b>Total capital assets, being depreciated</b>	<u>18,905,509</u>	<u>133,715</u>	<u>(9,809)</u>	<u>-</u>	<u>19,029,415</u>
<b>Less accumulated depreciation for:</b>					
Land improvements	(583)	(930)	-	-	(1,513)
Building	(3,661,247)	(175,144)	-	-	(3,836,391)
Infrastructure	(5,467,320)	(169,877)	-	-	(5,637,197)
Machinery and equipment	(619,848)	(13,100)	8,990	-	(623,958)
Vehicles	(631,554)	(73,501)	-	-	(705,055)
<b>Total accumulated depreciation</b>	<u>(10,380,552)</u>	<u>(432,552)</u>	<u>8,990</u>	<u>-</u>	<u>(10,804,114)</u>
<b>Total capital assets, being depreciated, net</b>	<u>8,524,957</u>	<u>(298,837)</u>	<u>(819)</u>	<u>-</u>	<u>8,225,301</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 8,551,327</u>	<u>\$(275,272)</u>	<u>\$ (819)</u>	<u>\$ -</u>	<u>\$ 8,275,236</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities**

General government	\$ 54,034
Public safety	53,840
Streets	442,140
Culture and recreation	<u>77,594</u>
Total depreciation expense - governmental activities	<u>\$ 627,608</u>

**Business-type activities**

Electric utility	\$ 57,363
Water treatment	101,006
Wastewater treatment	152,437
Refuse removal and recycling	60,131
Mountain Manor Apartments	<u>61,615</u>
Total depreciation expense - business-type activities	<u>\$ 432,552</u>

**Discretely presented component unit:**

Mountain Iron EDA capital asset activity for the year ended December 31, 2016, is as follows:

	Balance 1/1/2016	Additions	Deletions	Transfers	Balance 12/31/2016
<b>Governmental activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land	\$ 2,533,256	\$ -	\$ -	\$ -	\$ 2,533,256
Construction in progress	-	183,713	-	(183,713)	-
<b>Total capital assets, not being depreciated</b>	<u>2,533,256</u>	<u>183,713</u>	<u>-</u>	<u>(183,713)</u>	<u>2,533,256</u>
<b>Capital assets, being depreciated:</b>					
Buildings	3,608,345	-	-	-	3,608,345
<b>Less accumulated depreciation for:</b>					
Buildings	(180,417)	(72,167)	-	-	(252,584)
<b>Total capital assets, being depreciated, net</b>	<u>3,427,928</u>	<u>(72,167)</u>	<u>-</u>	<u>-</u>	<u>3,355,761</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 5,961,184</u>	<u>\$ 111,546</u>	<u>\$ -</u>	<u>\$ (183,713)</u>	<u>\$ 5,889,017</u>

**NOTE 5 - LONG-TERM DEBT**

In 2016, the City issued \$575,000 GO improvement refunding bonds and the proceeds were used to refund the outstanding principal of the City's \$1,455,000 GO improvement bonds of 2007. This refunding will provide the City with a savings of approximately \$48,588. No interest was paid in the current year. Principal and interest to be paid to maturity in 2028 totals \$642,997. 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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

construction of a housing facility. This note is guaranteed by the City of Mountain Iron, Minnesota. For governmental activities, claims and judgments are generally liquidated by the General Fund.

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

Components of long-term debt are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<b>Governmental activities</b>					
General Obligation Bonds					
2016 Refunding	11/01/2016	1.625-2.25%	\$ 575,000	02/01/2028	\$ 575,000
2012 Refunding	11/01/2012	1.0-1.35%	\$ 840,000	02/01/2020	<u>285,000</u>
<b>Governmental activities long-term debt</b>					<u>860,000</u>
<b>Business-type activities</b>					
Revenue Bonds					
2009 Water Revenue Refunding Bonds	09/01/2009	1.5-4.0%	\$ 650,000	12/01/2022	<u>350,000</u>
General Obligation Revenue Notes					
2009 PFA Wastewater Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	<u>419,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	09/01/2030	396,106
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	10/01/2030	<u>155,962</u>
Total Notes Payable					<u>552,068</u>
<b>Business-type activities long-term debt</b>					<u>1,321,068</u>
<b>Total primary government long-term debt</b>					<u>2,181,068</u>
<b>Discretely presented component unit</b>					
<b>EDA</b>					
State Loan					
2010 IRRRB					<u>3,480,248</u>
<b>Total reporting entity</b>					<u>\$5,661,316</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

