

CITY OF HIBBING, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2014

CITY OF HIBBING, MINNESOTA

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December 31, 2014

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CITY OF HIBBING, MINNESOTA

ORGANIZATION
December 31, 2014

CITY COUNCIL

Mayor	Rick Cannata
Council Members	
Ward A	Darby Sater
Ward B	Patricia Shafer
Ward C	Jack Lund
Ward D	Timothy Harkonen
Ward E	Jennifer Hoffman Saccoman
Clerk/Treasurer	Patrick L. Garrity

ADMINISTRATION

City Administrator	Tom Dicklich
Finance Director	Sherri A. Renskers

APPOINTED

City Attorney	Richard K. Sellman
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FINANCIAL SECTION

Fort & Company, P.A.

Certified Public Accountants

Diane D. Krueger-Pirnat, CPA
John W. Fort, CPA

Connor B. Michels, EA
Victoria C. Arnoldy, CPA
Kimberly A. Jarvis

Christine A. Towner, CPA
Benjamin R. Wilson

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hibbing, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Utilities Commission, which represent 93 percent, 92 percent, and 100 percent, respectively, of assets, net positions, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Utilities Commission, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Change in Financial Statement Classification that Represents a Correction of a Previous Misstatement

As discussed in Note 19 to the financial statements, in 2014 the City identified certain classification misstatements in the 2013 Statement of Activities that affected the comparability of Management's Discussion and Analysis. The reasons for the classification misstatements and the restated 2013 Statement of Activities are disclosed in Note 19. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Information, on pages 5 to 15 and 66 to 67 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hibbing, Minnesota's basic financial statements. The introductory section, the combining and individual nonmajor fund financial statements, the Hibbing Economic Development Authority's (a component unit) combining financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the City Council
July 24, 2015
Page 3

The introductory and the statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2015, on our consideration of the City of Hibbing, Minnesota's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hibbing, Minnesota's internal control over financial reporting and compliance.

Fort & Company
Fort & Company, PA
July 24, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2014. 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 Hibbing, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities have a total net position of \$36,043,301. Invested in capital assets, net of related debt represents \$19,099,238 of the total.
- Business-type activities have a total net position of \$24,819,724. Invested in capital assets, net of related debt represents \$23,782,656 of the total.
- The Hibbing Economic Development Authority (EDA) has a total net position of \$3,012,752. Invested in capital assets, net of related debt represents \$282,553 of the total.
- The City of Hibbing's primary government's net position increased by \$4,008,026 for the year ended December 31, 2014. The Governmental activities' net position increased by \$3,128,956 and the business-type activities' net position increased by \$879,070.
- The EDA's net position decreased by \$618,615 due to current year expenses incurred by the City to acquire the former Ogle's grocery store and prepare the site for development in connection with the Hampton Inn Tax Increment Financing District #12. Tax revenues will be recognized in future years as the tax increments are earned and retained by the City for repayment of the bonds issued to finance the current year's acquisition and site development expenses.
- The net cost of governmental activities was \$14,155,226 for the current year. The net cost was funded by general revenues and other items totaling \$17,284,182.
- Governmental funds' fund balances increased by \$3,305,125.
- The increase in Governmental Funds' fund balance was attributable to the City's success in monitoring costs while maintaining or exceeding expected revenues. The General Fund, 2013A G.O. Bond Debt Service Fund, Permanent Improvement Capital Projects Fund, and Mining Effects Capital Projects Fund revenues exceeded expenditures by \$2,744,769, \$308,834, \$121,858, and \$222,318, respectively. These increases were offset by expenditures exceeding revenues in the Capital Equipment and Improvement Capital Projects Fund by \$93,102.

CITY OF HIBBING, MINNESOTA

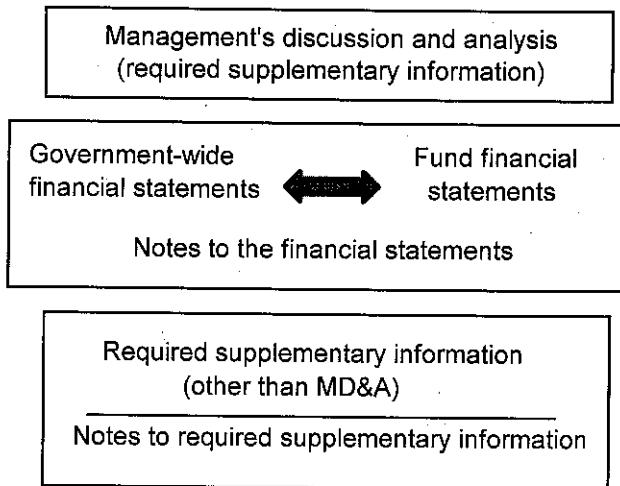
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

FINANCIAL HIGHLIGHTS (continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Hibbing, 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. The following chart demonstrates how the different pieces are interrelated.



CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

New Accounting Pronouncements

As further described in Note 1 to the financial statements, the City of Hibbing implemented GASB Statement No. 69, Government Combinations and Disposals of Government Operations and GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees for the year ended December 31, 2014.

Government-wide Financial Statements

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 long-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.

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 and liabilities 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 it has changed. You can think of the City's net position (the difference between assets and deferred outflows versus liabilities and deferred inflows) as one way to measure the City's financial health, or financial position. Increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors; such as changes in the City's property tax base and state aid and the condition of the City's buildings and streets also need to be considered in assessing the overall health of the City.

In the statement of net position and the statement of activities, activities are shown in the governmental activities, business-type activities or either one of the two component units (EDA or PUC):

Governmental activities

Most of the City's basic services are reported here, including general government, public safety, public works, culture and recreation, economic development and transportation. Property taxes, state and federal grants and aid finance most of these activities.

Business-Type activities

The City charges a fee to customers to help to cover all or most of the cost of services it provides. The City's sewer operations and refuse removal services are reported here.

Component Units

The Hibbing Economic Development Authority (EDA) and the Hibbing Public Utilities Commission (PUC) are reported here. EDA does not prepare separate financial statements. Complete financial statements of the PUC may be obtained from Hibbing Public Utilities Commission, 19th Street and East 6th Avenue, Hibbing, Minnesota 55746.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

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 funds statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental funds 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. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described 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 proprietary funds are the same as the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position increased from \$56,854,999 to \$60,863,025. This increase includes \$194,272 of operations transfer in for the Hibbing Racetrack. Looking at the net position and net expenses of governmental and business-type activities separately, highlights the details of the increase in net position for the year. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets						
Capital assets	\$ 32,127,916	\$ 28,666,950	\$ 1,524,433	\$ 1,051,378	\$ 33,652,349	\$ 29,718,328
Total assets	<u>\$ 24,961,474</u>	<u>24,810,052</u>	<u>36,294,812</u>	<u>36,412,069</u>	<u>61,256,286</u>	<u>61,222,121</u>
	<u>\$ 57,089,390</u>	<u>\$ 53,477,002</u>	<u>\$ 37,819,245</u>	<u>\$ 37,463,447</u>	<u>\$ 94,908,635</u>	<u>\$ 90,940,449</u>
Long-term liabilities						
Other liabilities	\$ 17,914,534	\$ 17,628,243	\$ 12,596,824	\$ 13,032,127	\$ 30,511,358	\$ 30,660,370
Total liabilities	<u>3,131,555</u>	<u>2,934,414</u>	<u>402,697</u>	<u>490,666</u>	<u>3,534,252</u>	<u>3,425,080</u>
	<u>\$ 21,046,089</u>	<u>\$ 20,562,657</u>	<u>\$ 12,999,521</u>	<u>\$ 13,522,793</u>	<u>\$ 34,045,610</u>	<u>\$ 34,085,450</u>
Net position						
Invested in capital assets						
net of debt	\$ 19,099,238	\$ 18,382,108	\$ 23,782,656	\$ 23,468,203	\$ 42,881,894	\$ 41,850,311
Restricted	<u>5,285,490</u>	<u>4,456,163</u>			<u>5,285,490</u>	<u>4,456,163</u>
Unrestricted	<u>11,658,573</u>	<u>10,076,074</u>	<u>1,037,068</u>	<u>472,451</u>	<u>12,695,641</u>	<u>10,548,525</u>
Total net position	<u>\$ 36,043,301</u>	<u>\$ 32,914,345</u>	<u>\$ 24,819,724</u>	<u>\$ 23,940,654</u>	<u>\$ 60,863,025</u>	<u>\$ 56,854,999</u>

Net position of the City's governmental activities increased by 9.50 percent (\$36,043,301 in 2014 compared to \$32,914,345 in 2013). 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 requirements) changed from \$10,076,074 at December 31, 2013, to \$11,658,573 at the end of 2014.

Net position of the City's business-type activities increased 3.67 percent (\$24,819,724 in 2014 compared to \$23,940,654 in 2013).

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,812,617	\$ 3,069,859	\$ 5,728,129	\$ 5,725,992	\$ 8,540,746	\$ 8,795,851
Operating grants and contributions	1,522,432	1,331,588	-	-	1,522,432	\$ 1,331,588
Capital grants and contributions	937,669	1,416,973	466,665	1,532,168	1,404,334	\$ 2,949,141
General revenues:						
Taxes	8,957,817	8,427,474	-	-	8,957,817	8,427,474
Intergovernmental	8,109,953	8,024,094	-	-	8,109,953	8,024,094
Other general revenues (expenses)	57,362	(20,600)	(47,778)	12,562	9,584	(8,038)
Total revenues	<u>22,397,850</u>	<u>22,249,388</u>	<u>6,147,016</u>	<u>7,270,722</u>	<u>28,544,866</u>	<u>29,520,110</u>
Program expenses:						
General government	3,439,014	3,161,783	-	-	3,439,014	3,161,783
Public safety	7,648,708	7,662,166	-	-	7,648,708	7,662,166
Public works	4,850,785	7,083,966	-	-	4,850,785	7,083,966
Culture and recreation	3,038,500	3,017,242	-	-	3,038,500	3,017,242
Other	314,197	295,583	590	9,214	314,787	304,797
Interest	136,740	91,283	234,512	223,640	371,252	314,923
Garbage and refuse collection	-	-	2,454,079	2,314,388	2,454,079	2,314,388
Sewer operating and maintenance	-	-	2,577,879	2,455,534	2,577,879	2,455,534
Memorial building concessions	-	-	886	862	886	862
Total program expenses	<u>19,427,944</u>	<u>21,312,023</u>	<u>5,267,946</u>	<u>5,003,638</u>	<u>24,695,890</u>	<u>26,315,661</u>
Transfers						
Operations transfer in	(35,222)	(455,000)	-	350,000	(35,222)	(105,000)
	<u>194,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>194,272</u>	<u>-</u>
Increase (decrease) in net position	<u>\$ 3,128,956</u>	<u>\$ 482,365</u>	<u>\$ 879,070</u>	<u>\$ 2,617,084</u>	<u>\$ 4,008,026</u>	<u>\$ 3,099,449</u>

The City's total revenues decreased by \$975,244 or 3.30 percent. The total cost of all programs and services decreased by \$1,619,771 or 6.16 percent. Our analysis below separately considers the operations of governmental, business-type activities, and EDA - Component Unit activity.

Governmental Activities

Revenue for the City's governmental activities increased by \$148,462 or 0.67 percent and total expenses decreased by \$1,884,079 or 8.84 percent. These differences created an increase in the changes in net position for governmental activities of \$2,646,591 in 2014 compared to 2013.

The cost of all governmental activities this year was \$19,427,944. As shown in the Statement of Activities, some of the cost were paid by those who directly benefited from the programs, \$2,812,617, or by other governments and organizations that subsidized certain programs with grants and contributions, \$10,570,054. Taxpayers paid \$8,957,817 in taxes in 2014.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

Table 3 represents the cost of each of the City's four largest programs as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these programs.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Public safety	\$ 7,648,708	\$ 7,662,166	\$ 4,934,863	\$ 4,683,700
Public works	4,850,785	7,083,966	3,424,443	6,225,192
General government	3,439,014	3,161,783	3,127,405	2,827,586
Culture and recreation	3,038,500	3,017,242	2,651,574	1,635,792
Other	314,197	295,583	(119,779)	30,050
Interest on long-term debt	136,740	91,283	136,740	91,283
Totals	\$ 19,427,944	\$ 21,312,023	\$ 14,155,246	\$ 15,493,603

Business-Type Activities

Revenues of the City's business-type activities were \$6,147,016 and expenses were \$5,267,946 (see Table 2). There was an increase in net position of \$879,070 during the year ended December 31, 2014. The factors driving these results include:

Operations produced \$695,285 of income for the year ended December 31, 2014.

The City recognized capital grants totaling \$466,665 for the year.

The City had non-operating interest expense totaling \$234,512 for the year.

EDA Component Unit Activity

The EDA had a net decrease in net position of \$618,615 for the year ended December 31, 2014. General revenues, including items such as taxes and grants not restricted to specific programs, accounted for \$254,212 of this, with net program expenses over revenue of \$872,827. The EDA's net position decreased by \$618,615 due to current year expenses incurred by the City to acquire the former Ogle's grocery store and prepare the site for development in connection with the Hampton Inn Tax Increment Financing District #12. Tax revenues will be recognized in future years as the tax increments are earned and retained by the City for repayment of the bonds issued to finance for the current year's acquisition and site development expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$28,510,579 which is greater than last year's total of \$25,205,454. The general fund had an increase of \$884,347 due to the City's plan to continue to monitor costs and a budget plan for revenues to exceed expenditures. The Library Fund had a \$37,759 increase in fund balance after considering a \$10,461 transfer from the General Fund. The largest increase in other governmental funds was for \$829,000 in the Other Post Employment Benefits Debt Service Fund which was due to current year transfers. The next largest increase was \$459,858 in the Permanent Improvement Capital Projects Fund which was mainly due to current year transfers.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$975,764 below the final budget amounts. The most significant positive variances occurred in the City's miscellaneous, \$374,405, and public safety, \$335,851. The most significant negative variance (\$174,258) occurred in the City's transportation expenditures. Resources available for appropriation were above the final budgeted amounts by \$997,599. The City received more in intergovernmental revenue, taxes, licenses and permit revenue, charges for services, fines, gifts and contributions, and miscellaneous revenue than expected.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had \$61,256,286 invested in a broad range of capital assets, net of accumulated depreciation, including land, land improvements, buildings, infrastructure and equipment (see Table 4 below). This amount represents a net increase (including additions and deductions) of \$34,164 over last year.

