

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE 5 - CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities**

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

**Business-type activities**

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

**Discretely presented component unit:**

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

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

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

**Governmental activities**

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

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

**NOTE 6 - LONG-TERM DEBT**

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

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

Components of long-term debt are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
<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>215,000</u>
<b>Governmental activities long-term debt</b>					<u>790,000</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>295,000</u>
General Obligation Revenue Notes					
2009 PFA Wastewater Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	<u>391,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	09/01/2030	382,773
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	10/01/2030	<u>150,949</u>
<b>Total Notes Payable</b>					<u>533,722</u>
<b>Business-type activities long-term debt</b>					<u>1,219,722</u>
<b>Total primary government long-term debt</b>					<u>2,009,722</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>\$5,489,970</u>

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

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

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

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

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

**NOTE 6 - LONG-TERM DEBT (CONTINUED)**

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

**Pledged Revenue**

Governmental Funds

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

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

Enterprise Funds

The City has pledged net revenues of the Water Treatment Enterprise Fund to pay principal and interest on the \$650,000 general obligation water revenue refunding bonds issued in 2009. Proceeds from these bonds were used to refund the \$650,000 general obligation water revenue bonds issued in 2002, which were used to update the water treatment plant. Principal and interest paid for the current year was \$69,000. At December 31, 2017, principal and interest to maturity in 2022 to be paid from pledged future revenues totaled \$331,400.

The City has pledged net revenues of the Wastewater Treatment Enterprise Fund to pay principal and interest on the \$599,250 general obligation revenue note issued in 2009. Proceeds from this note were used to update the wastewater treatment plant. Principal and interest paid for the current year was \$37,419. At December 31, 2017, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$450,505.

**EDA**

Component Unit

Mountain Iron EDA entered into a State loan agreement for the construction of a manufacturing facility on June 18, 2010. The loan settlement occurred on February 15, 2011. The maturity date of the \$3,600,000 loan is January 15, 2037. Mountain Iron EDA shall pay to the State by January 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 2013, Mountain Iron EDA received the final loan proceeds to be drawn from the loan for a total amount of \$3,546,664. At December 31, 2017, the principal balance outstanding totals \$3,480,248.

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

**NOTE 7 - INTERFUND BALANCES AND ACTIVITY**

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

Due to/from other funds:

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

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

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

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

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



**CITY OF MOUNTAIN IRON, MINNESOTA**

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

**NOTE 8 - FUND EQUITY**

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

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

**NOTE 9 - RISK MANAGEMENT**

The City and the Mountain Iron EDA are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. To cover these risks of loss, except for faithful performance of employee duties, the City and Mountain Iron EDA, as allowed under state statutes, joined the League of Minnesota Cities Insurance Trust, a public entity risk pool currently operating as a common risk management and insurance program for its member cities. The City and Mountain Iron EDA pay annual premiums to the Trust for insurance coverage and retain the risk for the deductible portions of the insurance. The League of Minnesota Cities Insurance Trust is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of the limits set by the Trustees. The City and Mountain Iron EDA carry commercial insurance for faithful performance of employee duties. There were no significant increases or reductions in insurance from the previous year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

# CITY OF MOUNTAIN IRON, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017

### NOTE 10 - TAX INCREMENT FINANCING DISTRICTS

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

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

### NOTE 11 - TAX ABATEMENTS

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

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

**NOTE 11 - TAX ABATEMENTS (CONTINUED)**

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

**NOTE 12 - OTHER COMMITMENTS AND CONTINGENCIES**

**Grants**

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2017, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Electric Utility Commitment**

The City entered into an agreement with Minnesota Power to supply the City with a portion of its total electric requirements. This agreement is in effect until December 31, 2019. Contract prices for this electric supply are adjusted throughout the contract period as set forth in the agreement.

The City of Mountain Iron, Minnesota exercised its right under a 1987 order by the Minnesota Public Utilities Commission, to service and maintain their territory, which the City of Virginia Department of Public Utilities had been servicing and maintaining. In exchange for the service territory, the City of Mountain Iron paid the City of Virginia Department of Public Utilities \$100,000 at December 31, 2002, and entered into a long-term contract for electric service from the City of Virginia Department of Public Utilities effective January 2, 2003. This agreement is in effect until December 31, 2020.

