

CITY OF MOUNTAIN IRON, MINNESOTA

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

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

**ORGANIZATION
December 31, 2017**

CITY COUNCIL

Mayor

Gary Skalko

Council Members

Joe Prebeg, Jr.
Alan Stanaway
Susan Tuomela
Steve Skogman

ADMINISTRATION

Administrator

Craig J. Wainio

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Mountain Iron, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining fund information of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Mountain Manor Apartments Enterprise Fund which is both a major fund and represents 7 percent, 2 percent, and 6 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Mountain Manor Apartments Enterprise Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2018 on our consideration of the City of Mountain Iron, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Mountain Iron, Minnesota's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mountain Iron, Minnesota's internal control over financial reporting and compliance.

Walker, Giroux & Helne, LLC

Virginia, Minnesota
June 4, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

The City of Mountain Iron, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Mountain Iron, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

Notes to the Financial Statements

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

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a City's financial position. The following tables show that in the case of the City of Mountain Iron, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,517,710, an increase from the prior year.

Table 1
Net Position

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

Net position of the City's governmental activities increased by 2.0 percent (\$12,111,506 compared to \$11,875,592). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from a \$93,700 surplus at December 31, 2016 to a \$48,855 deficit at the end of this year.

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

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

**Table 2
Changes in Net Position**

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

Governmental Activities

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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

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

Business-Type Activities

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

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

Mountain Iron EDA Component Unit Activity

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

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds

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

At December 31, 2017, the City's governmental funds reported total ending fund balances of \$3,898,361, an increase of \$218,041 in comparison with the prior year. Assigned fund balance, which is intended to be used for cash flow, insurance, and buildings, made up nearly 66% or \$2,565,370 of the total ending fund balance. The restricted fund balance of \$1,332,991 is considered unavailable for appropriation for general operations. More detailed information about the City's fund balances is presented in Note 8 to the financial statements.

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

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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

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

Proprietary Funds

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

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

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

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

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

GENERAL FUND BUDGETARY HIGHLIGHTS

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

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

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

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

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

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

Debt

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

Table 4
Outstanding Debt, at Year-end

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

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

Additional information on the City's long-term debt can be found in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2018 budget, tax rates, and fees that will be charged for the business-type activities.

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

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

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

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2017

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

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

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Mineral rents and royalties

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Transfers**Total General Revenues and Transfers****CHANGE IN NET POSITION****NET POSITION - JANUARY 1****NET POSITION - DECEMBER 31**

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