Table 4
Capital Assets at Year-end
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land, improvements, intangibles, artwork, gravel roads	\$ 6,508,440	\$ 6,406,440	\$ 423,719	\$ 423,719	\$ 6,932,159	\$ 6,830,159
Buildings and improvements	8,093,527	7,240,650	14,403,137	15,079,241	22,496,664	22,319,891
Infrastructure	6,178,645	6,443,965	12,546,312	12,633,862	18,724,957	19,077,827
Equipment, machinery and furniture	3,186,536	3,083,087	984,289	901,630	4,170,825	3,984,717
Construction in progress	994,326	1,635,910	7,937,355	7,373,618	8,931,681	9,009,528
Totals	\$ 24,961,474	\$ 24,810,052	\$ 36,294,812	\$ 36,412,070	\$ 61,256,286	\$ 61,222,122

This year's major additions included:

Heart start monitor	\$ 16,876
Stryker power cot	14,948
Mower & snowblower	36,408
Vote tabulator system	19,740
Three thermal imaging cameras	15,420
HD live video mixer	27,883
HP server	10,100
Two 2014 ambulances	301,864
Two 2014 Ford Goshen buses	175,732
2015 GMC Sierra 250 crew	42,870
Dump box	24,692
2015 Ford F350	45,008
Two 2014 Dodge squad cars	58,639
City Hall remodel	26,262
Townline firehall furnaces	11,125
Curling Club renovation	1,119,799
Pavilion roof	12,496
Vic Power bitumous	22,844
Carey Lake beach house	24,179
Vic Power chain link fence	19,243
Blacktopping cemetery	19,469
Tapala Road	511,285
Memorial Building Curling Club	18,673
Memorial Building improvements	122,827
Hi-speed internet	13,830
City Hall remodel and others	173,225
31st Street	122,186
Lindquist Road	315,457
Dillon Road	97,714
Corey Tracts Road	129,341
Ansley Road (Marshview) addition	153,963
Sewer projects	563,736
Storm sewer projects	252,321
2015 International truck	99,094
Pak-Mor cu yd body	81,188
Total additions	\$ 4,700,437

More detailed information about the City's capital assets is presented in Note 4 to the financial statements.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Debt

At year-end, the City had \$31,817,123 in long-term debt outstanding versus \$31,215,276 last year (see Table 5).

Table 5
Outstanding Debt at Year-end

	Governmental Activities		Business-type Activities		EDA Component Unit	
	2014	2013	2014	2013	2014	2013
General obligation bonds (backed by the City)	\$ 5,424,037	\$ 5,905,038	\$ -	\$ -	\$ 1,305,765	\$ 554,906
Certificates of indebtedness	93,000	153,000	-	-	-	-
Capital leases	345,199	369,906	-	-	-	-
Police and Fire indebtedness	-	-	-	-	-	-
General obligation revenue notes	-	-	9,748,166	10,040,229	-	-
General obligation revenue bonds	-	-	2,763,990	2,903,637	-	-
Compensated absences	275,339	213,885	84,668	88,261	-	-
OPEB liability	11,776,959	10,986,414	-	-	-	-
Total	\$ 17,914,534	\$ 17,628,243	\$ 12,596,824	\$ 13,032,127	\$ 1,305,765	\$ 554,906

The State limits the amount of net debt that the City's can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$5,424,037 is significantly below the \$18,536,940 State-imposed limit.

For more details on the City's outstanding debt at year end refer to Note 7, Long-Term debt.

MODIFIED APPROACH FOR GRAVEL ROADS

The City has elected to use the modified approach to report its gravel roads infrastructure assets. The City anticipated spending a certain amount annually to preserve the condition of these gravel roads to a certain minimal level. Annually the gravel roads condition will be assessed to compare to the level the government has established.

There was no significant change in the assessed condition of the gravel roads from the previous assessment.

The current assessed condition compares favorably with the condition level the City has established.

The estimated annual cost to maintain the gravel roads was \$306,000 as compared to the actual costs during the current year of \$324,888, which included 6 road lifts and 7 spot road repairs.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2015 budget, tax rates, and fees that will be charged for the business-type activities.

The General Fund expenditures for 2015 are budgeted to be \$17,114,254, which is a \$125,414 decrease from the 2014 final budget. This is a 0.7 percent decrease from the 2014 original General Fund budgeted expenditures of \$17,239,668. Of the decreased expenditures, \$829,000 relates to a transfer out to fund Other Postemployment Benefit (OPEB) liability, offset by an increase in personnel costs of \$571,000, operating expenditure decrease of \$27,000, and a decrease in revenues of \$159,000.

Property tax levies increased 3.28 percent for 2015 despite the decrease in the General Fund spending due to a separate levy for OPEB debt service and decreases in the capital and permanent improvement levies.

Consistent with the national and global economy, rising health care and fuel costs significantly impact the City's budgets.

The 2013 State Legislature revised the local government aid (LGA) formula used to distribute LGA funding. The "need" factor will be three-tiered depending on the population of the city with separate calculations for cities under 2,500 in population, cities between 2,500 and 10,000 in population, and cities over 10,000 in population because different factors explain variation in a city's revenue base for different size cities. All three formulas were derived using revenue base (levy plus aid) as a proxy for city need. The new formula also stabilizes a city's allocation by capping the maximum annual loss for any city as well as distributing proportionally larger increases to cities whose current aid amount is furthest from their unmet need. For Hibbing, these changes will increase anticipated LGA by \$100,965 in 2015, up from the \$7,994,316 received in 2011, 2012, and 2013. This anticipated 2015 LGA is \$12,875, greater than the \$8,082,406 received in 2014.

The City relies heavily on State LGA and taconite aids to fund its budget. LGA payments are anticipated to supply 47.3% of General Fund revenues, with taconite aids expected to furnish 12.4% of General Fund revenues. The City is subject to cuts from the State government at times when the State budget is not balanced. Additionally the price of steel in the global market affects the City due to taconite aid received in lieu of property taxes, which is based on tonnage produced. The downturn in mining which began during 2015 will reduce the amount of taconite aids received during 2016 through 2018 and even further into the future if the production continues to decline.

The City's 2015 capital budget calls for it to spend another \$2,563,155 for capital projects, principally for the following:

Ambulance	\$ 260,000
Cemetery	37,000
Engineering	7,000
General government	115,000
Library	95,000
Memorial Building	16,000
Parks, recreation and arena	444,000
Public safety	236,734
Public works	786,000
Other	<u>566,421</u>
Total	<u>\$ 2,563,155</u>

Some of the projects are subject to obtaining grants.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City's Financial Director, Sherri Renskers, City of Hibbing, 401 East 21st Street, Hibbing, Minnesota 55746.

BASIC FINANCIAL STATEMENTS

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET POSITION

December 31, 2014

	Primary government			Component Units	
	Business -		Total	EDA	PUC
	Governmental Activities	Type Activities			
ASSETS					
Cash and cash equivalents	\$ 26,387,676	\$ 2,402,093	\$ 28,789,769	\$ 2,165,501	\$ -
Investments	2,483,629		2,483,629		
Taxes receivable	449,773	2,200	451,973	128,407	
Special assessments receivable	153,165	88,425	241,590		
Accounts receivable	232,686	23,142	255,828	1,089	7,260,153
Interest receivable	4,630		4,630		
Unbilled revenues					1,456,038
Internal balances	1,698,123	(1,698,123)			
Due from other governments	492,766	251,887	744,653		
Due from developers	197,526		197,526		
Due from other component units		451,998	451,998		
Due from primary government				345,199	
Loans receivable	8,734		8,734	1,391,980	
Inventories	531	2,811	3,342		900,498
Prepaid expenses	18,677		18,677		364,522
Equity in joint venture					12,685,371
Temporarily restricted assets					
Cash and cash equivalents				46,286	1,180,160
Investments held with fiscal agents					337,001
Capital assets not being depreciated					
Land, improvements, artwork, gravel roads, intangibles and construction in progress	7,502,766	8,361,074	15,863,840	265,480	622,301
Capital assets net of accumulated depreciation					
Infrastructure	24,362,909	13,859,398	38,222,307	19,699	
Buildings and improvements	23,264,660	24,838,054	48,102,714		10,909,841
Transmissions and distribution system					49,099,672
Equipment, machinery and furniture	11,789,245	4,425,993	16,215,238		54,026,737
Less: accumulated depreciation	(41,958,106)	(15,189,707)	(57,147,813)	(2,626)	(76,949,420)
TOTAL ASSETS	\$ 57,089,390	\$ 37,819,245	\$ 94,908,635	\$ 4,361,015	\$ 61,892,874
LIABILITIES AND NET POSITION					
LIABILITIES					
Accounts payable	\$ 238,426	\$ 62,740	\$ 301,166	\$ 12,485	\$ 4,441,136
Salaries payable	1,173,864	53,163	1,227,027	115	
Notes payable					
Due to other governments	202,123	21,575	223,698	1,609	
Due to primary government					451,998
Contracts payable	159,745	11,940	171,685	1,700	
Customer deposits					296,744
Other accrued liabilities	74,853		74,853		151,432
Unearned revenue	1,225,575		1,225,575		22,797
Accrued interest payable	56,969	87,802	144,771	26,589	9,110
Compensated absences		165,477	165,477		387,506
Long-term liabilities					
Due to component unit	345,199		345,199		
Compensated absences	275,339	84,668	360,007		976,182
OPEB liability	11,776,959		11,776,959		15,389,154
Due within one year	666,000	1,020,173	1,686,173	71,190	1,053,678
Due in more than one year	4,851,037	11,491,983	16,343,020	1,234,575	5,470,918
TOTAL LIABILITIES	\$ 21,046,089	\$ 12,999,521	\$ 34,045,610	\$ 1,348,263	\$ 28,650,655
NET POSITION					
Invested in capital assets, net of related debt	19,099,238	23,782,656	42,881,894	282,553	35,662,131
Restricted for					
Capital projects	3,458,144		3,458,144	110,601	
Debt service	1,512,041		1,512,041	292,997	860,619
Other purposes	315,305		315,305		
Unrestricted	11,658,573	1,037,068	12,695,641	2,326,601	(3,280,531)
TOTAL NET POSITION	\$ 36,043,301	\$ 24,819,724	\$ 60,863,025	\$ 3,012,752	\$ 33,242,219
TOTAL LIABILITIES AND NET POSITION	\$ 57,089,390	\$ 37,819,245	\$ 94,908,635	\$ 4,361,015	\$ 61,892,874

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

Functions/Programs	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Interest on Loans Receivable
Primary Government					
Governmental activities					
General government	\$ 3,439,014	\$ 311,609	\$ -	\$ -	\$ -
Public safety	7,648,708	2,040,077	673,768	-	-
Public works	4,850,785	58,009	584,833	783,500	-
Culture and recreation	3,038,500	344,862	23,788	18,276	-
Economic development	16,473	-	-	-	-
Transportation	297,724	58,060	240,043	135,893	-
Interest on long-term debt	136,740	-	-	-	-
Total Governmental Activities	<u>19,427,944</u>	<u>2,812,617</u>	<u>1,522,432</u>	<u>937,669</u>	<u>-</u>
Business-Type Activities					
Garbage and refuse collection	2,454,079	2,665,487	-	-	-
Sewer operating and maintenance	2,812,981	3,054,235	-	466,665	-
Memorial building concessions	886	8,407	-	-	-
Total Business-Type Activities	<u>5,267,946</u>	<u>5,728,129</u>	<u>-</u>	<u>466,665</u>	<u>-</u>
Total Primary Government	<u>\$ 24,695,890</u>	<u>\$ 8,540,746</u>	<u>\$ 1,522,432</u>	<u>\$ 1,404,334</u>	<u>\$ -</u>
Component Units					
EDA	\$ 918,900	\$ -	\$ -	\$ -	\$ 46,073
PUC	<u>29,981,446</u>	<u>27,893,677</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Component Units	<u>\$ 30,900,346</u>	<u>\$ 27,893,677</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,073</u>

General Revenues

Taxes

 Property taxes, levied for general purposes

 Property taxes, levied for specific purposes

 Franchise taxes

 Tax increment financing

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain (loss) on sale of capital assets