Long-term debt activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Governmental activities</b>					
Bonds Payable					
2016 GO Refunding	\$ -	\$ 575,000	\$ -	\$ 575,000	\$ -
2012 GO Refunding	470,000	-	185,000	285,000	70,000
2007 GO Improvement	785,000	-	785,000	-	-
<b>Governmental activities -         long-term debt</b>	<u>1,255,000</u>	<u>575,000</u>	<u>970,000</u>	<u>860,000</u>	<u>70,000</u>
<b>Business-type activities</b>					
Bonds Payable					
2009 Water Revenue Refunding Bonds	<u>400,000</u>	<u>-</u>	<u>50,000</u>	<u>350,000</u>	<u>55,000</u>
Revenue Notes					
2009 GO PFA Wastewater	<u>446,000</u>	<u>-</u>	<u>27,000</u>	<u>419,000</u>	<u>28,000</u>
Notes Payable					
1980 Rural Development	408,086	-	11,980	396,106	10,435
1981 Rural Development	160,467	-	4,505	155,962	4,058
Total Notes Payable	<u>568,553</u>	<u>-</u>	<u>16,485</u>	<u>552,068</u>	<u>14,493</u>
<b>Business-type activities -         long-term debt</b>	<u>1,414,553</u>	<u>-</u>	<u>93,485</u>	<u>1,321,068</u>	<u>97,493</u>
<b>Total primary government</b>	<u>2,669,553</u>	<u>575,000</u>	<u>1,063,485</u>	<u>2,181,068</u>	<u>167,493</u>
<b>Discretely presented component unit</b>					
<b>EDA</b>					
State loan					
2010 IRRRB	<u>3,480,538</u>	<u>-</u>	<u>290</u>	<u>3,480,248</u>	<u>-</u>
<b>Total reporting entity</b>	<u>\$6,150,091</u>	<u>\$ 575,000</u>	<u>\$1,063,775</u>	<u>\$5,661,316</u>	<u>\$ 167,493</u>

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

Year Ending December 31	Governmental Activities		Business-Type Activities		Government-wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 70,000	\$ 11,492	\$ 97,493	\$ 39,452	\$ 167,493	\$ 50,944
2018	195,000	12,370	98,873	38,481	293,873	50,851
2019	115,000	9,939	99,262	35,277	214,262	45,216
2020	110,000	8,310	105,663	32,061	215,663	40,371
2021	45,000	7,147	107,073	28,611	152,073	35,758
2022-2026	225,000	23,728	294,608	103,902	519,608	127,630
2027-2031	100,000	2,250	518,096	52,772	618,096	55,022
Total	<u>\$ 860,000</u>	<u>\$ 75,236</u>	<u>\$ 1,321,068</u>	<u>\$ 330,556</u>	<u>\$ 2,181,068</u>	<u>\$ 405,792</u>

## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

No interest was capitalized during 2016 for the City or Mountain Iron EDA. Interest incurred and charged to expense totaled \$76,685 for the City and \$34,710 for Mountain Iron EDA.

##### **Pledged Revenue**

###### Governmental Funds

The City issued \$575,000 general obligation refunding bonds of which the proceeds were used to prepay part of the outstanding balance of the City's \$1,455,000 general obligation improvement bonds of 2007. No principal or interest was paid in the current year. Principal and interest to maturity in 2028 to be paid from a combination of special assessments levied upon the benefited property and ad valorem property taxes total \$642,997.