**Construction Projects**

The City had two outstanding construction projects as of December 31, 2017. The projects are evidenced by contractual commitments with contractors:

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



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

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

#### **NOTE 13 - JOINT VENTURES**

##### **Tri-Cities Biosolids Disposal Authority**

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

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

##### **Biosolids Disposal Authority**

The City is also a member in a joint authority agreement with the Cities of Eveleth, Gilbert, and Virginia for the operation of the Biosolids Disposal Site Authority, which owns and manages the Biosolids Site property. Each city appoints one member to the Biosolids Disposal Site Authority which oversees the operations.

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

Each member city contributes to the budget of the Authority based on the per capita reported in the 2010 Census. The City of Mountain Iron's contribution to the Authority's budget during 2017 was \$5,940. Complete financial information can be obtained from the Biosolids Disposal Site Authority, Eveleth, Minnesota 55734.

##### **Quad Cities Joint Recreational Authority**

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

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE 13 - JOINT VENTURES (CONTINUED)**

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

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

Upon retirement, the City provides most retirees a severance amount based on accumulated unused sick leave hours and rate of pay at the date of retirement, as established by contracts with bargaining units and other employment agreements. The agreements establish the terms for this severance amount, which may vary between bargaining units or employee groups. The City incurred \$33,239 of expenditures for this benefit in 2017.

All employees, who have accumulated sick leave days to their credit at the time of retirement or death, or at such time that they become totally permanently disabled, shall be credited with an amount of sick leave equivalent to the current value of their unused sick leave less the amount paid as outlined in the above paragraph. The monetary amount shall be placed in a separate and special fund for each such affected employee for the sole purpose of providing continuation of the retiree's, disabled employee's, or deceased employee's and their dependents' hospitalization and medical insurance coverage until each such employee's separate fund is exhausted. Severance activity for the year ended December 31, 2017 was as follows:

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

The City offers a Health Care Savings Plan (HCSP) to all eligible employees. HCSP is an employer-sponsored program that allows employees to save money, tax-free, to use upon termination of employment to pay for eligible health care expenses. Amounts to be put into the accounts must be negotiated or agreed to by both the bargaining unit and employer and written into the collective bargaining agreement or included in an individual contract for those employees not covered by a bargaining unit. Employer contributions into eligible employee's accounts were \$25,363 for the year ended December 31, 2017.

**CITY OF MOUNTAIN IRON, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2017**

**NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description**

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

**Funding Policy**

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

**Annual OPEB Cost and Net OPEB Obligation**

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

	12/31/17
Normal cost	\$ 87,135
Amortization of unfunded actuarial accrued liability	394,460
Interest to the end of the year	19,264
Annual required contribution	500,859
Interest on NOO	106,247
Adjustment to ARC	(153,607)
Annual OPEB cost (expense)	453,499
Contributions made including implicit rate subsidy	(389,459)
Increase in net OPEB obligation	64,040
Net OPEB obligation, beginning of year	2,656,184
Net OPEB obligation, end of year	<u>\$ 2,720,224</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, 2017 and the two preceding years were as follows:

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

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

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

**Funded Status and Funding Progress**

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

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

**Actuarial Methods and Assumptions**

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

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



**CITY OF MOUNTAIN IRON, MINNESOTA**

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

**NOTE 16 - DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

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

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

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

**Benefits Provided**

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

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.



**CITY OF MOUNTAIN IRON, MINNESOTA**

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

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

**B. Contributions**

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

General Employees Fund Contributions

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

**C. Pension Costs**

General Employees Fund Pension Costs

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

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

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

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

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

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

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

**D. Actuarial Assumptions**

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

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

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

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

The following changes in actuarial assumptions occurred in 2017:

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

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

**General Employees Fund**

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

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

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

**E. Discount Rate**

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

**F. Pension Liability Sensitivity**

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

NOTE 16 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

G. Pension Plan Fiduciary Net Position

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

NOTE 17 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT

Plan Description

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

Benefits Provided

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

Contributions

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



**CITY OF MOUNTAIN IRON, MINNESOTA**

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

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

**Pension Costs**

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

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

There were no benefit provision changes during the measurement period.

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

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

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

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



CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2017

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

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

**Actuarial Assumptions**

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

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

**Discount Rate**

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

**Pension Asset Sensitivity**

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

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

**Plan Investments**

**Investment Policy:**

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

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

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

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

**Asset Allocation:**

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

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

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

**Description of significant investment policy changes during the year:**

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

**Pension Plan Fiduciary Net Position**

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

**CITY OF MOUNTAIN IRON, MINNESOTA**

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

**NOTE 18 - DEFINED CONTRIBUTION PLAN**

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary which is matched by the elected official's employer. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives two percent of employer contributions and twenty-five hundredths of one percent (.0025) of the assets in each member's account annually.

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

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