Special Item - Transfer of Raceway Operations from St. Louis County

Transfers

Total General Revenues, Special Items, and Transfers

Change in Net Position

NET POSITION - JANUARY 1

NET POSITION - DECEMBER 31

Net (Expense) Revenue and Changes in Net Position					
Primary Government			Component Units		
Governmental Activities	Business-Type Activities	Total	EDA	PUC	
\$ (3,127,405)	\$ -	\$ (3,127,405)			
(4,934,863)	-	(4,934,863)			
(3,424,443)	-	(3,424,443)			
(2,651,574)	-	(2,651,574)			
(16,473)	-	(16,473)			
136,272	-	136,272			
(136,740)	-	(136,740)			
<u>(14,155,226)</u>	<u>-</u>	<u>(14,155,226)</u>			
	211,408	211,408			
-	707,919	707,919			
-	7,521	7,521			
-	<u>926,848</u>	<u>926,848</u>			
<u>(14,155,226)</u>	<u>926,848</u>	<u>(13,228,378)</u>			
		\$ (872,827)	\$ -		
				(2,087,769)	
		<u>\$ (872,827)</u>	<u>\$ (2,087,769)</u>		
6,285,926	-	6,285,926			
2,521,531	-	2,521,531	120,114		
150,360	-	150,360			
			96,947		
8,109,953	-	8,109,953	63	7,322	
50,973	2,987	53,960	1,866	12,110	
6,389	(50,765)	(44,376)	-	-	
194,272	-	194,272	-	-	
(35,222)	-	(35,222)	35,222	-	
<u>17,284,182</u>	<u>(47,778)</u>	<u>17,236,404</u>	<u>254,212</u>	<u>19,432</u>	
3,128,956	879,070	4,008,026	(618,615)	(2,068,337)	
32,914,345	23,940,654	56,854,999	3,631,367	35,310,556	
<u>\$ 36,043,301</u>	<u>\$ 24,819,724</u>	<u>\$ 60,863,025</u>	<u>\$ 3,012,752</u>	<u>\$ 33,242,219</u>	

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

CITY OF HIBBING, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS**
December 31, 2014

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,332,208	\$ 327,610	\$ 15,727,858	\$ 26,387,676
Investments	2,483,629	-	-	2,483,629
Taxes, receivable	413,141	6,875	29,757	449,773
Special assessments receivable	-	-	153,166	153,166
Accounts receivable	230,008	-	2,677	232,685
Interest receivable	4,630	-	-	4,630
Due from other funds	1,698,123	-	-	1,698,123
Due from other governments	417,375	-	75,390	492,765
Due from developers	197,526	-	-	197,526
Loans receivable	-	-	54,865	54,865
Prepaid items and other assets	12,251	6,957	-	19,208
TOTAL ASSETS	\$ 15,788,891	\$ 341,442	\$ 16,043,713	\$ 32,174,046
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 223,742	\$ 3,779	\$ 10,906	\$ 238,427
Salaries payable	1,114,783	59,081	-	1,173,864
Due to other funds	-	-	-	-
Due to other governments	193,922	4,754	3,447	202,123
Contracts payable	-	-	159,745	159,745
Unearned revenue	3,554	17,964	1,204,057	1,225,575
Other accrued liabilities	74,851	-	-	74,851
TOTAL LIABILITIES	1,610,852	85,578	1,378,155	3,074,585
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Property taxes	380,851	-	-	380,851
Special assessments	-	-	153,166	153,166
Loans receivable	-	-	54,865	54,865
TOTAL DEFERRED INFLOWS OF RESOURCES	380,851	-	208,031	588,882
FUND BALANCES				
Nonspendable	11,720	6,957	-	18,677
Restricted	47,721	248,907	4,970,185	5,266,813
Committed	-	-	8,335,357	8,335,357
Assigned	9,191,371	-	1,151,985	10,343,356
Unassigned	4,546,376	-	-	4,546,376
TOTAL FUND BALANCES	13,797,188	255,864	14,457,527	28,510,579
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 15,788,891	\$ 341,442	\$ 16,043,713	\$ 32,174,046

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

CITY OF HIBBING, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION
December 31, 2014

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 28,510,579
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	24,961,474
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds	
Loans receivable	8,734
Delinquent property taxes	380,851
Deferred and delinquent special assessments	153,166
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(56,969)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(17,914,534)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 36,043,301</u>

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

CITY OF HIBBING, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2014

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 6,216,650	\$ 585,733	\$ 2,158,116	\$ 8,960,499
Special assessments	-	-	76,063	76,063
Licenses and permits	192,326	-	-	192,326
Intergovernmental	9,181,363	310	1,354,911	10,536,584
Charges for services	2,340,174	18,785	15,666	2,374,625
Fines	108,498	-	-	108,498
Gifts and contributions	11,178	13,208	10,384	34,770
Investment income (loss)	41,831	246	8,895	50,972
Miscellaneous	77,189	-	1,175	78,364
TOTAL REVENUES	18,169,209	618,282	3,625,210	22,412,701
EXPENDITURES				
Current				
General government	1,758,622	-	-	1,758,622
Public safety	6,157,736	-	-	6,157,736
Public works	2,851,711	-	-	2,851,711
Culture and recreation	1,872,387	590,984	-	2,463,371
Economic development	16,473	-	-	16,473
Transportation	294,151	-	-	294,151
Miscellaneous	2,258,793	-	-	2,258,793
Debt Service				
Principal	24,707	-	540,000	564,707
Interest and other charges	14,128	-	103,102	117,230
Capital Outlay				
General government	-	-	118,143	118,143
Public safety	-	-	482,697	482,697
Public works	-	-	1,519,021	1,519,021
Culture and recreation	-	-	256,453	256,453
Transportation	175,732	-	-	175,732
Miscellaneous	-	-	55,877	55,877
TOTAL EXPENDITURES	15,424,440	590,984	3,075,293	19,090,717
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	2,744,769	27,298	549,917	3,321,984
OTHER FINANCING SOURCES (USES)				
Transfers in	-	10,461	1,876,951	1,887,412
Transfers out	(1,872,634)	-	(50,000)	(1,922,634)
Debt issuance	-	-	-	-
Sale of capital assets	12,212	-	6,151	18,363
TOTAL OTHER FINANCING SOURCES (USES)	(1,860,422)	10,461	1,833,102	(16,859)
NET CHANGE IN FUND BALANCES	884,347	37,759	2,383,019	3,305,125
FUND BALANCES - JANUARY 1	12,912,841	218,105	12,074,508	25,205,454
FUND BALANCES - DECEMBER 31	\$ 13,797,188	\$ 255,864	\$ 14,457,527	\$ 28,510,579

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

CITY OF HIBBING, 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, 2014

Amounts reported for Governmental Activities in the Statement of Activities are different because:

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 3,305,125

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 life.

Expenditures for capital assets	1,977,078
Less current year depreciation	(2,007,953)
Transfer of raceway operations from St. Louis County	<u>194,272</u>
 Net capital assets	163,397

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and disposals) is to decrease net assets.

Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Change in deferred inflows of resources - delinquent property taxes	(2,681)
Change in deferred inflows of resources - special assessments	(18,110)
Change in deferred inflows of resources - loans receivable	<u>-</u>

Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net position.

Debt issued		
Principal repaid	564,707	
Bond premium	<u>1,001</u>	
		565,708

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.

Change in accrued interest payable on long-term debt	(20,510)
Change in long-term compensated absences	(61,454)
Change in long-term other postemployment benefits	<u>(790,545)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 3,128,956

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

CITY OF HIBBING, MINNESOTA

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**
December 31, 2014

Business-Type Activities - Enterprise Funds					
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,869,843	\$ 358,204	\$ 174,046	\$ 2,402,093	
Special assessments receivable	25,071	63,354	-	88,425	
Taxes receivable	2,200	-	-	2,200	
Accounts receivable	21,465	1,677	-	23,142	
Due from other governments	-	251,887	-	251,887	
Due from component units	200,929	251,069	-	451,998	
Inventories	2,811	-	-	2,811	
Prepaid expenses	-	-	-	-	
TOTAL CURRENT ASSETS	2,122,319	926,191	174,046	3,222,556	
NONCURRENT ASSETS					
OTHER ASSETS					
Capital assets					
Land and improvements	297,689	126,030	-	423,719	
Construction in progress	-	7,937,355	-	7,937,355	
Infrastructure	-	13,859,398	-	13,859,398	
Buildings and improvements	121,085	24,716,969	-	24,838,054	
Equipment, machinery and furniture	3,019,275	1,382,358	24,360	4,425,993	
Less accumulated depreciation	(2,560,036)	(12,605,311)	(24,360)	(15,189,707)	
TOTAL NONCURRENT ASSETS	878,013	35,416,799	-	36,294,812	
TOTAL ASSETS	3,000,332	36,342,990	174,046	39,517,368	
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	50,447	12,293	-	62,740	
Salaries payable	27,470	25,693	-	53,163	
Accrued interest payable	-	87,802	-	87,802	
Due to other funds	-	1,698,123	-	1,698,123	
Due to other governments	12,972	8,603	-	21,575	
Other accrued expenses	-	-	-	-	
Unearned revenue	-	-	-	-	
Compensated absences	93,500	71,977	-	165,477	
Contracts payable	-	11,940	-	11,940	
Bonds, notes and leases payable-current	-	1,020,173	-	1,020,173	
TOTAL CURRENT LIABILITIES	184,389	2,936,604	-	3,120,993	
NONCURRENT LIABILITIES					
Compensated absences	45,451	39,217	-	84,668	
Bonds, notes and leases payable	-	11,491,983	-	11,491,983	
TOTAL NONCURRENT LIABILITIES	45,451	11,531,200	-	11,576,651	
TOTAL LIABILITIES	229,840	14,467,804	-	14,697,644	
NET POSITION					
Invested in Capital assets, net of related debt	878,013	22,904,643	-	23,782,656	
Unrestricted	1,892,479	(1,029,457)	174,046	1,037,068	
TOTAL NET POSITION	\$ 2,770,492	\$ 21,875,186	\$ 174,046	\$ 24,819,724	

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

CITY OF HIBBING, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended December 31, 2014

Business-Type Activities - Enterprise Funds				
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals
OPERATING REVENUES				
Charges for services	\$ 2,663,856	\$ 3,041,376	\$ 8,407	\$ 5,713,639
Sewer connect fees		10,497		10,497
Miscellaneous	1,631	2,362		3,993
TOTAL OPERATING REVENUES	2,665,487	3,054,235	8,407	5,728,129
OPERATING EXPENSES				
Personal services	856,921	812,617		1,669,538
Contractual services	999,458	101,475		1,100,933
Administration	438			438
Utilities	24,284	254,664		278,948
Repairs and maintenance	87,735	43,374	117	131,226
Other supplies and expenses	132,586	254,830	272	387,688
Insurance claims and expenses	60,514	50,441		110,955
Depreciation	286,744	1,042,373		1,329,117
Miscellaneous	5,399	18,105	497	24,001
OTHER OPERATING EXPENSES	2,454,079	2,577,879	886	5,032,844
OPERATING INCOME	211,408	476,356	7,521	695,285
NONOPERATING REVENUES (EXPENSES)				
Interest income	2,279	475	233	2,987
Miscellaneous revenue (expense)		(590)		(590)
Impairment loss on capital assets				
Sale of capital assets		(50,765)		(50,765)
Operating grants				
Interest expense		(234,512)		(234,512)
Transfer from primary government				
TOTAL NONOPERATING REVENUES (EXPENSES)	2,279	(285,392)	233	(282,880)
INCOME BEFORE CAPITAL GRANTS	213,687	190,964	7,754	412,405
CAPITAL GRANTS	-	466,665	-	466,665
CHANGE IN NET POSITION	213,687	657,629	7,754	879,070
TOTAL NET POSITION - JANUARY 1	2,556,805	21,217,557	166,292	23,940,654
TOTAL NET POSITION - DECEMBER 31	\$ 2,770,492	\$ 21,875,186	\$ 174,046	\$ 24,819,724

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended December 31, 2014

Business-Type Activities - Enterprise Funds				
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,640,833	\$ 3,037,568	\$ 8,407	\$ 5,686,808
Cash paid to suppliers	(1,579,324)	(972,366)	(389)	(2,552,079)
Cash paid to employees	(547,018)	(529,021)	-	(1,076,039)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	514,491	1,536,181	8,018	2,058,690
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous (payment) collection	-	(590)	-	(590)
Interfund financing payments	-	(148,192)	-	(148,192)
Transfer from primary government	-	-	-	-
Prior year cash deficit advances	-	-	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-	(148,782)	-	(148,782)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase or construction of capital assets	(202,815)	(1,290,654)	-	(1,493,469)
Proceeds from sale of capital assets	-	66,043	-	66,043
Advances on notes payable	-	591,937	-	591,937
Principal paid on long-term debt	-	(1,023,647)	-	(1,023,647)
Interest paid on long-term debt	-	(235,310)	-	(235,310)
Issuance costs paid on long-term debt	-	-	-	-
Capital grants and contributions	-	511,097	-	511,097
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(202,815)	(1,380,534)	-	(1,583,349)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	2,279	475	233	2,987
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	313,955	7,340	8,251	329,546
CASH AND CASH EQUIVALENTS, JANUARY 1	1,555,888	350,864	165,795	2,072,547
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 1,869,843	\$ 358,204	\$ 174,046	\$ 2,402,093

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
Year Ended December 31, 2014

Business-Type Activities - Enterprise Funds					
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 211,408	\$ 476,356	\$ 7,521	\$ 695,285	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	286,744	1,042,373	-	1,329,117	
(Increase) decrease in:					
Special assessments receivable	1,955	28,202	-	30,157	
Taxes receivable	(1,581)	-	-	(1,581)	
Accounts receivable	(20,998)	(1,002)	-	(22,000)	
Due from component unit	(4,545)	(42,570)	-	(47,115)	
Inventories	293	-	-	293	
Prepaid expenses	-	-	497	497	
Increase (decrease) in:					
Accounts payable	15,552	1,627	-	17,179	
Salaries payable	5,467	4,871	-	10,338	
Other accrued expenses	-	-	-	-	
Deferred revenue	-	-	-	-	
Compensated absences - current	(15,439)	7,787	-	(7,652)	
Due to other governments	515	(1,297)	-	(782)	
Compensated absences - long-term	35,120	19,834	-	54,954	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 514,491	\$ 1,536,181	\$ 8,018	\$ 2,058,690	

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

NOTES TO FINANCIAL STATEMENTS

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hibbing (the City) was incorporated on August 15, 1893. The City operates as a statutory city under the standard plan. Under the standard plan, voters elect a mayor, clerk-treasurer, and five councilors. Pursuant to statutory authorization, the City has combined the duties of treasurer and clerk into one position.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles) as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of significant accounting policies.