The City issued \$840,000 general obligation refunding bonds of which the proceeds were used to prepay the outstanding principal of the City's \$1,645,000 GO crossover refunding bonds of 2005. Principal and interest paid in the current year was \$189,283. 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 \$292,239.

###### 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 \$65,375. At December 31, 2016, principal and interest to maturity in 2022 to be paid from pledged future revenues totaled \$398,200.

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 \$37,026. At December 31, 2016, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$487,924.

##### **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 15<sup>th</sup> 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. At December 31, 2016, the principal balance outstanding totals \$3,480,248.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 6 - INTERFUND BALANCES AND ACTIVITY**

The composition of interfund balances as of December 31, 2016 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	City Projects Capital Projects Fund	\$ 202,932
General Fund	Electric Utility Enterprise Fund	44,060
General Fund	Water Treatment Enterprise Fund	<u>38,462</u>
		<u>\$ 285,454</u>

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

Interfund transfers for the year ended December 31, 2016 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ -	\$ 718,135
Debt Service Fund	309,000	-
City Projects Capital Projects Fund	<u>509,665</u>	<u>-</u>
Total governmental funds	<u>818,665</u>	<u>718,135</u>
Enterprise funds:		
Electric Utility Enterprise Fund	-	51,510
Water Treatment Enterprise Fund	-	38,510
Wastewater Treatment Enterprise Fund	<u>-</u>	<u>10,510</u>
Total enterprise funds	<u>-</u>	<u>100,530</u>
Total	<u>\$ 818,665</u>	<u>\$ 818,665</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, 2016**

**NOTE 7 - FUND EQUITY**

As of December 31, 2016, 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	\$ -	\$1,037,301	\$ -	\$ -	\$ 1,037,301
Assigned:					
Cash flow	250,000	-	-	-	250,000
Insurance	767,612	-	-	-	767,612
Buildings	767,612	-	-	-	767,612
Rate stabilization	767,612	-	-	-	767,612
Capital projects	-	-	83,006	-	83,006
Community contributions	-	-	-	7,177	7,177
Total assigned	<u>2,552,836</u>	<u>-</u>	<u>83,006</u>	<u>7,177</u>	<u>2,643,019</u>
Total fund balances	<u>\$2,552,836</u>	<u>\$1,037,301</u>	<u>\$ 83,006</u>	<u>\$ 7,177</u>	<u>\$ 3,680,320</u>

**NOTE 8 - PRIOR PERIOD ADJUSTMENTS**

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 the government-wide financial statements of primary government:

To record the fire relief net pension asset, deferred outflows of resources related to pensions and deferred inflows of resources related to pensions as of the December 31, 2015 measurement date	\$ 4,926
To correct calculation of severance payable	(98,257)
To record the enterprise funds' proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions	<u>377,787</u>
Total adjustment to governmental activities net position in the government-wide financial statements	<u>\$ 284,456</u>



CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 8 - PRIOR PERIOD ADJUSTMENTS (CONTINUED)

Adjustment to net position of business-type activities:

To correct calculation of severance payable	\$ (13,394)
To record the enterprise funds' proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions	(377,787)
To correct electric inventory valuation	<u>(50,833)</u>
Total adjustment to business-type activities net position	<u>\$ (442,014)</u>

Adjustment to fund balance of the Debt Service Fund:

To correct beginning current special assessments receivable	<u>\$ (36,193)</u>
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Adjustment to net position of the Electric Utility Enterprise Fund:

To correct calculation of severance payable	\$ (13,394)
To record the funds' proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions	(166,670)
To correct electric inventory valuation	<u>(50,833)</u>
Total adjustment to Electric Utility Enterprise Fund	<u>\$ (230,897)</u>

Adjustment to net position of the Water Treatment Enterprise Fund:

To record the funds' proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions	<u>\$ (44,446)</u>
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Adjustment to net position of the Wastewater Treatment Enterprise Fund:

To record the funds' proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions	<u>\$ (77,780)</u>
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Adjustment to net position of the Refuse Removal and Recycling Enterprise Fund:

To record the funds' proportionate share of the PERA net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions	<u>\$ (88,891)</u>
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# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

