

CITY OF MOUNTAIN IRON, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

CITY OF MOUNTAIN IRON, MINNESOTA

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CITY OF MOUNTAIN IRON, MINNESOTA

**ORGANIZATION
December 31, 2022**

CITY COUNCIL

Mayor

Peggy Anderson

Council Members

Julie Buria
Joe Prebeg, Jr.
Ed Roskoski
Steve Skogman
(resigned March 21, 2022)

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 Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Mountain Iron, Minnesota, as of and for the year ended December 31, 2022, 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.

In our opinion, based on our audit and the report of the other auditors, the accompanying 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, and each major fund of the City of Mountain Iron, Minnesota, as of December 31, 2022, 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.

We did not audit the financial statements of Mountain Manor Apartments Enterprise Fund, which represent five percent, five percent, and six percent, respectively, of the assets, net position, and revenues of the business-type activities as of December 31, 2022, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Mountain Iron, Minnesota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective January 1, 2022, the City adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability and lessors to recognize a lease receivable and corresponding deferred inflow of resources for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Mountain Iron, Minnesota's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 City of Mountain Iron, Minnesota's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the City of Mountain Iron, Minnesota's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 changes in City's net other postemployment benefits (OPEB) liability and related ratios, 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 contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Supplementary 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 Districts No. 14, No. 15, and No. 16 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the individual fund financial statement and schedules of sources and uses of public funds for Mountain Iron Tax Increment Districts No. 14, No. 15, and No. 16 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2023 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 provision 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 City of Mountain Iron, Minnesota's internal control over financial reporting and compliance.

Walker, Giroux & Helne, LLC

Virginia, Minnesota
June 28, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2022

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, 2022. 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 \$3,909,735 of which \$8,880,823 represents net investment in capital assets.
- Business-type activities have total net position of \$3,380,407. Net investment in capital assets represents \$8,630,183 of the total.
- The Mountain Iron Economic Development Authority (EDA) has total net position of \$9,206,110, of which \$8,801,709 represents net investment in capital assets.
- The City of Mountain Iron's primary government's net position decreased by \$346,001 for the year ended December 31, 2022. Of the change, \$307,652 was a decrease in the governmental activities' net position and \$38,349 represented a decrease in business-type activities' net position.
- The EDA's net position increased by \$4,026,939.
- The net cost of governmental activities was \$4,147,536 for the current fiscal year. The net cost was funded by general revenues totaling \$3,839,884.
- Governmental funds' fund balances increased by \$188,849.

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 and deferred outflows of resources, and 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

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2022

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

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

- Governmental activities—Most of the City's basic services are reported here, including general government, public safety, streets, and culture and recreation. 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 utility, 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, 2022

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 changes in the City's net OPEB liability and related ratios, 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 \$7,290,142, a decrease from the prior year.

**Table 1
Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 6,109,094	\$ 5,824,981	\$ 302,342	\$ 169,751	\$ 6,411,436	\$ 5,994,732
Capital assets	<u>9,300,426</u>	<u>9,879,448</u>	<u>10,984,286</u>	<u>11,030,612</u>	<u>20,284,712</u>	<u>20,910,060</u>
Total assets	<u>15,409,520</u>	<u>15,704,429</u>	<u>11,286,628</u>	<u>11,200,363</u>	<u>26,696,148</u>	<u>26,904,792</u>
Deferred outflows of resources	<u>1,859,132</u>	<u>1,944,192</u>	<u>893,648</u>	<u>1,001,554</u>	<u>2,752,780</u>	<u>2,945,746</u>
Long-term liabilities	11,240,329	11,184,427	7,666,453	7,451,156	18,906,782	18,635,583
Other liabilities	<u>602,889</u>	<u>434,882</u>	<u>404,245</u>	<u>440,491</u>	<u>1,007,134</u>	<u>875,373</u>
Total liabilities	<u>11,843,218</u>	<u>11,619,309</u>	<u>8,070,698</u>	<u>7,891,647</u>	<u>19,913,916</u>	<u>19,510,956</u>
Deferred inflows of resources	<u>1,515,699</u>	<u>1,811,925</u>	<u>729,171</u>	<u>891,514</u>	<u>2,244,870</u>	<u>2,703,439</u>
Net position						
Net investment in capital assets	8,880,823	9,349,525	8,630,183	9,025,181	17,511,006	18,374,706
Restricted	1,556,885	1,565,537	262,466	250,296	1,819,351	1,815,833
Unrestricted	<u>(6,527,973)</u>	<u>(6,697,675)</u>	<u>(5,512,242)</u>	<u>(5,856,721)</u>	<u>(12,040,215)</u>	<u>(12,554,396)</u>
Total net position	<u>\$ 3,909,735</u>	<u>\$ 4,217,387</u>	<u>\$ 3,380,407</u>	<u>\$ 3,418,756</u>	<u>\$ 7,290,142</u>	<u>\$ 7,636,143</u>

Net position of the City's governmental activities decreased by 7.3 percent (\$3,909,735 compared to \$4,217,387). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from a \$6,697,675 deficit at December 31, 2021 to a \$6,527,973 deficit at the end of this year.

Net position of the City's business-type activities decreased by 1.1 percent (\$3,380,407 compared to \$3,418,756).

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2022

**Table 2
Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 543,919	\$ 332,406	\$ 4,522,602	\$ 4,730,474	\$ 5,066,521	\$ 5,062,880
Operating grants and contributions	25,009	27,107	-	-	25,009	27,107
Capital grants and contributions	116,707	48,567	-	554,853	116,707	603,420
General revenues:						
Property and other taxes	1,463,106	1,356,311	-	-	1,463,106	1,356,311
Grants and contributions not restricted to specific programs	2,373,287	2,508,449	-	-	2,373,287	2,508,449
Other general revenues	<u>3,491</u>	<u>(197)</u>	<u>1,380</u>	<u>878</u>	<u>4,871</u>	<u>681</u>
Total revenues	<u>4,525,519</u>	<u>4,272,643</u>	<u>4,523,982</u>	<u>5,286,205</u>	<u>9,049,501</u>	<u>9,558,848</u>
Program expenses:						
General government	1,667,228	1,362,178	-	-	1,667,228	1,362,178
Public safety	890,676	757,861	-	-	890,676	757,861
Streets	1,524,502	1,375,028	-	-	1,524,502	1,375,028
Culture and recreation	737,134	648,055	-	-	737,134	648,055
Interest	13,631	17,276	-	-	13,631	17,276
Electric utility	-	-	2,724,905	3,073,651	2,724,905	3,073,651
Water treatment	-	-	600,236	412,973	600,236	412,973
Wastewater treatment	-	-	207,226	591,228	207,226	591,228
Refuse removal and recycling	-	-	648,852	625,868	648,852	625,868
Mountain Manor Apartments	-	-	381,112	276,466	381,112	276,466
Total program expenses	<u>4,833,171</u>	<u>4,160,398</u>	<u>4,562,331</u>	<u>4,980,186</u>	<u>9,395,502</u>	<u>9,140,584</u>
Increase (decrease) in net position	(307,652)	112,245	(38,349)	306,019	(346,001)	418,264
Net position, January 1	<u>4,217,387</u>	<u>4,105,142</u>	<u>3,418,756</u>	<u>3,112,737</u>	<u>7,636,143</u>	<u>7,217,879</u>
Net position, December 31	<u>\$ 3,909,735</u>	<u>\$ 4,217,387</u>	<u>\$ 3,380,407</u>	<u>\$ 3,418,756</u>	<u>\$ 7,290,142</u>	<u>\$ 7,636,143</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, 3% of revenues, include grants for major projects or purchases of equipment. Operating grants and contributions, 1% of revenues, include grants that help fund operating expenses. Property taxes and other taxes amount to \$1,463,106, 32% of revenues.

General government expense (35%) and streets expense (32%) are the most significant, followed by public safety expense (18%) and culture and recreation expense (15%).

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2022

Governmental revenues during 2022 were \$4,525,519 compared to \$4,272,643 in the prior year, which is an increase of \$252,876. Our taxpayers paid \$1,463,106 in property and other taxes during the current year, which is an increase of \$106,795.

The cost of all governmental activities this year was \$4,147,536 compared to \$3,752,318 last year. Governmental expenses increased \$672,773 in the current year. The most significant increase occurred in the City's general government expenses.

Business-Type Activities

Revenues of the City's business-type activities were \$4,523,982 and expenses were \$4,562,331 (see Table 2). There was a decrease in net position of \$38,349 during the year ended December 31, 2022, which compares to an increase in net position of \$306,019 for the year ended December 31, 2021. Factors driving this result include:

- Operations produced an operating loss of \$63,491 for the year ended December 31, 2022. The water treatment enterprise fund recorded the most significant operating loss of \$222,576. The electric utility enterprise fund, refuse removal and recycling enterprise fund, and Mountain Manor Apartments enterprise fund each recorded operating losses of \$310, \$56,293, and \$72,245 respectively. The wastewater treatment enterprise fund recorded operating income of \$287,933.

Mountain Iron EDA Component Unit Activity

The Mountain Iron EDA had an increase in net position of \$4,026,939 for the year ended December 31, 2022. Net program revenues over expenses were \$3,955,252, primarily due to capital grants received for the Heliene Warehouse and Production Facility Phase I project. General tax revenues, interest earnings, miscellaneous revenues, and transfers from primary government were \$71,687.

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, 2022, the City's governmental funds reported total ending fund balances of \$5,118,573, an increase of \$188,849 in comparison with the prior year. The restricted fund balance of \$1,410,079 is considered unavailable for appropriation for general operations. Assigned fund balance, which is intended to be used for cash flow, insurance, and buildings, made up 74% or \$3,810,011 of the total ending fund balance. More detailed information about the City's fund balances is presented in Note 9 to the financial statements.

At the end of the year, the general fund reported a fund balance of \$3,805,305, increasing \$247,613 from the prior year. General fund revenues were \$192,196 more than the prior year's and expenditures increased by \$238,735. During the current year, the general fund transfers to other funds were \$426,704, which were more than the prior year's transfers out of \$417,014.

The debt service fund recorded a decrease in fund balance of \$49,067 compared to a decrease in fund balance of \$45,187 last year. Special assessment revenue was recorded in the amount of \$26,292. Other financing sources included a \$50,000 transfer from the general fund for debt principal and interest payments.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2022

The city projects capital projects fund recorded a decrease in fund balance of \$10,416, resulting in an unassigned fund balance of \$(101,517). Other financing sources included transfers of \$376,704 from the general fund for capital projects.

Proprietary Funds

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

The electric utility enterprise fund accounts for the electric operations of the City. In 2022, operating revenues decreased by \$171,016 compared to the prior year. Operating expenses decreased by \$348,746. The electric operations produced an operating loss of \$310 in 2022, compared to an operating loss of \$178,040 the prior year. The results of these transactions and nonoperating revenues and expenses was an increase of \$30,652 in net position in the current year.

The water treatment enterprise fund accounts for the water operations of the City. In 2022, operating revenues decreased by \$18,953 compared to the prior year. Operating expenses increased by \$188,118. In 2022, an operating loss of \$222,576 was recorded compared to an operating loss of \$15,505 in the prior year. Interest expense charged to the water operations was \$24,802. These transactions resulted in a decrease of \$247,051 in net position in the current year.

The wastewater treatment enterprise fund accounts for the wastewater treatment operations of the City. In 2022, operating revenues decreased by \$22,639 compared to the prior year. Operating expenses decreased by \$382,985. In 2022, operating income of \$287,933 was recorded compared to an operating loss of \$72,413 in the prior year. These transactions and nonoperating revenues and expenses resulted in an increase of \$282,308 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 2022, operating revenues decreased \$21,981 compared to the prior year. Operating expenses increased by \$22,983. In 2022, an operating loss of \$56,293 was recorded compared to an operating loss of \$11,329 in the prior year. The results of these transactions and nonoperating revenues and expenses was a decrease of \$55,423 in net position in the current year.

The Mountain Manor Apartments enterprise fund accounts for the operations of the Mountain Manor Apartments. In 2022, operating revenues decreased by \$13,887 compared to the prior year. Operating expenses increased by \$109,122 compared to the prior year. In 2022, an operating loss of \$72,245 was recorded compared to operating income of \$50,764 in the prior year. Interest expense charged to the Mountain Manor Apartments operations was \$42,422. These transactions and other nonoperating revenues and expenses resulted in a decrease of \$48,835 in net position in the current year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not revise the general fund budget. The actual expenditures were \$111,287 over the final budget amounts. The largest negative variance in the amount of (\$123,807) occurred in the streets department. Resources available for appropriation were above the final budgeted amounts. The City received more licenses and permits and charges for services than expected.