A. Financial Reporting Entity

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the City, (2) organizations for which the City is financially accountable and (3) other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the application of these criteria, the following component units are included within the City's reporting entity:

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

Currently the City has no blended component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above, but do not meet the criteria for blending.

The component units that are discretely presented are as follows:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>
Hibbing Economic Development Authority (EDA)	Created by the City to assume primary responsibility for development activities within the City.
Hibbing Public Utilities Commission (PUC)	Created to provide water, electric power, natural gas and steam services to the City.

EDA does not prepare separate financial statements. Complete financial statements of the PUC may be obtained from Hibbing Public Utilities Commission, 19th Street and East 6th Avenue, Hibbing, Minnesota 55746.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Financial Statement Presentation

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, 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 the 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 statement; 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 the primary operating fund of the City and is used to account for all financial resources relating to the general government, except those required to be accounted for in another fund.

The Library Special Revenue Fund is used to account for all financial resources relating to the public library.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific resources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital assets (other than those financed by proprietary funds).

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

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 and liabilities are included on the Statement of Net Position. The City has presented the following proprietary funds:

Major Proprietary Funds:

The Garbage and Refuse Collection 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 Sewer Operating and Maintenance 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.

Nonmajor Proprietary Funds:

The Memorial Building Concessions Enterprise Fund is used to account for operation of the Memorial Building concessions.

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 and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total 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.

Depreciation expense can be specifically identified by program and is included in the direct expenses of each program. 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.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current 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 services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Cash Equivalents

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

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and 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) The General Fund reports accounts receivable net of an allowance for uncollectible accounts. The allowance amount is based on actual accounts.
- 3) The City had 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. The PUC Component Unit's inventories consist of parts, which are valued at weighted average cost and fuel and bulk supplies, which are valued at cost, on a first-in, first-out (FIFO) basis.
- 4) 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.
- 5) Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6) Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

7) Capital assets, which include land, artwork, intangible-easements, buildings, improvements, equipment, machinery, furniture, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements.

Capital assets are capitalized at historical cost, or estimated historical cost, for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$5,000 or more for capitalizing all capital assets. The cost of normal maintenance and repairs, such as annual City paving costs from state aid maintenance projects, 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 40 years for improvements and buildings, 20 to 40 years for infrastructure, and 5 to 10 years for machinery, equipment and vehicles. Capital assets not being depreciated include land, artwork, intangible-easements, construction in progress, and gravel roads.

Effective January 1, 2010, the City adopted Governmental Accounting Standards Board Pronouncement 51 (GASB 51), "Accounting and Financial Reporting for Intangible Assets." Governments, such as the City, may possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, purchased plant capacity, patents, trademarks, and computer software (purchased or internally written). GASB 51 requires that all intangible assets be classified as capital assets (except for a few minor exclusions). Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets will be applied to intangible assets, as applicable.

Upon adoption, the City evaluated the permanent right of ways and easements acquired or obtained by the City since June 30, 1980, and determined such intangibles to be indefinite lived in nature. No other material intangibles were identified. The City did not elect to retroactively apply GASB 51 to these historical indefinite lived assets, but in accordance with GASB 51 is capitalizing intangibles acquired, obtained or created after January 1, 2010, that exceeds the City's capitalization threshold of \$5,000.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8) In addition to assets, the statement of financial position and fund financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has four types of items, which arise only under the modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the items are reported only in the governmental funds balance sheet as unavailable revenue. The governmental funds report unavailable revenues from three sources: property taxes, special assessments, and loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

9) In the government-wide financial statements and proprietary fund type financial statements, long-term 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures. Payment of principal and interest along with severance pay and post-employment benefits, are recognized as expenditures when paid.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10) In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

Nonspendable - consists of amounts that cannot be spent because it is not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints by state statutory provisions.

Committed - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to City Council's adoption of the Fund Balance Policy, the City's Finance Director and City Clerk are authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balances are available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City Council has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance of not less than 50-65% of budgeted operating expenditures for cash-flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

11) Net position represents the difference between assets and liabilities in the government-wide financial statements. Net position invested in capital assets, net of related debt consist 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, laws or regulations of other governments.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Revenues and Expenditures

1) Property Taxes

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 (intergovernmental) in the financial statements.

Revenues are accrued and recognized in the government-wide financial statements in the current period. In the fund financial statements, taxes that remain unpaid at December 31 are classified as delinquent taxes and offset by a deferred inflow of resources in the governmental fund financial statements.

2) Special Assessments

Special assessments are levied against the benefited properties for the assessable costs of special assessment improvement projects in accordance with state statutes. The City usually adopts the assessment rolls when the individual projects are complete or substantially complete. The assessments are collectible over a period of five to twenty years, depending on the type of assessment. Annual installments (including interest) for special assessments are collected by the County in the same manner as property taxes. Property owners are allowed to prepay total future installments without interest or prepayment penalties to the City.

The City recognized special assessment revenue in the government-wide financial statements when the assessment rolls are levied. In the fund financial statements, the City recognizes special assessment revenue when it becomes both measurable and available. Current assessments, which remain unpaid at December 31, are classified as delinquent receivables and, together with deferred assessments, are offset by a deferred inflow of resources in the fund financial statements.

3) Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements are met. Resources transmitted to the City before the eligibility requirements are met are reported as unearned revenues. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes - to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

4) Accrued Absences

City employees earn vacation and sick leave based on years of service and union and employment contracts. Limited vacation time may be carried over 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 and proprietary fund financial statements.

5) Other Postemployment Benefits

As provided in union and employment contracts, qualified employees meeting minimum age and length of service requirements may be eligible for certain other postemployment benefits directly from the City (see Note 15).

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Governmental accounting standards implemented in 2014 and Standards to be implemented in 2015

Implemented in 2014:

In January 2014, GASB issued *Statement No. 69, Government Combinations and Disposals of Government Operations (GASB 69)*. GASB 69 establishes three types of government combinations: government mergers, government acquisitions, and transfers of operations. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. It requires disclosures to be made about government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. GASB 69 was effective for the City of Hibbing as of January 1, 2014.

In March 2014, the City entered into a Purchase Agreement with St. Louis County to acquire the real estate and improvements referred to as the Hibbing Raceway. In consideration of agreeing to acquire the Raceway and other surrounding parcels from St. Louis County, the City received \$250,000 in funds that were restricted to be used to continue the initiative of economic development plan for the Hibbing Raceway. The City concluded that this transaction was a transfer of operation from St. Louis County in 2014. In accordance with GASB 69, the City has recognized the net fund balance acquired of \$194,272 as a special item in the Statement of Activities. A new Nonmajor Governmental Capital Projects Fund was added in 2014 to account for the activities of the Raceway.

In April 2013, GASB issued *Statement No. 70 Accounting and Financial Reporting for Nonexchange Financial Guarantees (GASB 70)*. This statement addresses the reporting and disclosure of nonexchange transactions such as when a government extends financial guarantees for the obligations of another entity without directly receiving equal or approximately equal value in exchange. If and when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee, the government will recognize a liability for that obligation. GASB 70 was effective for the City of Hibbing as of January 1, 2014. The City evaluated this statement and concluded that it was not likely that a liability needed to be recorded as of December 31, 2014. Disclosure of the City's financial guarantees for the discretely presented component units - EDA and PUC are included in Note 7, Long-Term Debt.

To be implemented in 2015:

In June 2012, GASB issued *Statement No. 68, Accounting and Financial Reporting for Pensions: An amendment of GASB Statement No. 27 (GASB 68)*. GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will become effective for the City in calendar year 2015. The City has not yet determined the financial statement impact of adopting this new standard.

In November 2013, GASB issued *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date: An Amendment of GASB Statement No. 68*, which addresses an issue regarding application of the transition provisions of GASB 68. The statement requires that, in the year of implementation of GASB 68, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. This statement will become effective for the City in calendar year 2015.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund and Net Position Deficits

The following funds of the City and the Hibbing Economic Development Authority, a discretely presented component unit, had a deficit fund balance or net position at December 31, 2014:

Primary Government		
Sewer Operating and Maintenance Enterprise		
Fund - unrestricted net position		(\$1,029,457)

This deficit relates to large overruns that occurred in the past on a storm sewer renovation project that has and will be funded by increased sewer charges.

EDA Component Unit		
Storefront Renovation Capital Project Fund		(\$170,529)

It is anticipated that the deficit will be eliminated as existing loans are repaid in future years.

EDA Component Unit		
Tax Increment District XI		(\$2,066)

It is anticipated that the deficit will be eliminated by revenue over expenditures in future years.

EDA Component Unit		
Tax Increment District XII Debt Service Fund		(\$500)

It is anticipated that the deficit will be eliminated by revenue over expenditures in future years.

NOTE 3 CASH AND CASH EQUIVALENTS

The City's funds are combined (pooled) and invested to the extent available in various investments authorized by Minnesota statutes. This pool of the City 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" and "restricted cash and cash equivalents". Several funds and the component unit hold cash and investments separate from the cash and investment pool.

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

	Primary Government	Component Units		Total
		EDA	PUC	
Cash and cash equivalents				
Petty cash	\$ 1,571	\$ -	\$ -	\$ 1,571
Deposits	28,788,198	2,165,501	-	30,953,699
Total cash and cash equivalents	28,789,769	2,165,501	-	30,955,270
Temporarily restricted assets				
Cash and cash equivalents	-	46,286	1,180,160	1,226,446
Investments				
Other	2,483,629	-	337,001	2,820,630
Total investment	2,483,629	-	337,001	2,820,630
Total	\$ 31,273,398	\$ 2,211,787	\$ 1,517,161	\$ 35,002,346

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 3 CASH AND CASH EQUIVALENTS (Continued)

Deposits

Custodial Credit Risk - Deposits

Custodial credit risk for deposits 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's formal deposit policy for custodial credit risk requires deposits to be insured by FDIC insurance or collateralized.

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits was \$33,485,185; the bank balance was \$34,113,461. At December 31, 2014, the carrying amount of Hibbing Public Utility Commission's deposits was \$1,172,160 and the bank balance was \$1,168,572. At year end, the City's bank balances were entirely insured, or collateralized with securities held by the pledging financial institution's agent in the City's name as required by Minnesota Statute §118A.03. At year end, the Hibbing Public Utility Commission's bank balances were fully covered by depository insurance or by collateral held in the Commission's name by the pledging financial institution's correspondent bank.

Investments

Custodial Credit Risk - Investments

For the 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's formal investment policy requires brokers to have Securities Investor Protection Insurance (SIPC) and excess SIPC coverage. At year end the City had \$2,483,629 held by a broker-dealer.

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. The City places no limit on the amount the City may invest in any one issuer.

As of December 31, 2014, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Primary Government		
Minnesota Municipal Money		
Market (4M) Fund	\$ 1,229	Not rated
Wells Fargo Advantage		
Treasury Money Market	750,000	Not rated
Certificates of Deposit	974,938	Not rated
Government Bonds		
FNMA/FHLMC	757,462	Moody AAA
Total Fair Value	<u>\$ 2,483,629</u>	

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 3 CASH AND CASH EQUIVALENTS (Continued)

The City utilizes the Minnesota Municipal Money Market (4M) Fund which is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares. The pool is not rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The City's formal investment policy structures the investment portfolio so that maturing investments meet the City's cash requirements for ongoing operations.

As of December 31, 2014, the Public Utilities Commission did not hold any forms of investments subject to GASB 40 risk disclosures.

NOTE 4 CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Reclassification	Operations Transfer in	Ending Balance
Governmental Activities						
Capital assets, not being depreciated:						
Land and improvements	\$ 1,651,990	\$ -	\$ -	\$ -	\$ 102,000	\$ 1,753,990
Intangible - easements	25,600	-	-	-	-	25,600
Artwork	1,819,350	-	-	-	-	1,819,350
Gravel roads	2,909,500	-	-	-	-	2,909,500
Construction in progress	1,635,910	1,170,064	(1,811,648)	-	-	994,326
Total capital assets, not being depreciated	8,042,350	1,170,064	(1,811,648)	-	102,000	7,502,766
Capital assets, being depreciated:						
Infrastructure	23,852,253	510,656	-	-	-	24,362,909
Buildings and improvements	21,796,827	1,262,942	-	-	204,891	23,264,660
Equipment, machinery, and furniture	11,659,176	850,724	(714,993)	(5,662)	-	11,789,245
Total capital assets, being depreciated	57,308,256	2,624,322	(714,993)	(5,662)	204,891	59,416,814
Less accumulated depreciation for:						
Infrastructure	(17,408,288)	(775,976)	-	-	-	(18,184,264)
Buildings and improvements	(14,556,177)	(502,336)	-	(112,619)	-	(15,171,132)
Equipment, machinery, and furniture	(8,576,089)	(729,640)	703,019	-	-	(8,602,710)
Total accumulated depreciation	(40,540,554)	(2,007,952)	703,019	(112,619)	-	(41,958,106)
Total capital assets, being depreciated, net	16,767,702	616,370	(11,974)	(118,281)	204,891	17,458,708
Governmental activities capital assets, net	\$ 24,810,052	\$ 1,786,434	\$ (1,823,622)	\$ (118,281)	\$ 306,891	\$ 24,961,474