### 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.

### NOTE 10 - TAX INCREMENT FINANCING DISTRICTS

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

<u>Tax Increment Financing District</u>	<u>No. 14</u>
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>\$ 89,714</u>
Fiscal disparity deduction	<u>\$ (23,542)</u>
Captured net tax capacity retained by Authority:	<u>\$ 65,109</u>
Total bonds issued	
Tax increment bonds	\$ -
Amounts redeemed	-
Outstanding bonds at 12/31/16	<u>\$ -</u>

As of June 27, 2017, information regarding Tax Increment Financing District No. 15 had not been made available by St. Louis County.

## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS December 31, 2016

#### NOTE 11 - TAX ABATEMENTS

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

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

For the year ended December 31, 2016, the City abated \$10,000 of property taxes for L & M Supply and \$7,500 of property taxes for Iron Range Investment LLC, for a total of \$17,500.

#### NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES

##### Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016, 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, 2016**

**NOTE 12 - 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, 2016. 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	\$ 808,784	\$ 94,800
Mountain Iron Bicycle and Pedestrian Recreational Trail	249,387	60,854
Woodland Estates Residential Development	482,107	241,770
	<u>\$ 1,540,278</u>	<u>\$ 397,424</u>

**NOTE 13 - JOINT VENTURES**

**Tri-Cities Biosolids Disposal Authority**

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

Each member city contributes to the budget of the Authority based on actual loads hauled during the previous year. The City of Mountain Iron's contribution to the Authority's budget during 2016 was \$24,528. 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, 2016**

#### **NOTE 13 - 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 2016 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 2016 was \$6,577. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

#### **NOTE 14 - SEVERANCE BENEFITS AND OTHER EMPLOYEE BENEFITS**

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. The City incurred \$51,033 of expenditures for this benefit in 2016.

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, 2016 was as follows:

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 14 - SEVERANCE BENEFITS AND OTHER EMPLOYEE BENEFITS (CONTINUED)**

	Balance 12/31/15	Additions	Reductions	Balance 12/31/16
Governmental activities	\$ 136,827	\$ -	\$ (8,308)	\$ 128,519
Business-type activities	<u>26,787</u>	<u>22,404</u>	<u>-</u>	<u>49,191</u>
Total Primary Government	<u>\$ 163,614</u>	<u>\$ 22,404</u>	<u>\$ (8,308)</u>	<u>\$ 177,710</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 \$34,418 for the year ended December 31, 2016.

**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description**

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

**Funding Policy**

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

**Annual OPEB Cost and Net OPEB Obligation**

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

	12/31/16
Normal cost	\$ 87,135
Amortization of unfunded actuarial accrued liability	387,634
Interest to the end of the year	<u>18,991</u>
Annual required contribution	493,760
Interest on NOO	97,918
Adjustment to ARC	<u>(51,208)</u>
Annual OPEB cost (expense)	540,470
Contributions made including implicit rate subsidy	<u>(332,243)</u>
Increase in net OPEB obligation	208,227
Net OPEB obligation, beginning of year	<u>2,447,957</u>
Net OPEB obligation, end of year	<u><u>\$ 2,656,184</u></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, 2016 and the two preceding years were as follows:

Year Ended	Increase in Net OPEB Obligation	Contribution (ARC)	OPEB Cost Contributed	% of ARC Contributed	OPEB Obligation
12/31/16	\$ 208,227	\$ 540,470	\$ 332,243	61.5%	\$2,656,184
12/31/15	\$ 232,248	\$ 451,754	\$ 219,506	49.2%	\$2,447,957
12/31/14	\$ 244,012	\$ 444,311	\$ 200,299	45.1%	\$2,215,709

**Funded Status and Funding Progress**

The funding status of the plan as of January 1, 2015, the date of the latest actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2015	\$ -	\$ 6,825,321	\$ 6,825,321	0.0%	\$1,373,027	497.1%

## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

##### **Actuarial Methods and Assumptions**

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

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

#### NOTE 16 - DEFINED BENEFIT PENSION PLAN

##### **A. Plan Description**

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

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

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

##### **Benefits Provided**

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



## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

##### General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% 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.