CITY OF MOUNTAIN IRON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2022, the City's primary government had \$20,284,712 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 decrease (including additions and deductions) of \$625,348 from last year. The Mountain Iron Economic Development Authority component unit had \$17,287,574 invested in capital assets, which consisted of land, construction in progress, and buildings.

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

	Governmental Activities		Business-type Activities		Totals	
	2022	2021	2022	2021	2022	2021
Land	\$ 409,300	\$ 409,300	\$ 26,370	\$ 26,370	\$ 435,670	\$ 435,670
Construction in progress	132,715	37,927	1,201,578	2,028,796	1,334,293	2,066,723
Land improvements	605,521	671,046	21,472	12,437	626,993	683,483
Buildings	1,938,436	2,018,123	3,612,975	3,763,085	5,551,411	5,781,208
Infrastructure	4,916,192	5,289,243	5,800,273	4,779,653	10,716,465	10,068,896
Machinery and equipment	448,666	533,790	73,680	90,852	522,346	624,642
Licensed vehicles	849,596	920,019	247,938	329,419	1,097,534	1,249,438
Totals	\$ 9,300,426	\$ 9,879,448	\$ 10,984,286	\$ 11,030,612	\$ 20,284,712	\$ 20,910,060
Component Unit - EDA						
Land	\$ 2,461,456	\$ 2,461,456	\$ -	\$ -	\$ 2,461,456	\$ 2,461,456
Construction in progress	11,810,239	2,530,589	-	-	11,810,239	2,530,589
Buildings	3,015,879	3,089,986	-	-	3,015,879	3,089,986
Totals	\$ 17,287,574	\$ 8,082,031	\$ -	\$ -	\$ 17,287,574	\$ 8,082,031

This year's major additions included costs on the Parkville Bike Trail Interconnect project, Municipal Well and Water Filtration System project costs, and installation of inventoried electric meters.

More detailed information about the City's capital assets is presented in Note 6 to the financial statements.

Debt

At year-end, the City had \$2,773,706 in long-term debt outstanding for the primary government versus \$2,535,355 last year—as shown in Table 4. The Mountain Iron EDA component unit had \$8,485,865 in long-term debt outstanding, an increase of \$5,101,017.

CITY OF MOUNTAIN IRON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2022

Table 4
Outstanding Debt, at Year-end

	Governmental Activities		Business-type Activities		Totals	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
GO refunding bonds	\$ 280,000	\$ 325,000	\$ -	\$ -	\$ 280,000	\$ 325,000
Lease purchase	139,603	204,924	-	-	139,603	204,924
Water revenue refunding bonds	-	-	-	65,000	-	65,000
Water GO revenue bonds	-	-	1,175,000	1,225,000	1,175,000	1,225,000
Wastewater GO revenue notes	-	-	767,000	272,000	767,000	272,000
Notes payable	-	-	412,103	443,431	412,103	443,431
Total	<u>\$ 419,603</u>	<u>\$ 529,924</u>	<u>\$ 2,354,103</u>	<u>\$ 2,005,431</u>	<u>\$ 2,773,706</u>	<u>\$ 2,535,355</u>

Component Unit - EDA

State loan \$ 8,485,865 \$ 3,384,848

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 7 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 2023 budget, tax rates, and fees that will be charged for the business-type activities.

- City General Fund expenditures increased 2.6% over 2022.
- City property taxes will increase 3% in 2023.
- The City's 2023 capital budget calls for it to spend another \$1,328,000.

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
December 31, 2022

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
ASSETS				
Cash and cash equivalents	\$ 1,376,958	\$ 891,907	\$ 2,268,865	\$ 295,440
Investments	1,971,932	214,981	2,186,913	-
Taxes receivable	21,705	-	21,705	-
Special assessments receivable	146,806	-	146,806	-
Accounts receivable	8,191	835,664	843,855	37,376
Grants receivable	50,000	-	50,000	-
Internal balances	2,288,547	(2,288,547)	-	-
Due from component unit	7,987	-	7,987	-
Due from other governments	-	-	-	59,000
Due from primary government	-	-	-	42,999
Land sale receivable	-	-	-	10,000
Loans receivable	-	-	-	25,208
Lease receivable	-	-	-	5,218,696
Inventories	-	384,098	384,098	-
Prepaid items	-	1,773	1,773	-
Net pension asset	236,968	-	236,968	-
Restricted assets:				
Temporarily restricted cash and cash equivalents	-	262,466	262,466	-
Capital assets not being depreciated:				
Land	409,300	26,370	435,670	2,461,456
Construction in progress	132,715	1,201,578	1,334,293	11,810,239
Capital assets net of accumulated depreciation:				
Land improvements	605,521	21,472	626,993	-
Buildings	1,938,436	3,612,975	5,551,411	3,015,879
Infrastructure	4,916,192	5,800,273	10,716,465	-
Machinery and equipment	448,666	73,680	522,346	-
Licensed vehicles	849,596	247,938	1,097,534	-
TOTAL ASSETS	15,409,520	11,286,628	26,696,148	22,976,293
DEFERRED OUTFLOWS OF RESOURCES				
Related to other postemployment benefits	1,413,499	696,201	2,109,700	-
Related to pensions	445,633	197,447	643,080	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,859,132	893,648	2,752,780	-
LIABILITIES				
Accounts payable	326,309	273,489	599,798	10,044
Salaries payable	63,939	21,377	85,316	-
Accrued interest payable	7,239	12,756	19,995	-
Due to primary government	-	-	-	7,987
Due to component unit	42,999	-	42,999	-
Due to other governments	-	-	-	42,591
Customer deposits	7,550	96,623	104,173	-
Unearned revenues	154,853	-	154,853	5,000
Noncurrent liabilities:				
Due within one year				
Bonds, loans, notes payable and financed purchases	108,264	145,986	254,250	-
Due in more than one year				
Bonds, loans, notes payable and financed purchases	311,339	2,208,117	2,519,456	8,485,865
Other postemployment benefits	9,594,082	4,725,444	14,319,526	-
Severance payable	118,473	16,030	134,503	-
PERA net pension liability	1,108,171	570,876	1,679,047	-
TOTAL LIABILITIES	11,843,218	8,070,698	19,913,916	8,551,487
DEFERRED INFLOWS OF RESOURCES				
Related to other postemployment benefits	1,420,560	699,679	2,120,239	-
Related to pensions	95,139	29,492	124,631	-
Related to leases	-	-	-	5,218,696
TOTAL DEFERRED INFLOWS OF RESOURCES	1,515,699	729,171	2,244,870	5,218,696
NET POSITION				
Net investment in capital assets	8,880,823	8,630,183	17,511,006	8,801,709
Restricted for:				
Debt service	1,556,885	262,466	1,819,351	381,650
Unrestricted	(6,527,973)	(5,512,242)	(12,040,215)	22,751
TOTAL NET POSITION	\$ 3,909,735	\$ 3,380,407	\$ 7,290,142	\$ 9,206,110

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

<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	\$ 1,667,228	\$ 390,563	\$ 7,586
Public safety	890,676	48,357	17,423
Streets	1,524,502	-	-
Culture and recreation	737,134	104,999	-
Interest on long-term debt	13,631	-	-
Total Governmental Activities	<u>4,833,171</u>	<u>543,919</u>	<u>25,009</u>
Business-type Activities			
Electric utility	2,724,905	2,755,557	-
Water treatment	600,236	353,153	-
Wastewater treatment	207,226	489,244	-
Refuse removal and recycling	648,852	593,150	-
Mountain Manor Apartments	381,112	331,498	-
Total Business-type Activities	<u>4,562,331</u>	<u>4,522,602</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 9,395,502</u>	<u>\$ 5,066,521</u>	<u>\$ 25,009</u>
COMPONENT UNIT			
EDA	<u>\$ 306,203</u>	<u>\$ 292,044</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

Total General Revenues

CHANGE IN NET POSITION

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

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

Net (Expense) Revenue and Changes in Net Position				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	EDA
\$ 116,707	\$ (1,152,372)	\$ -	\$ (1,152,372)	
-	(824,896)	-	(824,896)	
-	(1,524,502)	-	(1,524,502)	
-	(632,135)	-	(632,135)	
-	(13,631)	-	(13,631)	
<u>116,707</u>	<u>(4,147,536)</u>	<u>-</u>	<u>(4,147,536)</u>	
-	-	30,652	30,652	
-	-	(247,083)	(247,083)	
-	-	282,018	282,018	
-	-	(55,702)	(55,702)	
-	-	(49,614)	(49,614)	
-	-	(39,729)	(39,729)	
<u>\$ 116,707</u>	<u>(4,147,536)</u>	<u>(39,729)</u>	<u>(4,187,265)</u>	
<u>\$ 3,969,411</u>				<u>\$ 3,955,252</u>
	1,370,065	-	1,370,065	45,343
	-	-	-	25,929
	27,489	-	27,489	-
	65,552	-	65,552	-
	2,373,287	-	2,373,287	-
	3,491	1,380	4,871	415
	<u>3,839,884</u>	<u>1,380</u>	<u>3,841,264</u>	<u>71,687</u>
	(307,652)	(38,349)	(346,001)	4,026,939
	<u>4,217,387</u>	<u>3,418,756</u>	<u>7,636,143</u>	<u>5,179,171</u>
	<u>\$ 3,909,735</u>	<u>\$ 3,380,407</u>	<u>\$ 7,290,142</u>	<u>\$ 9,206,110</u>

CITY OF MOUNTAIN IRON, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2022

	General Fund	Debt Service Fund	City Projects Capital Projects Fund	Charitable Gambling Special Revenue Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 569,634	\$ 802,618	\$ -	\$ 4,706	\$ 1,376,958
Investments	1,364,471	607,461	-	-	1,971,932
Taxes receivable	21,705	-	-	-	21,705
Special assessments receivable	-	146,806	-	-	146,806
Accounts receivable	8,191	-	-	-	8,191
Grants receivable	-	-	50,000	-	50,000
Due from other funds	2,416,599	-	-	-	2,416,599
Due from component unit	7,987	-	-	-	7,987
TOTAL ASSETS	\$ 4,388,587	\$ 1,556,885	\$ 50,000	\$ 4,706	\$ 6,000,178
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 302,844	\$ -	\$ 23,465	\$ -	\$ 326,309
Salaries payable	63,939	-	-	-	63,939
Due to other funds	-	-	128,052	-	128,052
Due to component unit	42,999	-	-	-	42,999
Customer deposits	7,550	-	-	-	7,550
Unearned revenue	154,853	-	-	-	154,853
TOTAL LIABILITIES	572,185	-	151,517	-	723,702
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	11,097	-	-	-	11,097
Unavailable revenue - special assessments	-	146,806	-	-	146,806
TOTAL DEFERRED INFLOWS OF RESOURCES	11,097	146,806	-	-	157,903
FUND BALANCES					
Restricted	-	1,410,079	-	-	1,410,079
Assigned	3,805,305	-	-	4,706	3,810,011
Unassigned	-	-	(101,517)	-	(101,517)
TOTAL FUND BALANCES	3,805,305	1,410,079	(101,517)	4,706	5,118,573
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 4,388,587	\$ 1,556,885	\$ 50,000	\$ 4,706	\$ 6,000,178