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 4 CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land and improvements	\$ 423,719	\$ -	\$ -	\$ -	\$ 423,719
Construction in progress	7,373,618	563,737	-	-	7,937,355
Total Capital assets, not being depreciated	7,797,337	563,737	-	-	8,361,074
Capital assets, being depreciated:					
Infrastructure	13,607,077	252,321	-	-	13,859,398
Buildings and improvements	25,048,635	11,911	-	(222,492)	24,838,054
Equipment, machinery, and furniture	3,925,295	500,698	(143,122)	143,122	4,425,993
Total capital assets, being depreciated	42,581,007	764,930	(143,122)	(79,370)	43,123,445
Less accumulated depreciation for:					
Infrastructure	(973,215)	(339,871)	-	-	(1,313,086)
Buildings and improvements	(9,969,394)	(571,207)	105,684	-	(10,434,917)
Equipment, machinery, and furniture	(3,023,665)	(418,039)	143,122	(143,122)	(3,441,704)
Total accumulated depreciation	(13,966,274)	(1,329,117)	248,806	(143,122)	(15,189,707)
Total capital assets being depreciated, net	28,614,733	(564,187)	105,684	(222,492)	27,933,738
Business-type activities capital assets, net	\$ 36,412,070	\$ (450)	\$ 105,684	\$ (222,492)	\$ 36,294,812

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

Governmental activities	
General government	\$ 274,792
Public safety	368,782
Public works	1,098,216
Culture and recreation	262,590
Economic development	
Transportation	3,573
Total depreciation expense-governmental activities	\$ 2,007,953
Business-type activities	
Garbage and refuse collection	\$ 286,744
Sewer operating and maintenance	1,042,373
Total depreciation expense-business-type activities	\$ 1,329,117

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 4 CAPITAL ASSETS (Continued)

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2014, was as follows:

Discretely presented component units

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Capital assets, not being depreciated:					
Land and improvements	\$ 258,600	\$ -	\$ -	\$ -	\$ 258,600
Construction in progress	- -	6,880	- -	- -	6,880
Total capital assets, not being depreciated	258,600	6,880	- -	- -	265,480
Capital assets, being depreciated:					
Infrastructure	19,699	- -	- -	- -	19,699
Buildings and improvements	- -	- -	- -	- -	- -
Equipment, machinery, and furniture	- -	- -	- -	- -	- -
Total capital assets, being depreciated	19,699	- -	- -	- -	19,699
Less accumulated depreciation for:					
Buildings and improvements	- -	- -	- -	- -	- -
Equipment, machinery, and furniture	(1,969)	(657)	- -	- -	(2,626)
Total accumulated depreciation	(1,969)	(657)	- -	- -	(2,626)
Total capital assets, being depreciated, net	17,730	(657)	- -	- -	17,073
Hibbing Economic Development Authority capital assets, net	\$ 276,330	\$ 6,223	\$ -	\$ -	\$ 282,553

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	\$ 1,729,819	\$ (1,107,518)	\$ -	\$ -	\$ 622,301
Total capital assets, not being depreciated	1,729,819	(1,107,518)	-	-	622,301
Capital assets, being depreciated:					
Buildings and grounds	10,866,808	43,033	- -	- -	10,909,841
Transmission and distribution system	48,685,703	413,969	- -	- -	49,099,672
Equipment, machinery, and furniture	52,462,165	1,817,555	(252,983)	- -	54,026,737
Total capital assets, being depreciated	112,014,676	2,274,557	(252,983)	- -	114,036,250
Less total accumulated depreciation	(74,172,513)	(2,982,392)	205,485	- -	(76,949,420)
Total Capital assets, being depreciated, net	37,842,163	(707,835)	(47,498)	- -	37,086,830
Hibbing Public Utilities Commission capital assets, net	\$ 39,571,982	\$ (1,815,353)	\$ (47,498)	\$ -	\$ 37,709,131

NOTE 5 OPERATING LEASES

The City has a sublease agreement with St. Louis County for office facilities for its police department. The EDA has a lease agreement with the Chisholm-Hibbing Airport Authority for land for the animal shelter. The City also has various lease agreements for office related equipment. Total cost for these leases was \$150,702 for the year ended December 31, 2014. The future payments for these leases are as follows:

Year Ending December 31,	Amount
2015	\$ 119,844
2016	46,258
2017	29,659
2018 - 2028	109,369
	\$ 305,130

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 6 LINE OF CREDIT

The PUC has entered into a line of credit agreement with its primary bank. The agreement establishes a maximum credit amount of \$1,000,000 and carries an interest rate of 0.5% above the Wall Street Journal prime rate. The agreement matures on November 1, 2015. As of December 31, 2014, no amounts had been drawn down on the line.

NOTE 7 LONG-TERM DEBT

Primary Government - Governmental Activities

Recent debt issuance:

In 2013, the City issued \$3,585,000 General Obligation Bonds, Series 2013A. The proceeds of the Bonds were used as follows: \$2,890,000 to finance road construction project costs and \$695,000 to finance purchase of equipment. The Bonds are payable from annual municipal state aid allotments and from ad valorem taxes.

Primary Government - Business-Type Activities

Recent debt issuance:

In 2012, the City issued a \$4,912,830 General Obligation Sewer Revenue Note for a wastewater treatment plant improvement project. Advances were made on this loan as the City submitted cost reimbursement requests to the Minnesota Public Facilities Authority. As of December 31, 2014, the City had advanced \$4,446,823 against the approved loan of \$4,912,830. During 2013 and 2014, the City made principal payments totaling \$443,830. The City has made additional draws on this loan during 2015 for the project. The entire loan amount of \$4,912,830 less the 2013 and 2014 principal payments is reflected in the projected principal payments.

Primary Government

Relationship on debt issued by discretely presented component unit - EDA:

The City also issues long-term leases and certificates of indebtedness for the purchase of major equipment and other items. These leases and certificates are considered obligations of the primary government and are being repaid as part of each year's budgeted expenditures. Included in the lease purchase obligations are lease agreements between the City and the EDA-Component Unit for repayment of debt issued by the EDA-Component Unit for construction of an animal shelter. The amount of the obligation related to the EDA-Component Unit at December 31, 2014 was \$345,199.

The other EDA bonds payable at December 31, 2014 with principal outstanding of \$105,000, \$35,000 and \$830,000 are all General Obligation Tax Increment Bonds issued by the EDA with the pledge of repayment from tax increments to be received on the respective Tax Increment Financing Districts. If the net tax increments captured are insufficient to pay principal and interest due on the bonds, the deficiency would become a liability of the City with payment obligated from the general taxing authority of the City.

Relationship on debt issued by discretely presented component unit - PUC:

In March 2015, the City authorized the Public Utilities Commission's issuance of a Utility Net Revenue Note in the amount of \$3,426,000, payable to Dougherty Funding LLC. The proceeds of the note will fund a one year reserve account for principal and interest and will be used by the Public Utilities Commission to make upgrades to the Public Utilities systems. Advances will be made on this loan as the Public Utilities Commission submits draw requests to Dougherty Funding LLC to pay project costs. The net revenues of the Public Utilities Commission are pledged first to repay the Note and if the Public Utilities Commission's net revenues are not sufficient to pay the principal and interest in a given year, then the City's general taxing authority is liable to replenish the one year reserve account.

CITY OF HIBBING MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 7 LONG-TERM DEBT (Continued)

Relationship on debt issued by discretely presented component - PUC (continued):

In 2010, the City authorized the issuance of a Taxable General Obligation Drinking Water Revenue Note in the amount of \$948,350, payable to the Minnesota Public Facilities Authority. Advances were made on this loan as the Public Utilities Commission submitted cost reimbursements to the Minnesota Public Facilities Authority. As of December 31, 2014, the Public Utilities Commission's notes payable balance on this loan was \$531,000. The net revenues of the Public Utilities municipal water system are pledged first to repay the Note and second are ad valorem taxes levied by the City in the event proceeds of the net revenue are insufficient to pay principal and interest when due. As of December 31, 2014, the City has not recorded any amounts in their financial statements in regards to this contingent liability and the note payable balance of \$531,000 is included in the financial statements of the Public Utilities Commission.

In 2001, the City authorized the issuance of a Taxable General Obligation Drinking Water Revenue note in the amount of \$1,275,000, payable to the Minnesota Public Facilities Authority. Advances were made on this loan as the Public Utilities Commission submitted cost reimbursements to the Minnesota Public Facilities Authority. As of December 31, 2014, the Public Utilities Commission's notes payable balance on this loan was \$551,000. The net revenues of the Public Utilities municipal water system are pledged first to repay the Note and second are ad valorem taxes levied by the City in the event proceeds of the net revenue are insufficient to pay principal and interest when due. As of December 31, 2014, the City has not recorded any amounts in their financial statements in regards to this contingent liability and the note payable balance of \$551,000 is included in the financial statements of the Public Utilities Commission.

Components of long-term liabilities are as follows:

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Primary Government Governmental Activities					
General obligation bonds					
2007 A Equipment	12/1/2007	4.00%	\$ 440,000	2/1/2017	\$ 60,000
Series 2009B	5/1/2009	0.75-3.50%	\$ 1,370,000	2/1/2019	370,000
Series 2012A	2/1/2012	0.40-1.70%	\$ 1,890,000	2/1/2017	1,380,000
Series 2013A	11/1/2013	2.00-3.50%	\$ 3,585,000	2/1/2029	3,585,000
Plus: Unamortized Bond Premium					29,037
Total General obligation bonds					5,424,037
Certificates of indebtedness					
Series 2005A	12/1/2005	4.68%	\$ 565,000	8/1/2015	30,000
Series 2006A	11/1/2006	4.21%	\$ 455,000	11/1/2016	63,000
Total Certificates of indebtedness					93,000
Lease purchase obligations	2/1/2009	1.75-4.40%	\$ 462,500	2/1/2024	345,199
Compensated absences payable					275,339
OPEB liability					11,776,959
Governmental Activities Long-term Liabilities					
					\$ 17,914,534

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 7 LONG-TERM DEBT (Continued)

Business-Type Activity	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
General obligation revenue					
2003 Sewer Notes	1/29/2003	1.74%	\$ 9,847,450	8/20/2022	\$ 4,591,000
2007A Sewer Revenue Bonds	12/1/2007	4.00-4.10%	\$ 2,365,000	2/1/2028	1,840,000
2010 Sewer Revenue Note	11/30/2010	1.34%	\$ 1,726,575	8/20/2025	1,154,173
2012A General Obligation Bond	2/1/2012	0.40-2.85%	\$ 1,010,000	2/1/2032	930,000
Less: Unamortized bond discount					(6,010)
2012 Sewer Revenue Note	10/23/2012	1.00%	\$ 4,912,830	8/20/2031	4,002,993
Compensated absences payable					84,668
Business-Type Activities Long-term Liabilities					12,596,824
Total Primary Government Long-Term Liabilities					30,511,358
Discretely Presented Component Units					
EDA					
Bonds and notes payable					
1997B General Obligation					
Tax Increment Bonds	8/1/1997	7.50%	\$ 320,000	2/1/2017	105,000
1999A General Obligation					
Tax Increment Bonds	10/1/1999	7.49%	\$ 165,000	2/1/2016	35,000
2009A Public Project					
Revenue Bonds	5/7/2009	1.75-4.50%	\$ 462,500	2/1/2024	345,199
2014A General Obligation					
Tax Increment Bonds	2/1/2014	4.00-5.25%	\$ 830,000	2/1/2036	830,000
Less: Unamortized Bond					
Discount					(9,434)
Total EDA-Component Unit Long-Term Liabilities					1,305,765
PUC					
Bonds, notes, and real estate mortgage payable					6,524,596
Compensated absences payable					976,182
OPEB liability					15,389,154
Total PUC-Component Unit Long-Term Liabilities					22,889,932
Total Reporting Entity					\$ 54,707,055

Long-term liability activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Primary Government Governmental Activities					
General obligation bonds payable	\$ 5,875,000	\$ -	\$ (480,000)	\$ 5,395,000	\$ 605,000
Unamortized bond premiums	30,038	-	(1,001)	29,037	-
Certificates of indebtedness	153,000	-	(60,000)	93,000	61,000
Leases payable	369,906	-	(24,707)	345,199	26,190
Compensated absences payable	213,885	72,405	(10,951)	275,339	-
OPEB liability	10,986,414	2,084,732	(1,294,187)	11,776,959	-
Governmental Activities- Long-Term Liabilities	\$ 17,628,243	\$ 2,157,137	\$ (1,870,846)	\$ 17,914,534	\$ 692,190

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 7 LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities					
GO revenue notes payable	\$ 10,040,229	\$ 591,937	\$ (884,000)	\$ 9,748,166	\$ 880,173
GO revenue bonds payable	2,910,000	-	(140,000)	2,770,000	140,000
Unamortized bond discounts	(6,363)	-	353	(6,010)	-
Compensated absences payable	88,261	10,027	(13,620)	84,668	-
Business-Type Activities- Long-term Liabilities					
	13,032,127	601,964	(1,037,267)	12,596,824	1,020,173
Total Primary Government	<u>\$ 30,660,370</u>	<u>\$ 2,759,101</u>	<u>\$ (2,908,113)</u>	<u>\$ 30,511,358</u>	<u>\$ 1,712,363</u>
Discretely Presented Component Units					
EDA					
Bonds payable	\$ 554,906	\$ 830,000	\$ (69,707)	\$ 1,315,199	\$ 71,190
Unamortized bond discount	-	(9,654)	220	(9,434)	-
EDA-Component Unit					
Long-term Liabilities					
	<u>\$ 554,906</u>	<u>\$ 820,346</u>	<u>\$ (69,487)</u>	<u>\$ 1,305,765</u>	<u>\$ 71,190</u>
PUC					
Bonds, notes, and real estate mortgage payable	\$ 7,298,489	\$ -	\$ (773,893)	\$ 6,524,596	\$ 1,053,678
Compensated absences payable	1,013,745	-	(37,563)	976,182	-
OPEB liability	14,308,347	1,880,319	(799,512)	15,389,154	-
PUC-Component Unit					
Long-term Liabilities					
	<u>\$ 22,620,581</u>	<u>\$ 1,880,319</u>	<u>\$ (1,610,968)</u>	<u>\$ 22,889,932</u>	<u>\$ 1,053,678</u>
Total	<u>\$ 53,835,857</u>	<u>\$ 5,459,766</u>	<u>\$ (4,588,568)</u>	<u>\$ 54,707,055</u>	<u>\$ 2,837,231</u>