##### General Employees Fund 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 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members in calendar year 2016. The City's contributions to the General Employees Fund for the year ended December 31, 2016, were \$100,889. The City's contributions were equal to the required contributions as set by state statute.

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

### NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

#### C. Pension Costs

##### General Employees Fund Pension Costs

At December 31, 2016, the City reported a liability of \$1,810,649 for its proportionate share of the General Employees Fund's net pension liability. The City's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the City totaled \$23,552. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion share was 0.0223% which was a decrease of 0.0009% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$239,302 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$7,023 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

At December 31, 2016, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 148,657
Changes in actuarial assumptions	354,527	-
Difference between projected and actual investment earnings	346,980	-
Changes in proportion	-	44,376
Contributions paid to PERA subsequent to the measurement date	49,432	-
Total	\$ 750,939	\$ 193,033

\$49,432 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, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Year Ended December 31:	Pension Expense Amount
2017	\$139,390
2018	\$139,389
2019	\$164,292
2020	\$65,403
2021	\$0
Thereafter	\$0

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

**General Employees Fund**

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

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2016

**NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

**E. Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Pension Liability Sensitivity**

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

<b>Sensitivity of Net Pension Liability at Current Single Discount Rate</b>		
	<b>General Employees Fund</b>	
1% Higher	6.50%	\$ 2,571,659
Current Discount Rate	7.50%	\$ 1,810,649
1% Lower	8.50%	\$ 1,183,785

**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](http://www.mnpera.org).

## CITY OF MOUNTAIN IRON, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2016

#### NOTE 17 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT

##### Plan Description

The City of Mountain Iron, Minnesota, Volunteer Fire Department participates in the Statewide Volunteer Firefighter Retirement Plan (Volunteer Firefighter Plan accounted for in the Volunteer Firefighter Fund), an agent multiple-employer lump-sum defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). The Volunteer Firefighter Plan covers volunteer firefighters of municipal fire departments or independent nonprofit firefighting corporations that have elected to join the plan. As of December 31, 2016, the plan covered fifteen active firefighters and six vested terminated firefighters whose pension benefits are deferred. The plan is established and administered in accordance with *Minnesota Statutes*, Chapter 353 G.

##### Benefits Provided

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

##### Contributions

The Volunteer Firefighter Plan is funded by fire state aid, investment earnings and, if necessary, employer contributions as specified in *Minnesota Statutes*, and voluntary City contributions. The State of Minnesota contributed \$14,987 in fire state aid to the fund for the year ended December 31, 2016. Required employer contributions are calculated annually based on statutory provisions. The City made no required or voluntary contributions to the Volunteer Firefighter Plan for the year ended December 31, 2016.

##### Pension Costs

At December 31, 2016, the City reported a net pension asset of \$118,367 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension asset during the year.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

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

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (Asset) (a-b)</b>
Beginning Balance 12/31/15	\$ 214,882	\$ 317,932	\$ (103,050)
Changes for the Year			
Service Cost	13,369	-	13,369
Interest on Pension Liability	13,695	-	13,695
Actuarial Experience (Gains)/Losses	(5,760)	-	(5,760)
Projected Investment Earnings	-	19,076	(19,076)
Contributions (Employer)	-	-	-
Contributions (State)	-	14,987	(14,987)
Asset (Gain)/Loss	-	3,212	(3,212)
Benefit Payouts	-	-	-
PERA Administrative Fee	-	(654)	654
Net Changes	21,304	36,621	(15,317)
Balance End of Year 12/31/16	\$ 236,186	\$ 354,553	\$ (118,367)

There were no benefit provision changes during the measurement period.

For the year ended December 31, 2016, the City recognized pension expense of \$6,848.