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

CITY OF MOUNTAIN IRON, MINNESOTA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
December 31, 2022**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$	5,118,573
Net pension asset used in governmental activities is not a current financial resource and, therefore, is not reported in the governmental funds.		236,968
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		9,300,426
Deferred inflows of resources in governmental funds are susceptible to full accrual on the government-wide statements.		157,903
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.		(7,239)
Long-term liabilities, including bonds, loans, notes payable, financed purchases, other postemployment benefits, severance payable and net pension liability, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(11,240,329)
Deferred outflows and inflows of resources related to other post employment benefits and pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		
Deferred outflows of resources related to OPEB and pensions.	1,859,132	
Deferred inflows of resources related to OPEB and pensions.	<u>(1,515,699)</u>	
		<u>343,433</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>3,909,735</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended December 31, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Charitable Gambling Special Revenue Fund</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 1,460,936	\$ -	\$ -	\$ -	\$ 1,460,936
Special assessments	2,947	26,292	-	-	29,239
Licenses and permits	40,605	-	-	-	40,605
Intergovernmental	2,372,604	-	50,000	-	2,422,604
Charges for services	505,971	-	-	-	505,971
Fines	7,917	-	-	-	7,917
Gifts and contributions	-	-	-	2,714	2,714
Interest earnings	14,330	6,505	6	5	20,846
Loss on change in market value of investments	(11,956)	(5,399)	-	-	(17,355)
TOTAL REVENUES	<u>4,393,354</u>	<u>27,398</u>	<u>50,006</u>	<u>2,719</u>	<u>4,473,477</u>
EXPENDITURES					
Current					
General government	1,323,676	-	261,340	2,000	1,587,016
Public safety	779,719	-	54,105	-	833,824
Streets	988,807	-	-	-	988,807
Culture and recreation	626,835	-	18,776	-	645,611
Debt Service					
Principal	-	110,321	-	-	110,321
Interest and other charges	-	16,144	-	-	16,144
Capital Outlay					
General government	-	-	16,385	-	16,385
Culture and recreation	-	-	86,520	-	86,520
TOTAL EXPENDITURES	<u>3,719,037</u>	<u>126,465</u>	<u>437,126</u>	<u>2,000</u>	<u>4,284,628</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>674,317</u>	<u>(99,067)</u>	<u>(387,120)</u>	<u>719</u>	<u>188,849</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	50,000	376,704	-	426,704
Transfers out	(426,704)	-	-	-	(426,704)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(426,704)</u>	<u>50,000</u>	<u>376,704</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	247,613	(49,067)	(10,416)	719	188,849
FUND BALANCES - JANUARY 1	<u>3,557,692</u>	<u>1,459,146</u>	<u>(91,101)</u>	<u>3,987</u>	<u>4,929,724</u>
FUND BALANCES - DECEMBER 31	<u>\$ 3,805,305</u>	<u>\$ 1,410,079</u>	<u>\$ (101,517)</u>	<u>\$ 4,706</u>	<u>\$ 5,118,573</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2022

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 188,849
<p>Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.</p>		
Expenditures for capital assets	102,905	
Less current year depreciation	<u>(681,927)</u>	
Net capital assets		(579,022)
<p>Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.</p>		
Change in unavailable revenue - delinquent property taxes	2,852	
Change in unavailable revenue - special assessments	<u>26,894</u>	
Net change		29,746
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		110,321
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in accrued interest payable on long-term debt	2,512	
Change in severance payable	(4,433)	
Change in other postemployment benefits payable and related deferred inflows and outflows	479	
Change in net pension liability, change in net pension asset, and related deferred inflows and outflows	<u>(56,104)</u>	
Net change		<u>(57,546)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (307,652)</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 December 31, 2022

Business-type Activities - Enterprise Funds

	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 100	\$ -	\$ 570,858	\$ 306,488	\$ 14,461	\$ 891,907
Investments	3,495	21,212	64,026	126,248	-	214,981
Accounts receivable	601,539	57,982	76,146	86,692	13,305	835,664
Inventories	268,073	116,025	-	-	-	384,098
Prepaid items	-	-	-	-	1,773	1,773
TOTAL CURRENT ASSETS	873,207	195,219	711,030	519,428	29,539	2,328,423
NONCURRENT ASSETS						
Restricted cash and cash equivalents						
Reserve account	-	-	-	-	236,609	236,609
Escrow deposits	-	-	-	-	16,500	16,500
Tenant security deposits	-	-	-	-	9,357	9,357
Total restricted cash and cash equivalents	-	-	-	-	262,466	262,466
Capital assets						
Land	18,034	-	-	-	8,336	26,370
Construction in progress	-	1,201,578	-	-	-	1,201,578
Land improvements	28,565	-	-	-	-	28,565
Buildings	741,987	3,286,139	2,718,281	12,761	1,721,265	8,480,433
Infrastructure	993,358	5,976,927	5,621,788	-	-	12,592,073
Machinery and equipment	-	19,979	368,101	-	361,692	749,772
Licensed vehicles	522,859	-	20,546	644,733	-	1,188,138
Less accumulated depreciation	(1,455,288)	(4,059,650)	(5,515,383)	(499,597)	(1,752,725)	(13,282,643)
Total capital assets (net of accumulated depreciation)	849,515	6,424,973	3,213,333	157,897	338,568	10,984,286
TOTAL NONCURRENT ASSETS	849,515	6,424,973	3,213,333	157,897	601,034	11,246,752
TOTAL ASSETS	1,722,722	6,620,192	3,924,363	677,325	630,573	13,575,175
DEFERRED OUTFLOWS OF RESOURCES						
Related to other postemployment benefits	295,358	105,485	105,485	189,873	-	696,201
Related to pensions	87,109	23,229	40,651	46,458	-	197,447
TOTAL DEFERRED OUTFLOWS OF RESOURCES	382,467	128,714	146,136	236,331	-	893,648
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	197,066	5,703	9,526	37,541	23,653	273,489
Salaries payable	14,190	-	7,187	-	-	21,377
Accrued interest payable	-	10,065	1,806	-	885	12,756
Due to other funds	1,097,693	1,190,854	-	-	-	2,288,547
Customer deposits payable	83,696	1,984	-	-	10,943	96,623
Bonds and notes payable - current	-	80,000	32,000	-	33,986	145,986
TOTAL CURRENT LIABILITIES	1,392,645	1,288,606	50,519	37,541	69,467	2,838,778
NONCURRENT LIABILITIES						
Bonds and notes payable	-	1,621,000	209,000	-	378,117	2,208,117
Other postemployment benefit obligation	2,004,734	715,976	715,976	1,288,758	-	4,725,444
Severance payable	16,030	-	-	-	-	16,030
PERA net pension liability	251,857	67,162	117,534	134,323	-	570,876
TOTAL NONCURRENT LIABILITIES	2,272,621	2,404,138	1,042,510	1,423,081	378,117	7,520,467
TOTAL LIABILITIES	3,665,266	3,692,744	1,093,029	1,460,622	447,584	10,359,245
DEFERRED INFLOWS OF RESOURCES						
Related to other postemployment benefits	296,833	106,012	106,012	190,822	-	699,679
Related to pensions	13,011	3,470	6,072	6,939	-	29,492
TOTAL DEFERRED INFLOWS OF RESOURCES	309,844	109,482	112,084	197,761	-	729,171
NET POSITION						
Net investment in capital assets	849,515	4,723,973	2,972,333	157,897	(73,535)	8,630,183
Restricted for debt service	-	-	-	-	262,466	262,466
Unrestricted	(2,719,436)	(1,777,293)	(106,947)	(902,624)	(5,942)	(5,512,242)
TOTAL NET POSITION	\$ (1,869,921)	\$ 2,946,680	\$ 2,865,386	\$ (744,727)	\$ 182,989	\$ 3,380,407

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 Year Ended December 31, 2022

Business-type Activities - Enterprise Funds

	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
REVENUES						
Charges for sales and services	\$ 2,724,595	\$ 352,858	\$ 488,727	\$ 592,559	\$ 266,445	\$ 4,425,184
OPERATING EXPENSES						
Cost of sales	1,810,719	-	-	-	-	1,810,719
Salaries	246,216	67,603	129,384	89,400	-	532,603
Employee benefits	394,784	201,471	(321,834)	125,717	-	400,138
Contract services	-	-	32,394	-	81,213	113,607
Insurance	19,812	5,825	7,812	18,140	32,386	83,975
Miscellaneous	95,881	48,851	47,647	33,540	33,032	258,951
Repairs and maintenance	68,849	54,273	33,700	60,155	127,938	344,915
Solid waste management and tipping fees	-	-	-	230,772	-	230,772
Supplies	15,365	5,383	22,870	32,669	-	76,287
Telephone	5,342	146	2,509	1,046	-	9,043
Utilities	-	36,847	70,377	-	27,236	134,460
Depreciation	67,937	155,035	175,935	57,413	36,885	493,205
TOTAL OPERATING EXPENSES	<u>2,724,905</u>	<u>575,434</u>	<u>200,794</u>	<u>648,852</u>	<u>338,690</u>	<u>4,488,675</u>
OPERATING INCOME (LOSS)	<u>(310)</u>	<u>(222,576)</u>	<u>287,933</u>	<u>(56,293)</u>	<u>(72,245)</u>	<u>(63,491)</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	-	225	869	1,435	779	3,308
Interest subsidy	-	-	-	-	45,044	45,044
Miscellaneous income	30,962	295	517	591	20,009	52,374
Loss on change in market value of investments	-	(193)	(579)	(1,156)	-	(1,928)
Interest expense	-	(24,802)	(5,883)	-	(42,422)	(73,107)
Decommission Nichols Pond	-	-	(549)	-	-	(549)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>30,962</u>	<u>(24,475)</u>	<u>(5,625)</u>	<u>870</u>	<u>23,410</u>	<u>25,142</u>
CHANGE IN NET POSITION	30,652	(247,051)	282,308	(55,423)	(48,835)	(38,349)
TOTAL NET POSITION - JANUARY 1	<u>(1,900,573)</u>	<u>3,193,731</u>	<u>2,583,078</u>	<u>(689,304)</u>	<u>231,824</u>	<u>3,418,756</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ (1,869,921)</u>	<u>\$ 2,946,680</u>	<u>\$ 2,865,386</u>	<u>\$ (744,727)</u>	<u>\$ 182,989</u>	<u>\$ 3,380,407</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 Year Ended December 31, 2022

	Business-type Activities - Enterprise Funds					
	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash received from customers	\$ 2,639,737	\$ 357,308	\$ 492,787	\$ 581,205	\$ 230,591	\$ 4,301,628
Cash paid to suppliers	(2,351,514)	(227,315)	(335,095)	(491,112)	(267,869)	(3,672,905)
Cash paid to employees	(250,087)	(67,603)	(127,484)	(89,400)	-	(534,574)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>38,136</u>	<u>62,390</u>	<u>30,208</u>	<u>693</u>	<u>(37,278)</u>	<u>94,149</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Interfund financing of cash deficit	(10,422)	(499,438)	575,000	300,115	-	365,255
Interest subsidy	-	-	-	-	45,044	45,044
Miscellaneous income	30,962	295	517	591	20,009	52,374
Decommission Nichols Pond	-	-	(549)	-	-	(549)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>20,540</u>	<u>(499,143)</u>	<u>574,968</u>	<u>300,706</u>	<u>65,053</u>	<u>462,124</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase or construction of capital assets	(58,676)	(351,175)	-	-	(37,026)	(446,877)
Principal paid on long-term debt	-	(124,973)	(31,000)	-	(31,328)	(187,301)
Interest paid on long-term debt	-	(23,297)	(6,115)	-	(42,422)	(71,834)
Capital grants	-	400,000	-	-	-	400,000
Proceeds from MPFA revenue note	-	535,973	-	-	-	535,973
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(58,676)</u>	<u>436,528</u>	<u>(37,115)</u>	<u>-</u>	<u>(110,776)</u>	<u>229,961</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest and dividends received	-	225	869	1,435	779	3,308
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>-</u>	<u>-</u>	<u>568,930</u>	<u>302,834</u>	<u>(82,222)</u>	<u>789,542</u>
CASH AND CASH EQUIVALENTS, JANUARY 1 (including \$250,296 in restricted accounts)						
	<u>100</u>	<u>-</u>	<u>1,928</u>	<u>3,654</u>	<u>359,149</u>	<u>364,831</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31 (including \$262,466 in restricted accounts)						
	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 570,858</u>	<u>\$ 306,488</u>	<u>\$ 276,927</u>	<u>\$ 1,154,373</u>

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

CITY OF MOUNTAIN IRON, MINNESOTA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
Year Ended December 31, 2022