Minimum annual principal and interest payments required to retire long-term liabilities, excluding compensated absences payable and OPEB liability are as follows:

Year Ending December 31	Primary Government					
	Government Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 692,190	\$ 133,080	\$ 1,020,173	\$ 226,676	\$ 1,712,363	\$ 359,756
2016	694,761	119,277	1,043,000	212,709	1,737,761	331,986
2017	674,427	105,924	1,062,000	194,675	1,736,427	300,599
2018	591,192	95,746	1,081,000	176,164	1,672,192	271,910
2019	448,064	81,744	1,098,000	157,167	1,546,064	238,911
2020-2024	1,632,565	282,757	4,530,000	496,823	6,162,565	779,580
2025-2029	1,100,000	93,231	2,394,000	168,917	3,494,000	262,148
2030-2034	-	-	756,000	16,705	756,000	16,705
Total	\$ 5,833,199	\$ 911,759	\$ 12,984,173	\$ 1,649,836	\$ 18,817,372	\$ 2,561,595

Year Ending December 31	Component Units			
	EDA		PUC	
	Principal	Interest	Principal	Interest
2015	\$ 71,190	\$ 61,734	\$ 1,053,678	\$ 149,381
2016	82,761	57,142	1,078,786	122,316
2017	69,427	52,613	1,108,127	94,252
2018	51,192	49,613	788,710	67,392
2019	53,064	47,575	632,177	54,040
2020-2024	357,565	197,797	1,723,338	142,390
2025-2029	225,000	132,413	155,000	6,984
2030-2034	275,000	71,196	-	-
2035-2036	130,000	6,825	-	-
Total	\$ 1,315,199	\$ 676,908	\$ 6,539,816	\$ 636,755

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 7 LONG-TERM DEBT (Continued)

Conduit Debt

The City entered into a joint powers agreement pursuant to Minnesota Statute §471.59 with the City of Buhl. The purpose of the agreement was to help a Minnesota non-profit corporation refinance projects for three facilities used to provide residential services to adults with developmental disabilities in both cities by issuing revenue obligations pursuant to Minnesota Statute §469.152-.165. The City of Buhl is the "issuer", and the City of Hibbing gave "host consent". This agreement shall terminate upon the earlier of: defeasance of the obligations; final maturity and payment of the obligations; or payment in full of the obligations prior to their final maturity.

The City entered into a joint powers agreement pursuant to Minnesota Statute §471.59 with the City of Virginia. The purpose of the agreement was to help a Minnesota non-profit corporation refinance and finance projects for health care facilities in both cities by issuing revenue obligations pursuant to Minnesota Statute §469.152-.165. These obligations are not a debt of the City, as explained below. This agreement shall terminate upon the earlier of: defeasance of the obligations; final maturity and payment of the obligations; or payment in full of the obligations prior to their final maturity.

The City issued a tax-exempt manufacturing facilities revenue note pursuant to Minnesota Statute §469.152-.165. The purpose of the note was to help two Minnesota non-profit corporations refinance their manufacturing facilities located in the City of Hibbing and the City of Grand Rapids. This note is not a debt to the City. The two non-profit corporations are obligated to repay the note directly to the lender of the note as stated in a pledge agreement between the City of Hibbing and the lender. The note will not constitute a charge, lien or encumbrance upon property of the City. This agreement shall terminate upon the earlier of: defeasance of the obligations; final maturity and payment of the obligations; or payment in full of the obligations prior to their final maturity.

The City has issued the financial arrangements and instruments noted above to facilitate private-sector entities in their refinancing projects as they were deemed to be in the public interest. These bonds and notes are secured by the property financed and are payable solely from revenues derived from the loan agreements. The City is not obligated in any manner for repayment of the bonds or notes, accordingly, they are not reported as a liability in the accompanying financial statements.

Since 1995, there are four issues outstanding. The aggregate amount payable at December 31, 2014, is \$12,903,420. Records for revenue bonds or notes issued prior to 1995 are not available.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 8 INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2014, is as follows:

Due to/from other funds/component units/primary government:

<u>Fund or Component Unit</u>	<u>Due From Other Funds</u>	<u>Due From Component Units</u>	<u>Due To Other Funds</u>	<u>Due To Primary Government</u>
Primary Government				
General Fund	\$ 1,698,123	\$ -	\$ -	\$ -
Enterprise Funds	-	-	-	-
Garbage and Refuse	-	200,929	-	-
Sewer Operating and Maintenance	-	251,069	1,698,123	-
Total Primary Government	\$ 1,698,123	\$ 451,998	\$ 1,698,123	\$ -

Component Units

Hibbing Economic Development Authority EDA				
General Fund	\$ 1,664	\$ -	\$ -	\$ -
Tax Increment XI	-	-	-	1,664
Economic Development Special Revenue Fund	213,000	-	-	-
Storefront Renovation Capital Projects Funds	-	-	213,000	-
Subtotal HEDA	214,664	-	214,664	-
Hibbing Public Utilities Commission	-	-	-	451,998
Total Component Units	\$ 214,664	\$ -	\$ 214,664	\$ 451,998

The interfund loan between the General Fund and the Sewer Operating and Maintenance Fund was needed to fund large overruns that occurred in the past on a storm sewer renovation project.

Other 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, and (3) payments between funds are made.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 8 INTERFUND BALANCES AND ACTIVITY (continued)

Interfund transfers for the year ended December 31, 2014, consisted of the following:

Transfer To/From Other Funds/Component Units:

<u>Fund or Component Unit</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government		
General Fund	\$ -	\$ (1,872,634)
Library	10,461	-
Capital Projects Funds		
Permanent Improvement	388,000	(50,000)
Privately Financed	50,000	-
Capital Equipment and Improvement	198,812	-
Mining Effects	411,139	-
Debt Service Funds		
Other Postemployment Benefits	829,000	-
Total Primary Government	<u>\$ 1,887,412</u>	<u>\$ (1,922,634)</u>
Component Units		
Hibbing Economic Development Authority EDA		
General Fund	\$ 109,034	\$ (3,535)
Tax Increment XI	3,535	-
Tax Increment XII Debt Service Fund	-	(19,434)
Tax Increment XII Capital Projects Fund	19,434	-
Central Range Public Works	-	(73,812)
Total Hibbing Economic Development Authority EDA - Component Unit	<u>\$ 132,003</u>	<u>\$ (96,781)</u>
Total Transfers	<u>\$ 2,019,415</u>	<u>\$ (2,019,415)</u>

Transfers are used to: (1) eliminate deficit fund balances, (2) help fund operating losses or deficits, (3) establish new funds, (4) provide funding in the OPEB debt service fund, and (5) provide matching funds for grant projects.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 9 FUND BALANCE CLASSIFICATION

Restricted Net Position

The amount reported as restricted net position on the Statement of Net Position is comprised of the following:

Primary Government

Library	\$ 255,864
Contracted professional services	11,720
Economic development	-
Debt service	1,512,041
Capital projects	3,458,144
Gambling 10% contribution fund	-
Police forfeiture fund	47,721
Total Restricted Net Position	<u>\$ 5,285,490</u>

At December 31, 2014, a summary of the governmental fund balance classifications are as follows:

	General Fund	Library Special Revenue Fund	Non-Major Governmental Fund	Total
Nonspendable:				
Prepaid items	<u>\$ 11,720</u>	<u>\$ 6,957</u>	<u>\$ -</u>	<u>\$ 18,677</u>
Total nonspendable	<u>\$ 11,720</u>	<u>\$ 6,957</u>	<u>\$ -</u>	<u>\$ 18,677</u>
Restricted for:				
Debt service	\$ -	\$ -	\$ 1,512,041	\$ 1,512,041
Capital equipment and improvements	-	-	3,458,144	3,458,144
Library operations	-	248,907	-	248,907
Gambling 10% contribution fund	-	-	-	-
Police forfeiture fund	<u>47,721</u>	<u>-</u>	<u>-</u>	<u>47,721</u>
Total restricted	<u>\$ 47,721</u>	<u>\$ 248,907</u>	<u>\$ 4,970,185</u>	<u>\$ 5,266,813</u>
Committed to:				
Housing incentive	\$ -	\$ -	\$ 48,572	\$ 48,572
Small Cities development	-	-	24,926	24,926
Economic development	-	-	84,806	84,806
OPEB obligation	-	-	5,701,341	5,701,341
Memorial Building	-	-	209,255	209,255
Capital equipment and improvements	-	-	2,266,457	2,266,457
Total committed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,335,357</u>	<u>\$ 8,335,357</u>
Assigned to:				
2015 budget	<u>\$ 8,303,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,303,768</u>
Future capital projects funded from sale of assets	<u>514,853</u>	<u>-</u>	<u>-</u>	<u>514,853</u>
Workers' compensation premium adjustments	<u>372,750</u>	<u>-</u>	<u>-</u>	<u>372,750</u>
Other improvement projects	<u>-</u>	<u>-</u>	<u>1,151,985</u>	<u>1,151,985</u>
Total assigned	<u>\$ 9,191,371</u>	<u>\$ -</u>	<u>\$ 1,151,985</u>	<u>\$ 10,343,356</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 10 RISK MANAGEMENT

The City is 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. Risk of loss associated property damage and with workers' compensation claims are insured through participation in the League of Minnesota Cities Insurance Trust. The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance coverage in 2014, 2013 and 2012.

The Hibbing Public Utilities Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Commission carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in 2014, 2013 and 2012.

NOTE 11 TAX INCREMENT FINANCING DISTRICTS

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

Tax Increment Financing District	No. VII	No. VIII	No. XI	No. XII
Redevelopment project district established in:	1993	-	1999	2012
Economic development district established in:	-	-	-	-
Qualified housing district established in:	-	1993	-	-
Anticipated last tax increment year:	2019	2020	2025	2038
Original net tax capacity:	\$ 2,160	\$ 472	\$ 525	\$ 12,660
Current net tax capacity:	\$ 49,586	\$ 8,377	\$ 13,636	\$ 12,660
Fiscal disparity deduction:	\$ -	\$ -	\$ 3,073	\$ -
Captured net tax capacity retained by Authority:	\$ 47,426	\$ 7,905	\$ 10,038	\$ -
Total bonds issued				
Tax increment bonds	\$ 320,000	\$ -	\$ 165,000	\$ 830,000
Tax increment note	-	-	-	-
Amount redeemed	(215,000)	-	(130,000)	-
Outstanding bonds at December 31, 2014	\$ 105,000	\$ -	\$ 35,000	\$ 830,000

NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES

Commitments

In March 2010, the City entered into an agreement for management of the City recycling center. The term of the agreement is for six years and provides for an annual fee of \$144,000 with an adjustment based upon increases in the cost of living index. The agreement may be terminated upon specific events of default.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES (continued)

Library and Fire Hall Solar Panel Agreements

During 2012, the City entered into a Facility Lease Agreement, Energy Performance Guarantee, Power Purchase Agreement, and Put and Call Agreement with a solar panel company for the installation of a solar energy generation system (the System) at the City Library and Fire Hall. The Facility Lease Agreement and Power Purchase Agreements have twenty year terms. The Facility Lease Agreement calls for the solar panel company to lease roof space from the City for the installation and operation of the System and defines that the System remains the property of the solar panel company. The Power Purchase Agreement defines the rate the City will pay for future purchases of energy generated by the System. The Energy Performance Guarantee is related to a guarantee of aggregate net utility savings to the City over the first five years of the operation of the System. The Put and Call Agreement defines future potential opportunities of the City or solar company in regards to ownership of the System. Under this Put and Call Agreement, the solar panel company has the right for a six month period following the fifth year of operation of the System, to require the City to purchase the System from the solar panel company in the amount of \$3,500. Should this "put" option not be exercised by the solar panel company, the City has a "call" option for a period of one year following the last day of the "put" period requiring the solar panel company to sell the System to the City. The purchase price under the "call" provision is based on fair market value as determined by a qualified appraiser selected by the City at such time.

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, 2014, 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.

Construction Projects

The City had nineteen outstanding construction projects as of December 31, 2014. The projects are evidenced by contractual commitments with contractors and engineers and include:

Project	Spent to Date	Commitments		
		Remaining		
Capital Projects Funds				
Capital Equipment and improvement				
Wireless high speed internet	\$ 13,830	\$ 8,331		
Memorial Building Arena	136,108	4,346		
Carey Lake Park	3,055			
Permanent Improvement				
Rainy Road Bridge	11,715		-	
Koivu Road Bridge	3,819		-	
Dixon Bridge	4,388		-	
31st Street	122,186	5,475		
Lindquist Road	315,457	14,214		
Dillon Road	97,714	4,346		
Corey Tracts Road	129,341	5,801		
Ansley Road (Marshview Addition)	153,963		-	
N & S Salmi Road	2,750		-	
City Paving Project	431,023	21,551		
City Sidewalks Project	112,182	5,609		
Total Capital Fund Project	1,537,531	69,673		

The project commitments are being funded by grants, loan proceeds and fund revenues.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES (continued)

Enterprise Fund

Sewer Operating and Maintenance Fund

Phase 6 Sewer Improvements	246,306	-
S94 Brooklyn Sewer Improvements	80,632	-
Hwy 169 West Utility Projects	183,070	2,037
Ansley (Marshview) Project	208,813	-
Mercury Project	<u>7,218,534</u>	<u>-</u>
Total Sewer Operating and Maintenance Fund	<u>7,937,355</u>	<u>2,037</u>
Total All Funds	<u><u>\$ 9,474,886</u></u>	<u><u>\$ 71,710</u></u>

NOTE 13 JOINT VENTURES

Chisholm-Hibbing Airport Authority

The Chisholm-Hibbing Airport Authority was created by Minnesota Laws of 1994, Chapter 587, Article 11. The Hibbing City Council approved this law as required on September 6, 1994.