At December 31, 2016, the City reported deferred inflows of resources and deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ -	\$ 16,007
Difference between projected and actual investment earnings	8,038	-
Total	\$ 8,038	\$ 16,007

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

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
2017	(\$2,057)
2018	(\$2,057)
2019	(\$2,060)
2020	(\$1,795)
2021	\$0
Thereafter	\$0

#### Actuarial Assumptions

The total pension liability at December 31, 2016, 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%

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

#### Pension Asset Sensitivity

The following presents the City's net pension asset for the Volunteer Firefighter Fund plan, calculated using the 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	\$ 106,955	\$ 118,367	\$ 129,230

#### 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.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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

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 2016 for the Statewide Volunteer Firefighter Retirement Plan.

**Pension Plan Fiduciary Net Position**

Detailed information about the Volunteer Firefighter Fund's fiduciary net position as of June 30, 2016, is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at [www.mnpera.org](http://www.mnpera.org).

**NOTE 18 - DEFINED CONTRIBUTION PLAN**

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



**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2016**

**NOTE 18 - DEFINED CONTRIBUTION PLAN (CONTINUED)**

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 2016 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, 2016**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,332,789	\$ 1,332,789	\$ 1,397,200	\$ 64,411
Licenses and permits	30,000	30,000	37,997	7,997
Intergovernmental	2,263,446	2,263,446	2,338,860	75,414
Charges for services	157,000	157,000	206,199	49,199
Fines	12,000	12,000	16,561	4,561
Investment income	5,000	5,000	41,757	36,757
<b>TOTAL REVENUES</b>	<u>3,800,235</u>	<u>3,800,235</u>	<u>4,038,574</u>	<u>238,339</u>
<b>EXPENDITURES</b>				
Current				
General government	1,165,600	1,165,600	1,234,368	(68,768)
Public safety	663,500	663,500	769,435	(105,935)
Streets	775,000	775,000	831,249	(56,249)
Culture and recreation	478,000	478,000	488,538	(10,538)
<b>TOTAL EXPENDITURES</b>	<u>3,082,100</u>	<u>3,082,100</u>	<u>3,323,590</u>	<u>(241,490)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>718,135</u>	<u>718,135</u>	<u>714,984</u>	<u>(3,151)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(718,135)	(718,135)	(718,135)	-
Sale of capital assets	-	-	1,595	1,595
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(718,135)</u>	<u>(718,135)</u>	<u>(716,540)</u>	<u>1,595</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	(1,556)	(1,556)
<b>FUND BALANCE - JANUARY 1</b>	<u>2,554,392</u>	<u>2,554,392</u>	<u>2,554,392</u>	-
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 2,554,392</u>	<u>\$ 2,554,392</u>	<u>\$ 2,552,836</u>	<u>\$ (1,556)</u>

See notes to required supplementary information.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN**  
**Year Ended December 31, 2016**

<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 (d)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(d)</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	459.64%
1/1/2009	\$ -	\$7,746,539	\$7,746,539	0.0%	\$ 944,685	820.01%

See notes to required supplementary information.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF CITY PROPRTIONATE SHARE OF NET PENSION LIABILITY  
AND CITY'S CONTRIBUTIONS FOR DEFINED BENEFIT PENSION PLAN  
Year Ended December 31, 2016**

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

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

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

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

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

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

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

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

See notes to required supplementary information.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF NET PENSION LIABILITY/ASSET  
Year Ended December 31, 2016**

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

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

Note:

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

See notes to required supplementary information.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**SCHEDULE OF CITY CONTRIBUTIONS  
Year Ended December 31, 2016**

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

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2016**

**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, 2016:

General Fund	<u>\$241,490</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

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

***2016 Changes***

Changes in Actuarial Assumptions:

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



**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended December 31, 2016**

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

***2015 Changes***

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

## OTHER SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2016

REVENUES

TAXES

General property	\$ 1,292,129
Mineral rents and royalties	82,222
Franchise	<u>22,849</u>
TOTAL TAXES	<u>1,397,200</u>