Business-type Activities - Enterprise Funds						
	Electric Utility Enterprise Fund	Water Treatment Enterprise Fund	Wastewater Treatment Enterprise Fund	Refuse Removal and Recycling Enterprise Fund	Mountain Manor Apartments Enterprise Fund	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ (310)	\$ (222,576)	\$ 287,933	\$ (56,293)	\$ (72,245)	\$ (63,491)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	67,937	155,035	175,935	57,413	36,885	493,205
Other postemployment benefit obligation and deferred outflows and deferred inflows related to other postemployment benefit obligation	114,981	134,586	(447,331)	(19,605)	-	(217,369)
Net pension liability and deferred outflows and deferred inflows related to pensions	12,933	3,450	6,036	6,897	-	29,316
Changes in assets and liabilities (Increase) decrease in:						
Accounts receivable	(86,406)	4,242	4,060	(11,354)	(4,610)	(94,068)
Inventories	(6,839)	(8,915)	-	-	-	(15,754)
Prepaid items	-	-	-	-	(411)	(411)
Increase (decrease) in:						
Accounts payable	(61,839)	(3,640)	1,675	23,635	1,315	(38,854)
Salaries payable	(4,111)	-	1,900	-	-	(2,211)
Customer deposits payable	1,550	208	-	-	1,788	3,546
Severance payable	240	-	-	-	-	240
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 38,136</u>	<u>\$ 62,390</u>	<u>\$ 30,208</u>	<u>\$ 693</u>	<u>\$ (37,278)</u>	<u>\$ 94,149</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES						
Capital grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grants receivable current year	-	-	-	-	-	-
Grants receivable prior year	-	400,000	-	-	-	400,000
Cash received from capital grants	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 400,000</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

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

Blended Component Unit

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

Discretely Presented Component Unit

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

B. Basic Financial Statements

Government-wide Financial Statements

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fund Financial Statements

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

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

Governmental Funds

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

Major Governmental Funds:

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

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

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds

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

Major Proprietary Funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

D. Cash and Cash Equivalents

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

E. Change in Accounting Principle

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, Leases. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City adopted the requirements of the guidance effective January 1, 2022, and has elected to apply the provisions of this standard to the beginning

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of the period of adoption. The City's recognition of beginning balances related to the lease receivables and deferred inflows of resources were equal balances and had no effect on the beginning net position or fund balance, as applicable.

F. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balances

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.
- 3) The enterprise funds report accounts receivable net of uncollectible accounts. The allowance amounts of \$48,750 in the electric utility enterprise fund, \$4,875 in the water treatment enterprise fund, \$8,125 in the wastewater treatment enterprise fund, and \$16,250 in the refuse removal and recycling enterprise fund were estimated using an average of prior years' accounts written off.
- 4) The City has no significant inventories in the general fund and records supplies and materials as expenditures when purchased. Enterprise funds' inventories are valued at cost, on a first-in, first-out (FIFO) basis, and the cost of these inventories are recorded as expenditures when consumed rather than when purchased.
- 5) Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted assets are reported only in the government-wide and proprietary fund financial statements.
- 6) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances". Outstanding balances between funds are reported as "due to/from other funds".

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

- 7) The City determines if an arrangement is a lease at inception. Leases are included in lease receivables and deferred inflows of resources in the statement of net position and fund financial statements.

Lease receivables represent the City's claim to receive lease payments over the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease receivables are recognized at commencement date based on the present value of expected lease payments over the lease term, reduced by any provision for estimated uncollectible amounts. Interest revenue is recognized ratably over the contract term.

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2022

Deferred inflows of resources related to leases are recognized at the commencement date based on the initial measurement of the lease receivable, plus any payments received from the lessee at or before the commencement of the lease term that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease terms. The deferred inflows of resources related to leases are recognized as lease revenue in a systematic and rational manner over the lease term.

The City has elected to recognize payments for short-term leases with a lease term of 12 months or less as revenues as incurred, and these leases are not included as lease receivables and deferred inflows of resources on the statement of net position and fund financial statements.

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

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

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

- 10) The City determines if an arrangement is a lease at inception. Leases are included in right-to use assets and lease liabilities in the statement of net position.

Right-to-use assets represent the City's control of the right to use an underlying capital asset for the lease term, as specified in the contract, in an exchange or exchange like transaction. Right-to-use assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement date of the lease term and certain direct costs. Right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Lease liabilities represent the City's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the present value of

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

The lease term may include options to extend or terminate the lease when it is reasonably certain that the City will exercise that option.

The City has recognized payments for short-term leases with a lease term of twelve months or less of expenses incurred, as these leases are not included as lease liabilities or right-to-use assets on the statements of net position.

The City accounts for contracts containing both lease and non-lease components as separate contracts when possible. In cases where the contract does not provide separate price information for lease and non-lease components, and it is impractical to eliminate the price of such components, the City treats the components as a single lease unit.

11) Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items in this category, related to other postemployment benefits and related to pensions. See Notes 16, 17, and 18 for details.

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

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

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

14) For purposes of measuring the net pension liability/asset, deferred outflows/inflows of resources, and pension expenses, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA,

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments, and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

15) Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. One item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources; property taxes, which are reported in the general fund and special assessments, which are reported in the debt service fund. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second type of deferred inflows of resources is related to other postemployment benefits and pensions. Mountain Iron EDA has deferred inflows of resources related to leases. See Notes 16, 17, and 18 for details.

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

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

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

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

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

G. Revenues and Expenditures

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

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

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

H. Use of Estimates

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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund Deficit

The following fund had a deficit fund balance at December 31, 2022:

	<u>Deficit</u>
City Projects Capital Projects Fund	<u>\$ 101,517</u>

The deficit occurred because expenditures exceeded revenues and transfers. The City plans to eliminate the deficit through transfers and future revenues.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

"Cash and cash equivalents", "investments" and "temporarily restricted cash and cash equivalents" recorded are comprised of:

	<u>Primary Government</u>	<u>Component Unit EDA</u>
Petty cash	\$ 500	\$ -
Cash	2,530,831	295,440
Investments	<u>2,186,913</u>	<u>-</u>
Total	<u>\$ 4,718,244</u>	<u>\$ 295,440</u>
Statement of Net Position		
Cash and cash equivalents	\$ 2,268,865	\$ 295,440
Investments	2,186,913	-
Temporarily restricted cash and cash equivalents	<u>262,466</u>	<u>-</u>
Total	<u>\$ 4,718,244</u>	<u>\$ 295,440</u>

Deposits

Custodial Credit Risk – Deposits

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

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits was \$2,530,831; the bank balance was \$2,545,721. At year-end, the City's bank balances were entirely insured or collateralized with Federal Home Loan Bank letters of credit. At year-end, the carrying amount of the Mountain Iron EDA's deposits was \$295,440; the bank balance was \$295,440. At year-end, the Mountain Iron EDA's bank balances were entirely insured or collateralized with securities held by the pledging financial institution's agent in the Mountain Iron EDA's name.

Investments

Custodial Credit Risk – Investments

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

Credit Risk and Concentration of Credit Risk

The City has a formal investment policy for credit risk or concentration of credit risk. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper and guaranteed investment contracts. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City places no limit on the amount the City may invest in any one issuer and, as of December 31, 2022, had investments of certificates of deposits held with a broker in which all five issuers exceeded five percent of total investments. The City has \$486,159 invested in certificates of deposit and \$1,700,754 invested in money market funds at Northland Securities. Money market funds are not rated as to credit risk.

Interest Rate Risk

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

Fair Value of Investments

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

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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The City's investment in money market funds and certificates of deposit at December 31, 2022 are not subject to measurement.

NOTE 4 - LOANS RECEIVABLE

The Mountain Iron EDA is involved in economic development projects. Several businesses were issued revolving loans. The unpaid principal balance at December 31, 2022 was \$25,208 and is recorded as loans receivable in the Mountain Iron EDA general fund.

NOTE 5 - LEASES RECEIVABLE

The Mountain Iron EDA, acting as lessor, leases a manufacturing facility and premises to Heliene USA to manufacture solar panels under a long-term lease agreement. The lease carries a discount rate of 3.84% expiring January 1, 2032. During 2022, the Mountain Iron EDA did not recognize any lease revenue and interest revenue, respectively, pursuant this contract as it became effective at year-end.

Total future minimum lease payments to be received under the lease agreements are as follows:

<u>Year-Ending December 31,</u>	<u>Long-Term Leases Receivable</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 349,200	\$ -
2024	261,491	186,987
2025	321,173	176,947
2026	433,466	164,614
2027	526,271	147,969
2028-2032	<u>3,327,095</u>	<u>392,906</u>
Total	<u>\$ 5,218,696</u>	<u>\$ 1,069,423</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022, was as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Governmental activities					
Capital assets, not being depreciated:					
Land	\$ 409,300	\$ -	\$ -	\$ -	\$ 409,300
Construction in progress	37,927	94,788	-	-	132,715
Total capital assets, not being depreciated	<u>447,227</u>	<u>94,788</u>	<u>-</u>	<u>-</u>	<u>542,015</u>
Capital assets, being depreciated:					
Land improvements	1,480,322	-	-	-	1,480,322
Buildings	3,705,146	-	-	-	3,705,146
Infrastructure	12,238,662	-	-	-	12,238,662
Machinery and equipment	1,573,100	8,117	-	-	1,581,217
Licensed vehicles	2,915,253	-	-	-	2,915,253
Total capital assets, being depreciated	<u>21,912,483</u>	<u>8,117</u>	<u>-</u>	<u>-</u>	<u>21,920,600</u>
Less accumulated depreciation for:					
Land improvements	(809,276)	(65,525)	-	-	(874,801)
Buildings	(1,687,023)	(79,687)	-	-	(1,766,710)
Infrastructure	(6,949,419)	(373,051)	-	-	(7,322,470)
Machinery and equipment	(1,039,310)	(93,241)	-	-	(1,132,551)
Licensed vehicles	(1,995,234)	(70,423)	-	-	(2,065,657)
Total accumulated depreciation	<u>(12,480,262)</u>	<u>(681,927)</u>	<u>-</u>	<u>-</u>	<u>(13,162,189)</u>
Total capital assets, being depreciated, net	<u>9,432,221</u>	<u>(673,810)</u>	<u>-</u>	<u>-</u>	<u>8,758,411</u>
Governmental activities capital assets, net	<u>\$ 9,879,448</u>	<u>\$ (579,022)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,300,426</u>
Business-type activities					
Capital assets, not being depreciated:					
Land	\$ 26,370	\$ -	\$ -	\$ -	\$ 26,370
Construction in progress	2,028,796	347,675	-	(1,174,893)	1,201,578
Total capital assets, not being depreciated	<u>2,055,166</u>	<u>347,675</u>	<u>-</u>	<u>(1,174,893)</u>	<u>1,227,948</u>
Capital assets, being depreciated:					
Land improvements	18,600	9,965	-	-	28,565
Buildings	8,443,407	37,026	-	-	8,480,433
Infrastructure	11,364,967	52,213	-	1,174,893	12,592,073
Machinery and equipment	790,064	-	(40,292)	-	749,772
Licensed vehicles	1,188,138	-	-	-	1,188,138
Total capital assets, being depreciated	<u>21,805,176</u>	<u>99,204</u>	<u>(40,292)</u>	<u>1,174,893</u>	<u>23,038,981</u>
Less accumulated depreciation for:					
Land improvements	(6,163)	(930)	-	-	(7,093)
Buildings	(4,680,322)	(187,136)	-	-	(4,867,458)
Infrastructure	(6,585,314)	(206,486)	-	-	(6,791,800)
Machinery and equipment	(699,212)	(17,172)	40,292	-	(676,092)
Licensed vehicles	(858,719)	(81,481)	-	-	(940,200)
Total accumulated depreciation	<u>(12,829,730)</u>	<u>(493,205)</u>	<u>40,292</u>	<u>-</u>	<u>(13,282,643)</u>
Total capital assets, being depreciated, net	<u>8,975,446</u>	<u>(394,001)</u>	<u>-</u>	<u>1,174,893</u>	<u>9,756,338</u>
Business-type activities capital assets, net	<u>\$11,030,612</u>	<u>\$ (46,326)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$10,984,286</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 6 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 62,587
Public safety	40,232
Streets	504,072
Culture and recreation	<u>75,036</u>
Total depreciation expense - governmental activities	<u>\$ 681,927</u>

Business-type activities

Electric utility	\$ 67,937
Water treatment	155,035
Wastewater treatment	175,935
Refuse removal and recycling	57,413
Mountain Manor Apartments	<u>36,885</u>
Total depreciation expense - business-type activities	<u>\$ 493,205</u>

Discretely presented component unit:

Mountain Iron EDA capital asset activity for the year ended December 31, 2022, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,461,456	\$ -	\$ -	\$ 2,461,456
Construction in progress	<u>2,530,589</u>	<u>9,279,650</u>	-	<u>11,810,239</u>
Total capital assets, not being depreciated	<u>4,992,045</u>	<u>9,279,650</u>	-	<u>14,271,695</u>
Capital assets, being depreciated:				
Building	<u>3,705,345</u>	-	-	<u>3,705,345</u>
Less accumulated depreciation for:				
Building	<u>(615,359)</u>	<u>(74,107)</u>	-	<u>(689,466)</u>
Total capital assets, being depreciated, net	<u>3,089,986</u>	<u>(74,107)</u>	-	<u>3,015,879</u>
Governmental activities capital assets, net	<u>\$ 8,082,031</u>	<u>\$ 9,205,543</u>	<u>\$ -</u>	<u>\$ 17,287,574</u>

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

Governmental activities

Economic development	<u>\$ 74,107</u>
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CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 7 - LONG-TERM DEBT

In 2022, the City issued a \$535,973 general obligation water revenue note with Minnesota Public Facilities Authority (MPFA) for the municipal well project. The note is to be repaid with net revenues of the Water Treatment Enterprise Fund.