The Chisholm-Hibbing Airport Authority is governed by a six-member board appointed equally by each city. If the Authority is dissolved, the fair market value of all real estate owned by the City of Hibbing prior to the formation of the Chisholm-Hibbing Joint Airport Commission in 1957, including improvements on that real estate prior to that time, must be credited to the City of Hibbing.

During 2014, there were no related party transactions between the City and the Chisholm-Hibbing Airport Authority. Complete financial information can be obtained from the Chisholm-Hibbing Airport Authority, 11038 Highway 37, Hibbing, Minnesota 55746.

NOTE 14 RELATED ORGANIZATION

Housing and Redevelopment Authority of Hibbing

The five-member governing body of the Housing and Redevelopment Authority of Hibbing is appointed by the Mayor, with approval of the Council. The City is not financially responsible for the Authority.

The City has an agreement with the Housing and Redevelopment Authority (HRA) to sell a parcel of land at a fixed price, at such time that the HRA is the recipient of a certain level of grant funding.

Aside from the land sale agreement, during 2014, there were no other related party transactions between the City and the Housing and Redevelopment Authority of Hibbing.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS

Primary Government

The City provides postretirement health and life insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years of service and age needed to qualify for these postretirement benefits. The contracts also establish the amount the City will contribute towards the purchase of health insurance. Employer contributions are financed on a pay-as-you-go basis.

Effective for 2008, the City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits and life insurance benefits provided by the City. The requirements of this Statement are being implemented prospectively, with the actuarially accrued liability for benefits of \$42,567,876 at January 1, 2008, date of transition, amortized over 30 years. Accordingly, for financial reporting purposes, no liability was reported for the postemployment health care benefits liability at the date of transition.

Plan Description

Pursuant to the provisions of contracts with bargaining units or other employment contracts, former employees who retire from the City and eligible dependents, may continue to participate in the City's plan for medical and life coverage. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at reduced or blended group (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. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The benefits provided under this defined benefit plan are provided for life. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

Funding Policy

The City has not advance-funded or established a funding methodology, other than transferring funds to the Other Postemployment Benefits Debt Service Fund. For 2014, 2013, and 2012, there were 218, 222, and 211, retirees and eligible dependents, respectively, that received postemployment benefits. The City provided required contributions of \$1,294,187, \$1,172,130 and \$1,434,672 for 2014, 2013 and 2012, respectively, toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$283,861, \$265,684 and \$314,702 for 2014, 2013 and 2012, respectively. Required contributions are based on projected pay-as-you-go financing.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the years ended December 31, 2014, 2013 and 2012, respectively:

	2014	2013	2012
Normal cost (service cost for one year)	\$ 609,443	\$ 591,692	\$ 772,524
Amortization of unfunded actuarial accrued liability	\$ 1,775,522	\$ 1,774,989	\$ 1,914,443

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

	2014	2013	2012
Annual required contribution	\$ 2,384,965	\$ 2,366,681	\$ 2,686,967
Interest on net OPEB obligation	329,592	301,522	292,755
Adjustment to annual required contribution	(629,825)	(560,380)	(502,169)
Annual OPEB cost (expense)	2,084,732	2,107,823	2,477,553
Contribution toward the OPEB cost	(1,294,187)	(1,172,130)	(1,434,672)
Increase in net OPEB obligation	790,545	935,693	1,042,881
Net OPEB Obligation, Beginning of Year	10,986,414	10,050,721	9,007,840
Net OPEB Obligation, End of Year	\$ 11,776,959	\$ 10,986,414	\$ 10,050,721
Percentage of annual OPEB cost contributed	62.1%	55.6%	57.9%

Funding Status and Funding Progress

As of December 31, 2014, 2013 and 2012, respectively, the actuarial accrued liability for benefits was \$30,818,896, \$30,761,648 and \$34,926,227, and the actuarial value of assets was zero for all three years. The covered payroll (annual payroll of active participating employees) was \$8,086,793, \$8,188,216 and \$7,966,015 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 381.1, 375.7 and 438.5 percent for 2014, 2013 and 2012, respectively.

Actuarial Methods and Assumptions

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

The City's prior OPEB actuarial valuation was as of January 1, 2011, and the latest actuarial valuation was as of January 1, 2013. Both valuations used the projected unit credit cost actuarial cost method to estimate both the unfunded actuarial liability as of December 31, 2014, 2013 and 2012, and to estimate the City's 2014, 2013 and 2012 annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the January 1, 2013 actuarial assumptions include a 3.0 percent rate of return on invested assets, which is the City's long-term expectation of investment returns under its investment policy. The January 1, 2013, actuarial assumptions include an annual healthcare cost trend rate of 9.5% for 2013, 6.59% for 2014, 5.2% for 2015 and ranging from 6.4% to 4.4% for years 2016 to 2083 and later. The unfunded actuarial accrued liability is being amortized using the level dollar method. The remaining amortization period at December 31, 2014, is 24 years.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Component Unit - Hibbing Public Utilities Commission

Plan Description

The Commission provides health care and dental insurance benefits for retired Commission employees. Commission employees become eligible for such benefits upon retirement. During the years ended December 31, 2014 and 2013, the Commission expended \$548,632 and \$538,017, respectively, for benefits for approximately 43 retirees in 2014 and 44 retirees in 2013.

Annual OPEB Cost and Net OPEB Obligation

The Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the component of the Commission's annual OPEB cost, the amount actually contributed to the plan, and changes in the Commission's net OPEB obligation:

	2014	2013	2012
Annual required contribution	\$ 2,233,463	\$ 3,348,639	\$ 3,305,078
Interest on net OPEB obligation	465,021	396,977	321,913
Adjustment to annual required contribution	(818,165)	(680,944)	(539,100)
Annual OPEB cost	1,880,319	3,064,672	3,087,891
Contribution during the year	(799,512)	(971,014)	(778,206)
Increase in net OPEB obligation	1,080,807	2,093,658	2,309,685
Net OPEB Obligation, Beginning of Year	14,308,347	12,214,689	9,905,004
Net OPEB Obligation, End of Year	\$ 15,389,154	\$ 14,308,347	\$ 12,214,689

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year End:	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
			Cost Contributed	Employer Contribution	
December 31, 2014	\$ 1,880,319	\$ 799,512	42.5%	\$ 15,389,154	
December 31, 2013	\$ 3,064,672	\$ 971,014	31.7%	\$ 14,308,347	
December 31, 2012	\$ 3,087,891	\$ 778,206	25.2%	\$ 12,214,689	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Status and Funding Progress

The actuarial accrued liability for benefits at January 1, 2014 (the date of the most recent valuation) was \$25,878,606. The Commission currently has no assets that have been irrevocably deposited in a trust for future health benefits, thus the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$5,720,524. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 452.38 percent.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the January 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.25 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Commission. The annual healthcare cost trend rate is 8.2 percent initially, reduced incrementally to an ultimate rate of 4.4 percent. The unfunded actuarial accrued liability is being amortized at a level dollar amount over 30 years.

NOTE 16 EQUITY IN JOINT VENTURE

Component Unit - Hibbing Public Utilities Commission

The Commission has entered into a joint venture with the Virginia Public Utilities Commission to form the Laurentian Energy Authority, LLC (the Authority). The Authority is a limited liability company created under Minnesota Statutes, Sections 452.25 and 471.59 and organized on January 31, 2005, under Minnesota Statutes 322B. The Authority was created to supply 35 MW of new biomass fueled electricity to Northern States Power Company, an operating subsidiary of Excel Energy, as well as to supply steam to existing customers of the Hibbing and Virginia Public Utilities Commissions.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 16 EQUITY IN JOINT VENTURE (Continued)

The management of the business and affairs of the Authority are governed by a Board of Directors. The Board consists of seven directors. The General Manager, Chairman, and Vice Chairman of the Hibbing Public Utilities as well as the General Manager, President, and Vice President of the Virginia Public Utilities comprise six seats on the Board. The remaining Board position is elected by a majority of the other directors.

Each Commission owns and operates a cogeneration power plant which provides both steam and electricity for distribution to its service area. The Authority is not regulated. Customer rates are set by the Board of Directors and existing operating and power agreements.

The Commission has entered into various agreements with the Authority including agreements for the purchase of steam as well as operation and lease agreements. The steam agreement calls for the purchases of minimum quantities of steam based on the escalating fee structure. The operating agreement calls for the Authority to pay the Commission fees based on the operating costs of the Commission's facility up to specified maximum amounts. In addition, the Authority is required to pay the Commission an annual rental fee of \$25,000.

As of December 31, 2014 and 2013, respectively, the Commission has reported on its balance sheet an investment of \$12,685,371 and \$11,347,962, in the joint venture, which represents its share of monies directly invested and costs incurred in the establishment of the joint venture as well as its 50 percent share of the change in the Authority's net position for the year. In addition, interest of \$133,687 has been capitalized in conjunction with the development of the Authority.

Complete financial statements of the Authority can be obtained from the Commission's Director of Finance. The following represents information reflected in the Authority's financial statements:

	2014	2013
Current assets	\$ 5,755,425	\$ 5,543,955
Non-current restricted assets	10,055,530	10,784,038
Other assets	1,604,105	1,806,932
Capital assets	53,220,520	53,790,989
Total assets	70,635,580	71,925,914
Current liabilities	13,030,709	12,646,137
Non-current liabilities	32,501,503	36,851,228
Total liabilities	45,532,212	49,497,365
Net position	25,103,368	22,428,549
Total operating revenues	37,494,374	37,084,107
Operating expenses	32,861,688	35,017,159
Non-operating expenses	2,462,473	2,691,353
Capital contributions		
Change in net position	\$ 2,674,819	\$ 277,303

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 17 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

All full-time and certain part-time employees of the City of Hibbing, Minnesota, are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire-fighters, and peace officers who qualify for membership by statute are covered by the PEPFF.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan members is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and GERP members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF members and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 17 DEFINED BENEFIT PENSION PLANS - STATEWIDE (Continued)

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF and PEPFF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling 1-651-296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2014. PEPFF members were required to contribute 10.2% of their annual covered salary in 2014. In 2014, the City of Hibbing, Minnesota, was required to contribute the following percentages of annual covered payroll: 9.1% for Basic Plan members, 7.25% for Coordinated Plan members, and 15.3% for PEPFF Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$302,558, \$301,386 and \$309,385, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2014, 2013, and 2012 were \$499,151, \$480,502, and \$452,188, respectively. The Hibbing Public Utilities' contributions to the Public Employees Retirement Fund for the years ending December 31, 2014, 2013, and 2012 were \$397,098, \$392,976, and \$374,001, respectively. The City and Public Utility contributions were equal to the contractually required contributions for each year as set by state statute.

C. Future Change in Accounting Standards

As described in Note 1, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the City's calendar year 2015. The City has not yet determined the financial statement impact of adopting this new standard.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 18 DEFINED CONTRIBUTION PLAN

Two council members of the City of Hibbing, Minnesota, are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP 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 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Hibbing, Minnesota, during fiscal year 2014 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employee	Employer	
\$ 718	\$ 718	5.00%	5.00%	5.00%

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 19 RESTATEMENT OF 2013 STATEMENT OF ACTIVITIES REPORTING CLASSIFICATIONS

In preparing the 2014 Statement of Activities it was discovered that certain 2013 Statement of Activities amounts were inappropriately classified, the most substantial of which related to expenses between Primary Government - Function/Programs for Public Works and Culture and Recreation due to how certain governmental accounting amounts for Capital Outlays were eliminated against Public Works expenses when they should have reduced Culture and Recreation expenses. The remaining reporting classification corrections related to classification of certain amounts as operating grants or capital grants, certain grant amounts classified to the wrong function/program, treatment of capital lease payments to the EDA-Component unit as Charges for Services versus being treated as a reduction of expenses, additional clarification of the EDA-Component Unit interest revenue as a separate item versus being included as an operating grant and treatment of the governmental accounting elimination for loan principal revenues. None of the reclassifications or additional classifications added for the 2013 Statement of Activities impacted the previously reported amount for Change in Net Position. All of the restated amounts reported below have been updated in the Management's Discussion and Analysis as of and for the year ended December 31, 2014.