LICENSES AND PERMITS

37,997

INTERGOVERNMENTAL

State	
Local government aid	1,298,446
Market value credit	1,047
Taconite production	548,491
Taconite municipal aid	376,975
Mining effects	109,372
PERA aid	<u>4,529</u>
TOTAL INTERGOVERNMENTAL	<u>2,338,860</u>

CHARGES FOR SERVICES

General government	
Rent	13,714
Other reimbursements	134,086
Culture and recreation	
Recreation fees	5,340
Campground fees	<u>53,059</u>
TOTAL CHARGES FOR SERVICES	<u>206,199</u>

FINES

Fines and forfeits	<u>16,561</u>
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INVESTMENT INCOME

41,757

TOTAL REVENUES

4,038,574

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)  
Year Ended December 31, 2016

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 22,859
Administration	604,146
Elections	4,295
Assessor	158
Retiree's insurance	172,781
Donations and contributions	6,577
Other	107,644
Buildings	281,573
Planning and zoning	34,335
<b>TOTAL GENERAL GOVERNMENT</b>	<u>1,234,368</u>

PUBLIC SAFETY

Sheriff	600,899
Fire	126,275
Animal control	19,636
Civil defense	22,625
<b>TOTAL PUBLIC SAFETY</b>	<u>769,435</u>

STREETS

831,249

CULTURE AND RECREATION

Library	171,891
Recreation	223,920
Campgrounds	92,727
<b>TOTAL CULTURE AND RECREATION</b>	<u>488,538</u>

TOTAL EXPENDITURES

3,323,590

EXCESS OF REVENUES OVER  
EXPENDITURES

714,984

OTHER FINANCING SOURCES (USES)

Transfers out	(718,135)
Sale of capital assets	1,595
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(716,540)</u>

NET CHANGE IN FUND BALANCE

(1,556)

FUND BALANCE - JANUARY 1

2,554,392

FUND BALANCE - DECEMBER 31

\$ 2,552,836

**MOUNTAIN IRON ECONOMIC DEVELOPMENT AUTHORITY**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 14  
Year Ended December 31, 2016**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
<b>SOURCES OF FUNDS</b>			
Tax increment revenue	\$ 1,025,590	\$ 256,629	76,332
Transfers from EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u>1,025,590</u>	<u>262,651</u>	<u>76,332</u>
<b>USES OF FUNDS</b>			
Site improvements and preparation costs	1,025,590	230,966	68,699
Administrative costs	-	14,816	1,621
Transfers to EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
<b>TOTAL USES OF FUNDS</b>	<u>1,025,590</u>	<u>251,804</u>	<u>70,320</u>
<b>DISTRICT BALANCE</b>	<u>\$ -</u>	<u>\$ 10,847</u>	<u>\$ 6,012</u>

**MOUNTAIN IRON ECONOMIC DEVELOPMENT AUTHORITY**

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS  
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 15  
Year Ended December 31, 2016**

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

**CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS**

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P.O. Box 960 • 225 1st Street North, Suite 2400, Virginia, Minnesota 55792  
218-749-4880 • FAX 218-749-8528

**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, 2016, 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 27, 2017. 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 2016-002 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 2016-001 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 27, 2017, included under this cover.

## **City of Mountain Iron, Minnesota's Response to Findings**

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



## Purpose of this Report

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

*Walker, Miray & Helne, LLC*

Virginia, Minnesota  
June 27, 2017

**CITY OF MOUNTAIN IRON, MINNESOTA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended December 31, 2016**

**2016-001. 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, 2016**

**2016-002. 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, 2016, 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 27, 2017 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 27, 2017, 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, 2016. 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. Numerous reconciling items were listed on the bank reconciliation, which resulted from old outstanding checks and bank receipts not being entered into the accounting system before the financial statements were prepared. We recommend that City staff review the online bank activity, prior to month end, to ensure that all receipts have been recorded and that the old outstanding checks have been resolved before preparation of the financial statements.
6. The past-due accounts receivable has increased from the prior year. We recommend that additional attention be given to these past-due accounts to ensure timely collection of utility receipts.

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

*Walker, Miray & Helne, LLC*

Virginia, Minnesota  
June 27, 2017