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 and 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. The City also previously entered into a financed purchase for a fire pumper. The fire pumper secures the financed purchase agreement. For governmental activities, claims and judgments are generally liquidated by the General Fund.

In 2022, the Mountain Iron EDA entered into a \$5,500,000 state loan agreement for additional construction and expansion totaling 65,000 square feet to the 25,000 square foot manufacturing facility. The Mountain Iron EDA previously entered into a state loan for the construction of a manufacturing facility. The loans are considered an obligation of the Mountain Iron EDA and will be repaid with net rent revenues.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Components of long-term debt are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Governmental activities					
General Obligation Bonds					
2016 Refunding	11/01/2016	1.625-2.25%	\$ 575,000	02/01/2028	\$ 280,000
Financed Purchase					
Fire Pumper Lease	03/19/2019	4.51%	\$ 327,237	03/19/2024	<u>139,603</u>
Governmental activities long-term debt					<u>419,603</u>
Business-type activities					
Revenue Bonds					
2020 Water Revenue Bonds	12/16/2020	0.5-2.0%	\$ 1,225,000	02/01/2041	<u>1,175,000</u>
General Obligation Revenue Notes					
2009 PFA Wastewater					
Revenue Notes	10/20/2009	2.25%	\$ 599,250	08/20/2029	241,000
2022 PFA Drinking Water					
Revenue Note	12/28/2021	1.04%	\$ 535,973	08/20/2041	<u>526,000</u>
Total Revenue Notes Payable					<u>767,000</u>
Notes Payable					
1980 Rural Development	09/04/1980	3.61%	\$ 819,370	09/01/2030	294,388
1981 Rural Development	01/16/1981	3.61%	\$ 320,630	10/01/2030	<u>117,715</u>
Total Notes Payable					<u>412,103</u>
Business-type activities long-term debt					<u>2,354,103</u>
Total primary government long-term debt					<u>2,773,706</u>
Discretely presented component unit					
EDA					
State Loans					
2010 IRRR	06/18/2010	1.00%	\$ 3,600,000	01/15/2037	3,202,148
2022 IRRR	06/17/2022	0.0%	\$ 5,500,000	07/13/2043	<u>5,283,717</u>
Total State Loans					<u>8,485,865</u>
Total reporting entity					<u>\$ 11,259,571</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Long-term debt activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds Payable					
2016 GO Refunding	\$ 325,000	\$ -	\$ 45,000	\$ 280,000	\$ 40,000
Financed Purchase					
Fire Pumper Lease	204,924	-	65,321	139,603	68,264
Governmental activities - long-term debt	<u>529,924</u>	<u>-</u>	<u>110,321</u>	<u>419,603</u>	<u>108,264</u>
Business-type activities					
Bonds Payable					
2009 Water Revenue					
Refunding Bonds	65,000	-	65,000	-	-
2020 Water Revenue Bonds	1,225,000	-	50,000	1,175,000	55,000
Total Revenue Bonds	<u>1,290,000</u>	<u>-</u>	<u>115,000</u>	<u>1,175,000</u>	<u>55,000</u>
Revenue Notes					
2009 GO PFA Wastewater	272,000	-	31,000	241,000	32,000
2022 GO PFA Drinking Water	-	535,973	9,973	526,000	25,000
Total Revenue Notes	<u>272,000</u>	<u>535,973</u>	<u>40,973</u>	<u>767,000</u>	<u>57,000</u>
Notes Payable					
1980 Rural Development	317,155	-	22,767	294,388	24,699
1981 Rural Development	126,276	-	8,561	117,715	9,287
Total Notes Payable	<u>443,431</u>	<u>-</u>	<u>31,328</u>	<u>412,103</u>	<u>33,986</u>
Business-type activities - long-term debt	<u>2,005,431</u>	<u>535,973</u>	<u>187,301</u>	<u>2,354,103</u>	<u>145,986</u>
Total primary government	<u>2,535,355</u>	<u>535,973</u>	<u>297,622</u>	<u>2,773,706</u>	<u>254,250</u>
Discretely presented component unit					
EDA					
State loan					
2010 IRRR	3,384,848	-	182,700	3,202,148	-
2022 IRRR	-	5,283,717	-	5,283,717	-
Total State Loans	<u>3,384,848</u>	<u>5,283,717</u>	<u>182,700</u>	<u>8,485,865</u>	<u>-</u>
Total reporting entity	<u>\$ 5,920,203</u>	<u>\$ 5,819,690</u>	<u>\$ 480,322</u>	<u>\$ 11,259,571</u>	<u>\$ 254,250</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

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
2023	\$ 108,264	\$ 12,015	\$ 145,986	\$ 73,362	\$ 254,250	\$ 85,377
2024	116,339	8,108	150,825	68,297	267,164	76,405
2025	45,000	3,881	157,099	62,775	202,099	66,656
2026	50,000	2,813	161,853	56,643	211,853	59,456
2027	50,000	1,688	168,147	49,875	218,147	51,563
2028-2032	50,000	563	703,193	132,670	753,193	133,233
2033-2037	-	-	468,000	56,198	468,000	56,198
2038-2042	-	-	399,000	14,936	399,000	14,936
Total	<u>\$ 419,603</u>	<u>\$ 29,068</u>	<u>\$ 2,354,103</u>	<u>\$ 514,757</u>	<u>\$ 2,773,706</u>	<u>\$ 543,824</u>

No interest was capitalized during 2022 for the City or Mountain Iron EDA. Interest incurred and charged to expense totaled \$86,243 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 the outstanding balance of the City's \$1,455,000 general obligation improvement bonds of 2007. Principal and interest paid in the current year was \$51,416. 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 \$299,562.

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 \$67,600. The bonds were paid in full as of December 31, 2022.

The City has pledged net revenues of the Water Treatment Enterprise Fund to pay principal and interest on the \$1,225,000 general obligation water revenue bonds issued in 2020. Proceeds from these bonds were used to finance the water treatment plant filter project and water tower rehabilitation. Principal and interest paid for the current year was \$69,910. At December 31, 2022, principal and interest to maturity in 2041 to be paid from pledged future revenues totaled \$1,404,231.

The City has pledged net revenues of the Water Treatment Enterprise Fund to pay principal and interest on the \$535,973 general obligation water revenue note issued in 2022. Proceeds from this note were used to finance the municipal well project. Principal and interest paid for the current year was \$10,760. At December 31, 2022, principal and interest to maturity in 2041 to be paid from pledged future revenues totaled \$582,182.

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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

note were used to update the wastewater treatment plant. Principal and interest paid for the current year was \$37,115. At December 31, 2022, principal and interest to maturity in 2029 to be paid from pledged future revenues totaled \$263,165.

EDA

Component Unit

Mountain Iron EDA entered into a state loan agreement for the construction and partial equipping of a 25,000 square foot manufacturing facility on June 18, 2010. The loan settlement occurred on February 15, 2011 and the final loan funds were drawn in 2013. The Mountain Iron EDA leased this facility to Silicon Energy MN, LLC. Silicon Energy terminated its lease agreement with the EDA effective April 30, 2017. The Mountain Iron EDA currently leases this facility to Heliene, USA. This lease became effective January 1, 2023. The loan is considered an obligation of the Mountain Iron EDA and will be repaid with net rent revenues (gross revenues less building expenses) due to the State by January 15th of each calendar year, as defined in the loan agreement. At December 31, 2022, the principal balance outstanding totals \$3,202,148.

Mountain Iron EDA entered into a state loan agreement for additional construction and expansion totaling 65,000 square feet to the 25,000 square foot manufacturing facility on June 17, 2022. The loan settlement occurred on July 13, 2022 and the final loan funds were drawn in 2023. The Mountain Iron EDA currently leases this facility to Heliene, USA. This lease became effective January 1, 2023. The loan is considered an obligation of the Mountain Iron EDA and will be repaid with net rent revenues (gross revenues less building expenses) due to the State by the first day of the month following the first anniversary date of the closing date and on the first day of each month thereafter until the due date, as defined in the promissory note. At December 31, 2022, the principal balance outstanding totals \$5,283,717.

NOTE 8 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2022 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	\$ 128,052
General Fund	Water Treatment Enterprise Fund	1,190,854
General Fund	Electric Utility Enterprise Fund	<u>1,097,693</u>
	Total	<u>\$2,416,599</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.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 8 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

Interfund transfers for the year ended December 31, 2022 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ -	\$ 426,704
Debt Service Fund	50,000	-
City Projects Capital Projects Fund	<u>376,704</u>	<u>-</u>
 Total	 <u>\$ 426,704</u>	 <u>\$ 426,704</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.

NOTE 9 - FUND EQUITY

As of December 31, 2022, fund balances are comprised of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>City Projects Capital Projects Fund</u>	<u>Charitable Gambling Special Revenue Fund</u>	<u>Total</u>
Restricted:					
Debt service	\$ -	\$ 1,410,079	\$ -	\$ -	\$ 1,410,079
Assigned:					
Cash flow	250,000	-	-	-	250,000
Insurance	1,185,102	-	-	-	1,185,102
Buildings	1,185,102	-	-	-	1,185,102
Rate stabilization	1,185,101	-	-	-	1,185,101
Community contributions	-	-	-	4,706	4,706
Total assigned	<u>3,805,305</u>	<u>-</u>	<u>-</u>	<u>4,706</u>	<u>3,810,011</u>
Unassigned, reported in:					
Capital projects funds	-	-	(101,517)	-	(101,517)
 Total fund balances	 <u>\$ 3,805,305</u>	 <u>\$ 1,410,079</u>	 <u>\$ (101,517)</u>	 <u>\$ 4,706</u>	 <u>\$ 5,118,573</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 10 - RISK MANAGEMENT

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

NOTE 11 - 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>	<u>No. 16</u>
Economic development district established in:	2008	2016	2018
Anticipated last tax increment year:	2021	2026	2028
Original net tax capacity:	\$ <u> -</u>	\$ <u> 2,684</u>	\$ <u> 927</u>
Current net tax capacity:	\$ <u> -</u>	\$ <u> 16,248</u>	\$ <u> 10,566</u>
Fiscal disparity deduction	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>
Captured net tax capacity retained by Authority:	\$ <u> -</u>	\$ <u> 13,564</u>	\$ <u> 9,639</u>
Total bonds issued			
Tax increment bonds	\$ -	\$ -	\$ -
Amounts redeemed	<u> -</u>	<u> -</u>	<u> -</u>
Outstanding bonds at 12/31/22	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>

Tax Increment Financing District No. 14 was decertified effective December 31, 2021, but Mountain Iron EDA held excess funds due to St. Louis County, Minnesota, as of December 31, 2022.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 12 - 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:

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

For the year ended December 31, 2022, the City abated \$7,500 of property taxes for Iron Range Investment LLC and \$1,000 of property taxes for Virginia Plastics for a total of \$8,500.

NOTE 13 - 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, 2022, 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 Commitments

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 from January 1, 2022 through December 31, 2029. 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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 13 - OTHER COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 was in effect until May 1, 2022, was allowed to expire and not renewed.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the City’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees, vendors, and grantors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the City’s financial condition or results of operations is uncertain.

