

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

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

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

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

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

<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

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

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

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

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

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

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

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

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

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

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

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

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

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

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

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

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

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

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

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

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

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

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017**

NOTE 1 - BUDGETING

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

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

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

NOTE 2 - EXCESS OF EXPENDITURES OVER BUDGET

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

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

NOTE 3 - POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTIONS AND METHODS

2015 Changes

Changes from the prior valuation are as follows:

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

2012 Changes

Changes from the prior valuation are as follows:

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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2017**

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

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

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

2017 Changes

Changes in Actuarial Assumptions:

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

2016 Changes

Changes in Actuarial Assumptions:

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

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

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

REVENUES

TAXES

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

TOTAL TAXES

1,376,489

SPECIAL ASSESSMENTS

2,947

LICENSES AND PERMITS

14,009

INTERGOVERNMENTAL

State

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

TOTAL INTERGOVERNMENTAL

2,487,117

CHARGES FOR SERVICES

General government

Rent	13,844
Other reimbursements	106,784

Culture and recreation

Recreation fees	5,085
Campground fees	<u>69,757</u>

TOTAL CHARGES FOR SERVICES

195,470

FINES

Fines and forfeits

12,855

INVESTMENT INCOME

8,935

TOTAL REVENUES

4,097,822

CITY OF MOUNTAIN IRON, MINNESOTA

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

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

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

PUBLIC SAFETY

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

STREETS

883,836

CULTURE AND RECREATION

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

TOTAL EXPENDITURES

3,223,031

**EXCESS OF REVENUES OVER
EXPENDITURES**

874,791

OTHER FINANCING SOURCES (USES)

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

NET CHANGE IN FUND BALANCE

243,626

FUND BALANCE - JANUARY 1

2,552,836

FUND BALANCE - DECEMBER 31

\$ 2,796,462

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 14
Year Ended December 31, 2017**

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

CITY OF MOUNTAIN IRON, MINNESOTA

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

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



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council
City of Mountain Iron, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the remaining fund information of the City of Mountain Iron, Minnesota as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements, and have issued our report thereon dated June 4, 2018. Our report includes a reference to other auditors who audited the financial statements of Mountain Manor Apartments Enterprise Fund, as described in our report on the City of Mountain Iron, Minnesota's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a significant deficiency.

Compliance

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

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

Other Matters

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

City of Mountain Iron, Minnesota's Response to Findings

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

Purpose of this Report

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

Walker, Miray & Helme, LLC

Virginia, Minnesota

June 4, 2018

CITY OF MOUNTAIN IRON, MINNESOTA

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

Prior Audit Financial Statement Findings

FINDING 2016-001. SEGREGATION OF DUTIES

Summary of Condition

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

Summary of Corrective Action Previously Reported

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

Current Status

Ongoing.

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

Summary of Condition

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

Summary of Corrective Action Previously Reported

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

Current Status

Ongoing.

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

2017-001. SEGREGATION OF DUTIES

Criteria

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

Condition

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. The City Administrator will continue to monitor all transactions and the City's administration will structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

2017-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Criteria and Condition

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

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

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

Views of Responsible Officials and Planned Corrective Action

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

REPRESENTATION OF THE CITY OF MOUNTAIN IRON, MINNESOTA

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

Finding Number: 2017-001

Finding Title: SEGREGATION OF DUTIES

Name of Contact Person Responsible for Corrective Action

Craig J. Wainio, City Administrator

Corrective Action Planned

Management will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.

Anticipated Completion Date

Ongoing.

Finding Number: 2017-002

Finding Title: LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Name of Contact Person Responsible for Corrective Action

Craig J. Wainio, City Administrator

Corrective Action Planned

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

Anticipated Completion Date

Ongoing.



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MANAGEMENT LETTER

To the City Council
City of Mountain Iron, Minnesota

In planning and performing our audit of the financial statements of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Mountain Iron, Minnesota's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

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

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

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

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

Walker, Miray & Helne, LLC

Virginia, Minnesota
June 4, 2018