Construction Projects

The City had the following outstanding construction project as of December 31, 2022. The project is evidenced by contractual commitments with contractors:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Municipal Well #3	<u>\$ 658,218</u>	<u>\$ 66,236</u>

NOTE 14 - 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 2022 was \$26,080. Complete financial information can be obtained from the Tri-Cities Biosolids Disposal Authority, Eveleth, Minnesota 55734.

Biosolids Disposal Site 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

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

NOTE 14 - JOINT VENTURES (CONTINUED)

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 2022 was \$6,314. Complete financial information can be obtained from the Biosolids Disposal Site Authority, Eveleth, Minnesota 55734.

Quad Cities Joint Recreational Authority

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

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

The City of Mountain Iron's contribution to the Authority's budget during 2022 was \$6,577. Complete financial information can be obtained from the Quad Cities Recreation Center, Eveleth, Minnesota 55734.

NOTE 15 - 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 no expenditures for this benefit in 2022.

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, 2022 was as follows:

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 15 - SEVERANCE BENEFITS AND OTHER EMPLOYEE BENEFITS (CONTINUED)

	Balance 12/31/21	Additions	Reductions	Balance 12/31/22
Governmental activities	\$ 114,040	\$ 4,433	\$ -	\$ 118,473
Business-type activities	<u>15,790</u>	<u>240</u>	<u>-</u>	<u>16,030</u>
Total Primary Government	<u>\$ 129,830</u>	<u>\$ 4,673</u>	<u>\$ -</u>	<u>\$ 134,503</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 \$14,500 for the year ended December 31, 2022.

NOTE 16 - 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. The City reported its plan in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires the liability of the City’s defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees’ past periods of service (total OPEB liability), less the amount of the OPEB plan’s fiduciary net position. The liability is reported on the City’s government-wide financial statements and proprietary funds.

Benefits Provided

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 provide 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.

Plan Membership

At December 31, 2021, plan membership consisted of the following:

Active employees electing coverage	20
Active employees waiving coverage	0
Retirees electing coverage	18
Retirees with only non-medical OPEB coverage	<u>1</u>
	<u>39</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions

The City and retirees make contributions toward health insurance premiums based on their employment contracts. During the year ended December 31, 2022, the City pays postemployment benefits on a pay-as-you-go method. Contributions into individual health accounts for current employees are also paid on a pay-as-you go method. The City has not advance-funded or established a funding methodology. The City will continue to contribute towards the medical premium for retirees who retired before or on July 1, 2006, current management employees hired before July 1, 2006 who retire after July 1, 2006 and have twenty-five years of service or ninety points, and union employees hired before July 1, 2006 who retire after July 1, 2006 and have twenty-five years of service and are PERA retirement eligible. The contribution amount is either part of or the full amount of the medical premium and continues for the life of most retirees.

Total OPEB Liability

The City's total OPEB liability of \$14,319,526 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	1.84%
Long-term expected investment return	N/A
Inflation rate	2.25%
Mortality	From the July 1, 2021 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2020, and other adjustments.
Health care cost trend rate	6.20% for FY2022, gradually decreasing over several decades to an ultimate rate of 3.75% in FY2074 and later years.

The discount rate was based on the Fidelity 20-Year Municipal GO AA Index because it meets the GASB requirements and is based on a large amount of municipal security data.

The City has elected to use the GASB 75 "lookback" method where assets and liabilities are measured as of the prior fiscal year-end, but applied to the current fiscal year. The measurement date (when assets and liabilities are measured) is December 31, 2021.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2021	<u>\$ 15,171,824</u>
Changes for the year:	
Service cost	138,611
Interest	300,919
Differences between expected and actual experience	246,591
Changes of assumptions	(1,009,450)
Benefit payments paid directly	<u>(528,969)</u>
Net changes	<u>(852,298)</u>
Balance at 12/31/2022	<u>\$ 14,319,526</u>

Discount Rate

The discount rate used to measure the total OPEB liability was 1.84%, a decrease from the 2.00% discount rate measured as of December 31, 2021.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.84 %) or 1-percentage-point higher (2.84%) than the current discount rate.

	1% Decrease <u>(0.84%)</u>	Current Discount Rate <u>(1.84%)</u>	1% Increase <u>(2.84%)</u>
Net OPEB liability	<u>\$ 16,872,849</u>	<u>\$ 14,319,526</u>	<u>\$ 12,280,810</u>

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following represents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease <u></u>	Current Trend Rate <u></u>	1% Increase <u></u>
Net OPEB liability	<u>\$ 12,345,566</u>	<u>\$ 14,319,526</u>	<u>\$ 16,785,582</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2022, the City recognized OPEB expense of \$(217,847). At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual liability	\$ 206,710	\$ 873,806
Change of assumptions	1,359,741	1,246,433
Contributions between measurement date and reporting date	543,249	-
Total	\$ 2,109,700	\$ 2,120,239

\$543,249 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	OPEB Expense Amount
2023	\$ (164,497)
2024	\$ (277,639)
2025	\$ (141,464)
2026	\$ 130,311
2027	\$ (94,192)
Thereafter	\$ (6,307)

NOTE 17 - 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 (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

All full-time and certain part-time employees of the City are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. 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. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 17 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years 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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. 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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the City was required to contribute 7.50 percent for Coordinated Plan members. The City's contributions to the General Employees Retirement Fund for the year ended December 31, 2022, were \$98,353. The City's contributions were not equal to the required contributions as set by state statute. As a result, the City has recorded \$23,738 as payable to PERA for unpaid employer and employee contributions as of December 31, 2022.

D. Pension Costs

General Employees Fund Pension Costs

At December 31, 2022, the City reported a liability of \$1,679,047 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 \$16 million. 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 \$49,402.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 17 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The net pension liability was measured as of June 30, 2022, 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 proportionate share 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, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The City's proportionate share was 0.0212 percent at the end of the measurement period and 0.0187 percent for the beginning of the period.

City's proportionate share of the net pension liability	\$ 1,679,047
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>49,402</u>
Total	<u>\$ 1,728,449</u>

There were no provision changes during the measurement period.

For the year ended December 31, 2022, the City recognized pension expense of \$260,035 for its proportionate share of the General Employees Plan's pension expense. In addition, the City recognized an additional \$7,382 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At December 31, 2022, the City reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 14,025	\$ 15,973
Changes in actuarial assumptions	336,542	6,668
Net collective difference between projected and actual investment earnings	103,312	-
Changes in proportion	80,071	64,101
Contributions paid to PERA subsequent to the measurement date	46,774	-
Total	\$ 580,724	\$ 86,742

The \$46,774 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, 2023. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 17 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Year Ended December 31:	Pension Expense Amount
2023	\$ 143,228
2024	\$ 153,735
2025	\$ (1,599)
2026	\$ 151,844

Total Pension Expense

The total pension expense for all plans recognized by the City for the year ended December 31, 2022 was \$221,929.

E. Long-Term Expected Return on Investment

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	25.0%	5.90%
Total	100%	

F. Actuarial Methods and Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 27 years of service.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 17 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

General Employees Fund

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

G. Discount Rate

The discount rate for the General Employees Plan used to measure the total pension liability in 2022 was 6.50 percent. 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.

H. Pension Liability Sensitivity

The following presents the City's proportionate share of the net pension liability for all plans 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 one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity Analysis		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	5.50%	\$ 2,652,143
Current Discount Rate	6.50%	\$ 1,679,047
1% Higher	7.50%	\$ 880,958

I. 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.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 18 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT

Plan Description

The Mountain Iron Fire Department participates in the Statewide Volunteer Firefighter Retirement 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, 2022, the plan covered twenty-five active firefighters and eleven 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 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*. The State of Minnesota contributed \$17,423 in fire state aid to the fund for the year ended December 31, 2022. Required employer contributions are calculated annually based on statutory provisions. No City contributions were required in 2022.

Pension Costs

At December 31, 2022, the City reported a net pension asset of \$236,968 for the Volunteer Firefighter Fund. The net pension asset was measured as of December 31, 2022. The total pension liability used to calculate the net pension asset in accordance with GASB 68 was determined by PERA applying an actuarial formula to specific census data certified by the fire department. The following table presents the changes in net pension asset during the year.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 18 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a-b)
Beginning Balance 12/31/21	\$ 245,374	\$ 587,343	\$ (341,969)
Changes for the Year			
Service Cost	25,002	-	25,002
Interest on Pension Liability	16,222	-	16,222
Actuarial Experience (Gains)/Losses	(27,336)	-	(27,336)
Projected Investment Earnings	-	35,241	(35,241)
Changes in Benefit Level	19,172	-	19,172
Contributions (Employer)	-	-	-
Contributions (State)	-	17,423	(17,423)
Asset (Gain)/Loss	-	(123,519)	123,519
Benefit Payouts	-	-	-
PERA Administrative Fee	-	(1,086)	1,086
Net Changes	33,060	(71,941)	105,001
Balance End of Year 12/31/22	\$ 278,434	\$ 515,402	\$ (236,968)

An increase of \$19,172 to benefit provisions occurred during the measurement period.

For the year ended December 31, 2022, the City recognized pension expense of \$16,619.

At December 31, 2022, the City reported deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actuarial experience gains/losses	\$ -	\$ 37,889
Difference between projected and actual investment earnings	62,356	-
Total	\$ 62,356	\$ 37,889

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

Year Ended December 31:	Pension Expense Amount
2023	\$ (9,723)
2024	\$ 2,632
2025	\$ 12,323
2026	\$ 19,235
2027	\$ -
Thereafter	\$ -

CITY OF MOUNTAIN IRON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2022

NOTE 18 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

Actuarial Assumptions

The total pension liability at December 31, 2022, 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

There were no changes in actuarial assumptions in 2022.

Discount Rate

The discount rate used to measure the total pension liability was six 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, 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	\$ 224,092	\$ 236,968	\$ 249,038

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 353G.

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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 18 - DEFINED BENEFIT PENSION PLAN – FIRE DEPARTMENT (CONTINUED)

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35%	5.10%
International Stocks	15%	5.30%
Bonds	45%	0.75%
Unallocated 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 2022 for the Volunteer Firefighter Fund.

Pension Plan Fiduciary Net Position

Detailed information about the Volunteer Firefighter Fund’s fiduciary net position as of June 30, 2022, 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.

NOTE 19 - 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

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO FINANCIAL STATEMENTS
December 31, 2022**

NOTE 19 - DEFINED CONTRIBUTION PLAN (CONTINUED)

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 (0.25 percent) of the assets in each member's account annually.

Total contributions made by the City of Mountain Iron, Minnesota during fiscal year 2022 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$561	\$561	4.42%	4.42%	5.00%

Contributions were not equal to the statutorily required amounts in 2022. As a result, the City has recorded \$146 as payable to PERA for unpaid employer and employee contributions as of December 31, 2022.

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, 2022**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,470,585	\$ 1,470,585	\$ 1,460,936	\$ (9,649)
Special assessments	-	-	2,947	2,947
Licenses and permits	27,000	27,000	40,605	13,605
Intergovernmental	2,501,859	2,501,859	2,372,604	(129,255)
Charges for services	142,000	142,000	505,971	363,971
Fines	10,000	10,000	7,917	(2,083)
Investment earnings	15,000	15,000	14,330	(670)
Loss on change in market value of investments	-	-	(11,956)	(11,956)
TOTAL REVENUES	<u>4,166,444</u>	<u>4,166,444</u>	<u>4,393,354</u>	<u>226,910</u>
EXPENDITURES				
Current				
General government	1,461,600	1,461,600	1,323,676	137,924
Public safety	749,150	749,150	779,719	(30,569)
Streets	865,000	865,000	988,807	(123,807)
Culture and recreation	532,000	532,000	626,835	(94,835)
TOTAL EXPENDITURES	<u>3,607,750</u>	<u>3,607,750</u>	<u>3,719,037</u>	<u>(111,287)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>558,694</u>	<u>558,694</u>	<u>674,317</u>	<u>115,623</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(528,694)	(528,694)	(426,704)	101,990
NET CHANGE IN FUND BALANCE	30,000	30,000	247,613	217,613
FUND BALANCE - JANUARY 1	<u>3,557,692</u>	<u>3,557,692</u>	<u>3,557,692</u>	<u>-</u>
FUND BALANCE - DECEMBER 31	<u>\$ 3,587,692</u>	<u>\$ 3,587,692</u>	<u>\$ 3,805,305</u>	<u>\$ 217,613</u>

See notes to required supplementary information.

CITY OF MOUNTAIN IRON, MINNESOTA

SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS
Year Ended December 31, 2022

	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	\$ 138,611	\$ 103,706	\$ 134,921	\$ 147,303	\$ 119,440
Interest	300,919	365,424	556,733	527,098	544,667
Differences between expected and actual experience	246,591	1,306	(1,716,707)	-	-
Changes of assumptions	(1,009,450)	1,770,534	(149,052)	(1,095,135)	1,357,219
Benefit payments	<u>(528,969)</u>	<u>(507,164)</u>	<u>(518,492)</u>	<u>(451,516)</u>	<u>(389,459)</u>
Net change in OPEB liability	(852,298)	1,733,806	(1,692,597)	(872,250)	1,631,867
Total OPEB Liability - beginning	<u>15,171,824</u>	<u>13,438,018</u>	<u>15,130,615</u>	<u>16,002,865</u>	<u>14,370,998</u>
Total OPEB Liability - ending	<u>\$ 14,319,526</u>	<u>\$ 15,171,824</u>	<u>\$ 13,438,018</u>	<u>\$ 15,130,615</u>	<u>\$ 16,002,865</u>
Payroll for measurement period	\$ 1,608,637	\$ 1,578,153	\$ 1,517,312	\$ 1,510,514	\$ 1,529,452
Net OPEB Liability as a % of employee payroll	890.2%	961.4%	885.6%	1001.7%	1046.3%

Schedule is intended to show a ten year trend. Additional years will be reported as they become available.

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, 2022**

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

Fiscal Year Ending	Employer's Proportionate Share of the Net Pension Liability (Percentage) (Asset)	Employer's Proportionate Share of the Net Pension Liability (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with City (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/22	0.0212%	\$ 1,679,047	\$ 49,402	\$ 1,728,449	\$ 1,510,747	114.41%	76.70%
6/30/21	0.0187%	\$ 798,574	\$ 24,423	\$ 822,997	\$ 1,456,417	56.51%	87.00%
6/30/20	0.0207%	\$ 1,241,060	\$ 38,201	\$ 1,279,261	\$ 1,473,994	86.79%	79.10%
6/30/19	0.0223%	\$ 1,161,043	\$ 35,998	\$ 1,197,041	\$ 1,484,628	80.63%	80.20%
6/30/18	0.0223%	\$ 1,237,113	\$ 40,524	\$ 1,277,637	\$ 1,497,320	85.33%	79.53%
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".

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, 2022**

**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 Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
12/31/22	\$ 111,061	\$ 98,353	\$ 12,708	\$ 1,480,811	6.64%
12/31/21	\$ 107,551	\$ 95,638	\$ 11,913	\$ 1,456,417	6.57%
12/31/20	\$ 114,958	\$ 114,958	\$ -	\$ 1,532,774	7.50%
12/31/19	\$ 109,491	\$ 109,491	\$ -	\$ 1,459,875	7.50%
12/31/18	\$ 113,171	\$ 113,171	\$ -	\$ 1,508,947	7.50%
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, 2022**

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total Pension Liability				
Service cost	\$ 25,002	\$ 19,272	\$ 15,598	\$ 13,171
Interest on the pension liability	16,222	14,734	13,328	12,652
Actuarial experience (gains)/losses	(27,336)	(14,929)	(9,155)	(17,002)
Changes in benefit level	19,172	-	-	-
Benefit payments	-	-	-	-
Net Change in Total Pension Liability	33,060	19,077	19,771	8,821
Total Pension Liability - Beginning	<u>245,374</u>	<u>226,297</u>	<u>206,526</u>	<u>197,705</u>
Total Pension Liability - Ending (a)	<u>\$ 278,434</u>	<u>\$ 245,374</u>	<u>\$ 226,297</u>	<u>\$ 206,526</u>
Plan Fiduciary Net Position				
Contributions:				
Fire state aid	\$ 14,497	\$ 14,171	\$ 13,447	\$ 12,797
Fire supplemental aid	2,926	2,978	2,968	2,963
Supplemental benefit reimbursement	-	-	-	-
Required municipal contribution	-	-	-	-
Adjustment to initial asset transfer	-	-	-	-
Net investment income	(88,278)	50,854	65,640	66,241
PERA administrative fee	(1,050)	(870)	(780)	(780)
Auditor/accounting fee	-	-	-	-
SBI investment fee	(36)	(30)	(25)	(24)
Benefit payments	-	-	-	-
Net Change in Plan Fiduciary Net Position	(71,941)	67,103	81,250	81,197
Plan Fiduciary Net Position - Beginning	<u>587,343</u>	<u>520,240</u>	<u>438,990</u>	<u>357,793</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 515,402</u>	<u>\$ 587,343</u>	<u>\$ 520,240</u>	<u>\$ 438,990</u>
Net Pension Liability/(Asset) - Ending (a) - (b)	<u>\$ (236,968)</u>	<u>\$ (341,969)</u>	<u>\$ (293,943)</u>	<u>\$ (232,464)</u>
Plan Fiduciary Net Position as a Percentage Of the Total Pension Liability	185.1%	239.4%	229.9%	212.6%

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

See notes to required supplementary information.

2018	2017	2016	2015	2014
\$ 14,436	\$ 13,717	\$ 13,369	\$ 13,192	\$ 15,601
13,170	13,344	13,695	13,239	13,591
(34,974)	(3,174)	(5,760)	(18,997)	(14,167)
-	-	-	-	-
-	(55,000)	-	-	(37,000)
(7,368)	(31,113)	21,304	7,434	(21,975)
<u>205,073</u>	<u>236,186</u>	<u>214,882</u>	<u>207,448</u>	<u>229,423</u>
<u>\$ 197,705</u>	<u>\$ 205,073</u>	<u>\$ 236,186</u>	<u>\$ 214,882</u>	<u>\$ 207,448</u>
\$ 12,555	\$ 12,129	\$ 12,061	\$ 11,740	\$ 11,169
2,987	2,935	2,926	2,872	2,702
1,000	-	-	1,000	-
-	-	-	-	5,814
-	-	-	-	3,098
(14,112)	42,137	22,288	470	19,550
(750)	(600)	(630)	(630)	(660)
-	-	-	-	(1,950)
(21)	(20)	(24)	(10)	-
-	(55,000)	-	-	(37,000)
1,659	1,581	36,621	15,442	2,723
<u>356,134</u>	<u>354,553</u>	<u>317,932</u>	<u>302,490</u>	<u>299,767</u>
<u>\$ 357,793</u>	<u>\$ 356,134</u>	<u>\$ 354,553</u>	<u>\$ 317,932</u>	<u>\$ 302,490</u>
<u>\$(160,088)</u>	<u>\$(151,061)</u>	<u>\$(118,367)</u>	<u>\$(103,050)</u>	<u>\$(95,042)</u>
181.0%	173.7%	150.1%	148.0%	145.8%

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF CITY CONTRIBUTIONS
Year Ended December 31, 2022**

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

	2022	2021	2020	2019
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -
Actual contributions paid	-	-	-	-
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.

2018	2017	2016	2015	2014
\$ -	\$ -	\$ -	\$ -	\$ 5,814
-	-	-	-	5,814
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

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. Form budgetary integration is not employed for the Charitable Gambling Special Revenue Fund because effective control is alternatively achieved.

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, 2022:

General Fund	<u>\$ 111,287</u>
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The overexpenditures were funded by existing fund balance.

NOTE 3 - POSTEMPLOYMENT BENEFIT PLAN ACTUARIAL ASSUMPTIONS AND METHODS

2022 Changes

Since the last valuation, the following valuation changes have been made:

- Retiree premiums were updated to current levels.

Since the last valuation, the following assumption changes have been made:

- The discount rate was changed from 2.00 percent to 1.84 percent based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2019 PERA General Employees Plan valuations to the rates used in the 7/1/2021 valuation.
- The inflation assumption was changed from 2.50 percent to 2.25 percent based on an updated historical analysis of inflation rates and forward-looking market expectations.

2021 Changes

The benefits, assumptions and methods valued in the December 31, 2020 measurement date actuarial report are based on the same plan provisions, assumptions and methods described in the fiscal 2020 GASB 75 valuation report dated April 20, 2020, with the exception of the change listed below.

- The discount rate was adjusted from 2.75 percent to 2.00 percent.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

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

2020 Changes

Since the last valuation, there have been no valuation changes.

Since the last valuation, the following assumption changes have been made:

- The discount rate was changed from 3.71 percent to 2.75 percent based on updated 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including the repeal of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2017 PERA General Employees Plan valuations to the rates used in the 7/1/2019 valuation.
- The percent of retirees eligible for a subsidized premium electing spouse coverage changed from 60% to 70% to reflect recent plan experience.

2019 Changes

The benefits, assumptions and methods valued in the December 31, 2018 measurement date actuarial report are based on the same plan provisions, assumptions and methods described in the fiscal 2018 GASB 75 valuation report dated January 15, 2019, with the exception of the change listed below.

- The discount rate was adjusted from 3.31 percent to 3.71 percent.

2018 Changes

This is the City's first valuation under the new GASB 75 accounting rules. These new financial reporting requirements substantially adjust the measurement and reporting of OPEB liabilities. The new results are not directly comparable to the City's prior GASB 45 Net OPEB Obligation. Since the last GASB 45 valuation, the following change was made:

- The discount rate was changed from 3.81 percent to 3.31 percent based on updated 20-year municipal bond rates.

NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS

2022 Changes

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

**NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN
ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)**

2021 Changes

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

**NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN
ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)**

2019 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions:

- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions:

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.

CITY OF MOUNTAIN IRON, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended December 31, 2022**

**NOTE 4 - PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND CHANGES IN
ACTUARIAL ASSUMPTIONS AND PLAN PROVISIONS (CONTINUED)**

- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study 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.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

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 increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

SUPPLEMENTARY INFORMATION

CITY OF MOUNTAIN IRON, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year Ended December 31, 2022

REVENUES

TAXES

General property	\$ 1,367,896
Mineral rents and royalties	65,552
Franchise	27,488
TOTAL TAXES	<u>1,460,936</u>

SPECIAL ASSESSMENTS

2,947

LICENSES AND PERMITS

40,605

INTERGOVERNMENTAL

State

Local government aid	1,416,805
Market value credit	1,069
Taconite production	531,135
Taconite municipal aid	316,451
Mining effects	107,144

TOTAL INTERGOVERNMENTAL

2,372,604

CHARGES FOR SERVICES

General government

Rent	10,180
Other reimbursements	409,062

Culture and recreation

Recreation fees	5,057
Campground fees	81,672

TOTAL CHARGES FOR SERVICES

505,971

FINES

Fines and forfeits

7,917

INVESTMENT EARNINGS

14,330

LOSS ON CHANGE IN MARKET VALUE OF INVESTMENTS

(11,956)

TOTAL REVENUES

4,393,354

CITY OF MOUNTAIN IRON, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (CONTINUED)
Year Ended December 31, 2022**

EXPENDITURES

CURRENT

GENERAL GOVERNMENT

Mayor and council	\$ 21,218
Administration	597,166
Elections	7,250
Assessor	116
Retiree's insurance	317,596
Donations and contributions	6,577
Other	53,995
Buildings	246,966
Planning and zoning	72,792
TOTAL GENERAL GOVERNMENT	1,323,676

PUBLIC SAFETY

Sheriff	589,238
Fire	164,394
Animal control	23,087
Civil defense	3,000
TOTAL PUBLIC SAFETY	779,719

STREETS

988,807

CULTURE AND RECREATION

Library	239,671
Recreation	288,962
Campgrounds	98,202
TOTAL CULTURE AND RECREATION	626,835

TOTAL EXPENDITURES

3,719,037

**EXCESS OF REVENUES OVER
EXPENDITURES**

674,317

OTHER FINANCING SOURCES (USES)

Transfers out	(426,704)
---------------	-----------

NET CHANGE IN FUND BALANCE

247,613

FUND BALANCE - JANUARY 1

3,557,692

FUND BALANCE - DECEMBER 31

\$ 3,805,305

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, 2022**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 1,025,590	\$ 679,417	\$ -
Transfers from EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>1,025,590</u>	<u>685,439</u>	<u>-</u>
USES OF FUNDS			
Site improvements and preparation costs	1,025,590	611,476	-
Administrative costs	-	24,350	1,000
Tax increment returned to St. Louis County	-	-	42,591
Transfers to EDA General Fund	<u>-</u>	<u>6,022</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>1,025,590</u>	<u>641,848</u>	<u>43,591</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ 43,591</u>	<u>\$ (43,591)</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, 2022**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 110,000	\$ 64,037	\$ 16,259
Miscellaneous	-	-	1
Interest and investment earnings	<u>5,000</u>	<u>-</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>115,000</u>	<u>64,037</u>	<u>16,260</u>
USES OF FUNDS			
Land/building acquisition	83,000	57,637	14,633
Administrative costs	11,000	16,589	1,489
Interest expense	<u>21,000</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>115,000</u>	<u>74,226</u>	<u>16,122</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ (10,189)</u>	<u>\$ 138</u>

CITY OF MOUNTAIN IRON, MINNESOTA

**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR MOUNTAIN IRON TAX INCREMENT DISTRICT NO. 16
Year Ended December 31, 2022**

	<u>Budget</u>	<u>Accounted for in Prior Years</u>	<u>Current Year</u>
SOURCES OF FUNDS			
Tax increment revenue	\$ 158,437	\$ 21,218	\$ 9,670
Interest and investment earnings	<u>5,000</u>	<u>-</u>	<u>-</u>
TOTAL SOURCES OF FUNDS	<u>163,437</u>	<u>21,218</u>	<u>9,670</u>
USES OF FUNDS			
Land/building acquisition	60,000	19,096	8,703
Site improvements/preparation costs	51,371	-	-
Administrative costs	14,000	16,611	1,489
Interest expense	<u>38,066</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>163,437</u>	<u>35,707</u>	<u>10,192</u>
DISTRICT BALANCE	<u>\$ -</u>	<u>\$ (14,489)</u>	<u>\$ (522)</u>



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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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 the 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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Mountain Iron, Minnesota as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Mountain Iron, Minnesota's basic financial statements, and have issued our report thereon dated June 28, 2023. 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.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mountain Iron, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Mountain Iron, Minnesota's internal control.

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

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

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-002 and 2022-003 to be material weaknesses.

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 2022-001 to be a significant deficiency.

Report on Compliance

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2022-004 and 2022-005.

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that City of Mountain Iron, Minnesota failed to comply with the provisions of the contracting-bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Other Matters

We noted certain matters that we reported to management of City of Mountain Iron, Minnesota in a separate letter dated June 28, 2023, included under this cover.

City of Mountain Iron, Minnesota's Response to Findings

Government Auditing Standards requires the auditor perform limited procedures on the City of Mountain Iron, Minnesota's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Mountain Iron, Minnesota's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit

performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker, Miray & Helne, LLC

Virginia, Minnesota
June 28, 2023

CITY OF MOUNTAIN IRON, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2022

Prior Audit Financial Statement Findings

FINDING 2021-001. 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 2021-002. 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.

FINDING 2021-003. DELINQUENT MINNESOTA PERA CONTRIBUTIONS

Summary of Condition

PERA contributions were not remitted within 14 calendar days after three separate pay dates in 2021 resulting in the City is not complying with *Minnesota Statutes* §353.27 relating to timely remittance of employee and employer PERA contributions.

Summary of Corrective Action Previously Reported

Management agrees with the audit finding. Delinquent 2021 contributions and related interest were paid to PERA. Management and staff will review payroll withholdings to ensure timely payments to appropriate vendors.

Current Status

Resolved 2021; ongoing 2022.

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2022

2022-001. 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.

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.

2022-002. 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, 2022**

2022-002. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS (CONTINUED)

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit 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.

2022-003. BANK RECONCILIATIONS

Criteria

The City's checking account should be reconciled monthly and reported to management and the Council for review and approval. Outstanding and reconciling items should be investigated, identified, and corrections should be made to the reconciliation or general ledger if necessary.

Condition

The City's checking account reconciliation for December 31, 2022 contained many reconciling items that had not been corrected in the reconciliation or accounting software. Items were recorded in the general ledger as paid or receipted but were not actually paid or receipted by the City, items were paid or received by the City but not recorded in the general ledger, or items were recorded twice. Audit adjustments were made to correct checking account cash in the general ledger at December 31, 2022 in the amount of \$164,884.

Effect

Because cash is not properly reconciled to the bank statements, the City has not provided adequate control over its cash.

Cause

This occurred because City staff did not make necessary adjustments to the general ledger and bank reconciliation regarding outstanding items needed to accurately reconcile checking account cash.

Recommendations

Bank accounts must be reconciled monthly with all differences accounted for. Reconciliation documentation should be reviewed and approved by management and presented to Council members at monthly meetings. Outstanding items should all be investigated, identified, and adjustments or corrections made if necessary to reconcile the checking account. The "Bank Adjustments" function (currently used frequently) in the accounting software's bank reconciliation module should not be used for reconciling items unless absolutely necessary, as reconciling items entered here act as a "plug" to get the reconciliation to agree to the general ledger.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. Bank accounts will be reconciled on a monthly basis with all differences and reconciling items investigated, identified, and accounted for. Bank reconciliations will also be reviewed and approved by management and presented to Council members at monthly meetings.

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2022

2022-004. DELINQUENT MINNESOTA PERA CONTRIBUTIONS

Criteria

Minnesota Statutes require that payment to PERA for the aggregate amount of the employee contributions and the required employer contributions be received by PERA within 14 calendar days after each pay date pursuant to *Minnesota Statutes* §353.27.

Condition

PERA contributions were not remitted within 14 calendar days after the following three pay dates in the year of audit; April 15, 2022; October 28, 2022; and December 23, 2022.

Effect

The City is not in compliance with *Minnesota Statutes* relating to timely remittance of employee and employer PERA contributions.

Cause

This occurred because City staff did not review payroll withholdings to ensure proper and timely payment to appropriate vendors, including PERA.

Recommendations

We recommend the City remit overdue amounts to PERA and consistently review payroll withholding accounts and liabilities to ensure timely payments to appropriate vendors.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. Delinquent contributions and related interest will be paid to PERA as soon as possible. Management and staff will review payroll withholdings to ensure timely payments to appropriate vendors.

2022-005. DELINQUENT PAYROLL TAXES AND OTHER PAYROLL WITHHOLDINGS

Criteria

Federal and state payroll taxes are due to the Internal Revenue Service (IRS) and Minnesota Department of Revenue (MNDOR), respectively, on a semiweekly basis. Other payroll withholdings are to be paid timely to vendors, similar to accounts payable transactions, too.

Condition

Several federal and state payroll tax deposits, and several other payroll withholdings, were not paid timely during 2022. Quarterly federal payroll tax returns Form 941 did not agree with IRS records as to what was reported as paid by the City and what was actually paid by the City and received by the IRS.

Effect

The City is out of compliance with federal and state payroll tax deposit regulations. Several IRS notices were received during 2022 which included unpaid amounts due and related penalties and interest. The City's banking institution received a levy notice from MNDOR to hold funds regarding a late state quarterly payroll tax return payment (the City was subsequently refunded the held amount). There are eleven (11) liabilities recorded on the City's general ledger

CITY OF MOUNTAIN IRON, MINNESOTA
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2022

**2022-005. DELINQUENT PAYROLL TAXES AND OTHER PAYROLL WITHHOLDINGS
(CONTINUED)**

representing unpaid payroll taxes and other unpaid payroll withholdings as of December 31, 2022.

Cause

This occurred because City staff did not review payroll withholdings to ensure proper and timely payment to appropriate vendors, including the IRS and MNDOR.

Recommendations

We recommend the City remit overdue amounts to the IRS, MNDOR, and other payroll-related vendors and consistently review payroll withholding accounts and liabilities to ensure timely payments to appropriate vendors.

Views of Responsible Officials and Planned Corrective Action

Management agrees with the audit finding. Delinquent contributions and related penalties and interest will be paid to the IRS, MNDOR, and other payroll vendors as soon as possible. Management and staff will review payroll withholdings to ensure timely payments to appropriate vendors.



CITY OF MOUNTAIN IRON

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REPRESENTATION OF THE CITY OF MOUNTAIN IRON, MINNESOTA

CORRECTIVE ACTION PLAN Year Ended December 31, 2022

Finding Number: 2022-001

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: 2022-002

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.

Finding Number: 2022-003

Finding Title: BANK RECONCILIATIONS

Name of Contact Person Responsible for Corrective Action

Craig J. Wainio, City Administrator

Corrective Action Planned

Management agrees with the audit finding. The general checking account will be reconciled by the Accounting Technician on a monthly basis with all differences and reconciling items investigated, identified, and accounted for. Bank reconciliations will also be reviewed by management and presented to Council members at monthly meetings.

Finding Number: 2022-004

Finding Title: DELINQUENT MINNESOTA PERA CONTRIBUTIONS

Name of Contact Person Responsible for Corrective Action

Craig J. Wainio, City Administrator

Corrective Action Planned

Management agrees with the audit finding. Delinquent contributions and related interest will be paid to PERA as soon as possible. Management and staff will review payroll withholdings to ensure timely payments to appropriate vendors.

Anticipated Completion Date

June 30, 2023.

Finding Number: 2022-005

Finding Title: DELINQUENT PAYROLL TAXES AND OTHER PAYROLL WITHHOLDINGS

Name of Contact Person Responsible for Corrective Action

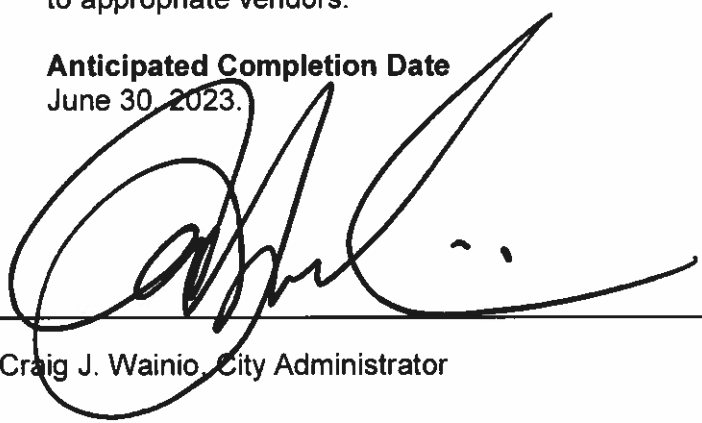
Craig J. Wainio, City Administrator

Corrective Action Planned

Management agrees with the audit finding. Delinquent contributions and related penalties and interest will be paid to the IRS, MNDOR, and other payroll vendors as soon as possible. Management and staff will review payroll withholdings to ensure timely payments to appropriate vendors.

Anticipated Completion Date

June 30, 2023.



A handwritten signature in black ink, appearing to read 'Craig J. Wainio', is written over a horizontal line. The signature is stylized and cursive.

Craig J. Wainio, City Administrator



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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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, 2022, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 28, 2023, included under this cover, contains our communication of significant deficiencies or material weaknesses in the City's internal control. This letter does not affect our report dated June 28, 2023, 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 these comments and suggestions with 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, water treatment enterprise fund, refuse removal and recycling enterprise fund, and Mountain Manor Apartments enterprise fund each reported an operating loss for the year ended December 31, 2022. The electric utility enterprise fund and water treatment enterprise fund have also recorded liabilities for amounts due to other funds of \$1,097,693 and \$1,190,854, respectively, for negative cash for financial reporting purposes. We suggest that the City Council review these losses and implement a plan to make the funds profitable and self-sufficient.
2. The past-due accounts receivable balance has increased in each of the past few years. We recommend that additional attention be given to these past-due accounts to ensure timely collection of utility receipts.
3. While reviewing payroll ledgers, we noted that various payroll liabilities do not reconcile with ledger activities posted into the general ledger from the payroll

module vs actual costs paid through the accounts payable module. It was also noted that voided and changed payrolls were not accounted for when paying liabilities properly. We recommend that the payroll module deductions for employer costs be updated based on current costs paid to the vendor to provide accurate records. We also recommend that ledger records and payroll records are reviewed by City staff to provide accurate data to vendors and employees, which will also allow for proper coding for payroll expenditures and liabilities.

This communication is intended solely 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, Giroux & Helne, LLC

Virginia, Minnesota
June 28, 2023