	AS REPORTED	AS RESTATED	Increase (Decrease)	Explanation
Primary Government - Governmental Activities Expenses				
General government	3,161,783	3,161,783	-	
Public safety	7,662,166	7,662,166	-	
Public works	6,001,967	7,083,966	1,081,999	Governmental accounting amounts for Culture & Recreation Capital Outlays were eliminated against Public Works expenses and should have been eliminated against Culture & Recreation expenses.
Culture and recreation	4,099,241	3,017,242	(1,081,999)	Governmental accounting amounts for Culture & Recreation Capital Outlays were eliminated against Public Works expenses and should have been eliminated against Culture & Recreation expenses.
Economic development	13,613	13,613	-	
Transportation	281,970	281,970	-	
Interest on long-term debt	91,283	91,283	-	
Total Governmental Activities - Expenses	21,312,023	21,312,023	-	
Charges for Services				
General government	334,197	334,197	-	
Public safety	2,208,947	2,208,947	-	
Public works	64,895	64,895	-	
Culture and recreation	410,059	410,059	-	
Economic development	-	-	-	
Transportation	51,761	51,761	-	
Interest on long-term debt	-	-	-	
Total Governmental Activities - Charges for Services	3,069,859	3,069,859	-	
Operating Grants and Contributions				
General government	12,686	-	(12,686)	Misclassification of grants between Primary Government - Function/Programs.
Public safety	345,435	769,519	424,084	Misclassification of grants between Primary Government - Function/Programs and misclassification of grants between capital and operating.
Public works	301,733	322,585	20,852	Misclassification of grants between capital and operating.
Culture and recreation	377,976	25,712	(352,264)	Misclassification of grants between Primary Government - Function/Programs.
Economic development	-	-	-	
Transportation	227,333	213,772	(13,561)	Misclassification of grants between Primary Government - Function/Programs.
Interest on long-term debt	-	-	-	
Total Governmental Activities - Operating Grants and Contributions	1,265,163	1,331,588	66,425	
Capital Grants and Contributions				
General government	-	-	-	
Public safety	45,573	-	(45,573)	Misclassification of grant between Primary Government - Function Programs and misclassification of grants between capital and operating.
Public works	1,432,743	471,294	(961,449)	Misclassification of grant between Primary Government - Function Programs and misclassification of grants between capital and operating.
Culture and recreation	5,082	945,679	940,597	Misclassification of grant between Primary Government - Function Programs.
Economic development	-	-	-	
Transportation	-	-	-	
Interest on long-term debt	-	-	-	
Total Governmental Activities - Capital Grants and Contributions	1,483,398	1,416,973	(66,425)	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 19 RESTATEMENT OF 2013 STATEMENT OF ACTIVITIES REPORTING CLASSIFICATIONS (continued)

	AS REPORTED	AS RESTATED	Increase (Decrease)	Explanation
Interest on Loans Receivable				
General government	-	-	-	
Public safety	-	-	-	
Public works	-	-	-	
Culture and recreation	-	-	-	
Economic development	-	-	-	
Transportation	-	-	-	
Interest on long-term debt	-	-	-	
Total Governmental Activities -	-	-	-	
Interest on Loans Receivable				
Net (Expense) Revenue and Changes in Net Position				
General government	(2,814,900)	(2,827,586)	(12,686)	Due to changes noted above.
Public safety	(5,062,211)	(4,683,700)	378,511	Due to changes noted above.
Public works	(4,202,596)	(6,225,192)	(2,022,596)	Due to changes noted above.
Culture and recreation	(3,306,124)	(1,635,792)	1,670,332	Due to changes noted above.
Economic development	(13,613)	(13,613)	-	
Transportation	(2,876)	(16,437)	(13,561)	Due to changes noted above.
Interest on long-term debt	(91,283)	(91,283)	-	
Total Governmental Activities - Net (Expense)				
Revenue and Changes in Net Position	(15,493,603)	(15,493,603)	-	
Primary Government - Business-Type Activities				
Expenses				
Garbage and refuse collection	2,314,388	2,314,388	-	
Sewer operating and maintenance	2,688,388	2,688,388	-	
Memorial building concessions	862	862	-	
Total Business-type Activities - Expenses	5,003,638	5,003,638	-	
Charges for Services				
Garbage and refuse collection	2,748,030	2,748,030	-	
Sewer operating and maintenance	2,971,439	2,971,439	-	
Memorial building concessions	6,523	6,523	-	
Total Business-type Activities -				
Charges for Services	5,725,992	5,725,992	-	
Operating Grants and Contributions				
Garbage and refuse collection	-	-	-	
Sewer operating and maintenance	-	-	-	
Memorial building concessions	-	-	-	
Total Business-type Activities -				
Operating Grants and Contributions				
Capital Grants and Contributions				
Garbage and refuse collection	-	-	-	
Sewer operating and maintenance	1,532,168	1,532,168	-	
Memorial building concessions	-	-	-	
Total Business-type Activities -				
Capital Grants and Contributions	1,532,168	1,532,168	-	
Interest on Loans Receivable				
Garbage and refuse collection	-	-	-	
Sewer operating and maintenance	-	-	-	
Memorial building concessions	-	-	-	
Total Business-type Activities -				
Interest on Loans Receivable				
Net (Expense) Revenue and Changes in Net Position				
Garbage and refuse collection	433,642	433,642	-	
Sewer operating and maintenance	1,815,219	1,815,219	-	
Memorial building concessions	5,661	5,661	-	
Total Business-type Activities -				
Net (Expense) Revenue				
and Changes in Net Position	2,254,522	2,254,522	-	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 19 RESTATEMENT OF 2013 STATEMENT OF ACTIVITIES REPORTING CLASSIFICATIONS (continued)

	AS REPORTED	AS RESTATED	Increase (Decrease)	Explanation
Total Primary Government				
Expenses	26,315,661	26,315,661	-	
Charges for Services	8,795,851	8,795,851	-	
Operating Grants and Contributions	1,265,163	1,331,588	66,425	Due to changes noted above.
Capital Grants and Contributions	3,015,566	2,949,141	(66,425)	Due to changes noted above.
Interest on Loans Receivable	-	-	-	
Total Primary Government - Net (Expense) Revenue and Changes in Net Position	(13,239,081)	(13,239,081)	-	
Component Unit - EDA				
Expenses	315,947	65,694	(250,253)	Equal and offsetting overstatement of EDA - Component Unit Revenues and Expenses related to the elimination entry for governmental revenues on loan principal payments.
Charges for Services	15,253	-	(15,253)	Capital lease payments made to the EDA - Component Unit were reclassified to be netted against the EDA - Component Unit's net expenses versus being reported as Charges for Services.
Operating Grants and Contributions	286,375	-	(286,375)	Equal and offsetting overstatement of EDA - Component Unit Revenues and Expenses related to the elimination entry for governmental revenues on loan principal payments and proper classification added to delineate Interest on Loans Receivable from previously being reported as operating grants.
Capital Grants and Contributions	-	-	-	
Interest on Loans Receivable	-	51,375	51,375	Proper classification added to delineate Interest on Loans Receivable from previously being reported as operating grants.
Total Component Unit - EDA - Net (Expense) Revenue and Changes in Net Position	(14,319)	(14,319)	-	
Component Unit - PUC				
Expenses	28,546,154	28,546,154	-	
Charges for Services	27,175,843	27,175,843	-	
Operating Grants and Contributions	-	-	-	
Capital Grants and Contributions	-	-	-	
Interest on Loans Receivable	-	-	-	
Total Component Unit - PUC - Net (Expense) Revenue and Changes in Net Position	(1,370,311)	(1,370,311)	-	
Total Component Units				
Expenses	28,862,101	28,611,848	(250,253)	Equal and offsetting overstatement of EDA - Component Unit Revenues and Expenses related to the elimination entry for governmental revenues on loan principal payments.
Charges for Services	27,191,096	27,175,843	(15,253)	Capital lease payments made to the EDA - Component Unit were reclassified to be netted against the EDA - Component Unit's net expenses versus being reported as Charges for Services.
Operating Grants and Contributions	286,375	-	(286,375)	Equal and offsetting overstatement of EDA - Component Unit Revenues and Expenses related to the elimination entry for governmental revenues on loan principal payments and proper classification added to delineate Interest on Loans Receivable from previously being reported as operating grants.
Capital Grants and Contributions	-	-	-	
Interest on Loans Receivable	-	51,375	51,375	Proper classification added to delineate Interest on Loans Receivable from previously being reported as operating grants.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 19 RESTATEMENT OF 2013 STATEMENT OF ACTIVITIES REPORTING CLASSIFICATIONS (continued)

	AS REPORTED	AS RESTATED	Increase (Decrease)	Explanation
Primary Government - Governmental Activities				
General Revenues				
Taxes - Property taxes, levied for general purposes	5,007,776	5,007,776	-	
Taxes - Property taxes, levied for specific purposes	3,266,959	3,266,959	-	
Taxes - Franchise taxes	152,739	152,739	-	
Taxes - Tax increment financing	-	-	-	
Grants and contributions not restricted to specific programs	8,024,094	8,024,094	-	
Unrestricted investment earnings	(15,676)	(15,676)	-	
Gain (loss) on sale of capital investments	(4,924)	(4,924)	-	
Transfers	(455,000)	(455,000)	-	
Total Governmental Activities - General Revenues	15,975,968	15,975,968	-	
Primary Government - Business-Type Activities				
General Revenues				
Taxes - Property taxes, levied for general purposes	-	-	-	
Taxes - Property taxes, levied for specific purposes	-	-	-	
Taxes - Franchise taxes	-	-	-	
Taxes - Tax increment financing	-	-	-	
Grants and contributions not restricted to specific programs	-	-	-	
Unrestricted investment earnings	2,162	2,162	-	
Gain (loss) on sale of capital investments	10,400	10,400	-	
Transfers	350,000	350,000	-	
Total Business-Type Activities - General Revenues	362,562	362,562	-	
Total Primary Government				
General Revenues				
Taxes - Property taxes, levied for general purposes	5,007,776	5,007,776	-	
Taxes - Property taxes, levied for specific purposes	3,266,959	3,266,959	-	
Taxes - Franchise taxes	152,739	152,739	-	
Taxes - Tax increment financing	-	-	-	
Grants and contributions not restricted to specific programs	8,024,094	8,024,094	-	
Unrestricted investment earnings	(13,514)	(13,514)	-	
Gain (loss) on sale of capital investments	5,476	5,476	-	
Transfers	(105,000)	(105,000)	-	
Total Primary Government - General Revenues	16,338,530	16,338,530	-	
Component Units - EDA				
General Revenues				
Taxes - Property taxes, levied for general purposes	-	-	-	
Taxes - Property taxes, levied for specific purposes	120,055	120,055	-	
Taxes - Franchise taxes	-	-	-	
Taxes - Tax increment financing	91,627	91,627	-	
Grants and contributions not restricted to specific programs	122	122	-	
Unrestricted investment earnings	1,283	1,283	-	
Gain (loss) on sale of capital investments	-	-	-	
Transfers	105,000	105,000	-	
Total Component Units - EDA - General Revenues	318,087	318,087	-	
Component Units - PUC				
General Revenues				
Taxes - Property taxes, levied for general purposes	-	-	-	
Taxes - Property taxes, levied for specific purposes	-	-	-	
Taxes - Franchise taxes	-	-	-	
Taxes - Tax increment financing	-	-	-	
Grants and contributions not restricted to specific programs	2,053,771	2,053,771	-	
Unrestricted investment earnings	7,142	7,142	-	
Gain (loss) on sale of capital investments	-	-	-	
Transfers	-	-	-	
Total Component Units - PUC - General Revenues	2,060,913	2,060,913	-	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE 19 RESTATEMENT OF 2013 STATEMENT OF ACTIVITIES REPORTING CLASSIFICATIONS (continued)

	AS REPORTED	AS RESTATE	Increase (Decrease)	Explanation
Change in Net Position				
Primary Government - Governmental Activities	482,365	482,365	-	
Primary Government - Business-Type Activities	2,617,084	2,617,084	-	
Primary Government - Total	3,099,449	3,099,449	-	
Component Units - EDA	303,768	303,768	-	
Component Units - PUC	690,602	690,602	-	
Net Position - January 1				
Primary Government - Governmental Activities	32,431,980	32,431,980	-	
Primary Government - Business-Type Activities	21,323,570	21,323,570	-	
Primary Government - Total	53,755,550	53,755,550	-	
Component Units - EDA	3,327,599	3,327,599	-	
Component Units - PUC	34,619,954	34,619,954	-	
Net Position - December 31				
Primary Government - Governmental Activities	32,914,345	32,914,345	-	
Primary Government - Business-Type Activities	23,940,654	23,940,654	-	
Primary Government - Total	56,854,999	56,854,999	-	
Component Units - EDA	3,631,367	3,631,367	-	
Component Units - PUC	35,310,556	35,310,556	-	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 20 SUBSEQUENT EVENTS

Consideration of Subsequent Events

The City has evaluated subsequent events through July 24, 2015, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HIBBING, MINNESOTA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year ended December 31, 2014

	Budgeted Amounts		Actual Amounts, Budgetary Basis		Variance with Final Budget-Positive (Negative)
	Original	Final	Original	Final	
REVENUES					
Taxes	\$ 5,567,295	\$ 5,567,295	\$ 6,216,650	\$ 649,355	
Licenses and permits	125,995	125,995	192,326	66,331	
Intergovernmental	8,951,620	8,951,620	9,181,363	229,743	
Charges for services	2,336,150	2,336,150	2,340,174	4,024	
Fines	115,000	115,000	108,498	(6,502)	
Gifts and contributions	-	-	11,178	11,178	
Investment income (loss)	10,000	10,000	41,831	31,831	
Miscellaneous	65,550	65,550	77,189	11,639	
TOTAL REVENUES	17,171,610	17,171,610	18,169,209	997,599	
EXPENDITURES					
Current					
General government	1,939,546	1,939,546	1,758,622	180,924	
Public safety	6,493,587	6,493,587	6,157,736	335,851	
Public works	3,141,849	3,141,849	2,851,711	290,138	
Culture and recreation	1,772,399	1,772,399	1,872,387	(99,988)	
Economic development	124,000	124,000	16,473	107,527	
Transportation	295,625	295,625	469,883	(174,258)	
Miscellaneous	2,633,198	2,633,198	2,258,793	374,405	
Debt Service					
Principal	-	-	24,707	(24,707)	
Interest and other charges	-	-	14,128	(14,128)	
TOTAL EXPENDITURES	16,400,204	16,400,204	15,424,440	975,764	
EXCESS OF REVENUES OVER EXPENDITURES					
	771,406	771,406	2,744,769	1,973,363	
OTHER FINANCING SOURCES (USES)					
Transfers in	(839,461)	(839,461)	(1,872,634)	(1,033,173)	
Transfers out	-	-	12,212	12,212	
Sale of capital assets	-	-	-	-	
TOTAL OTHER FINANCING SOURCES (USES)	(839,461)	(839,461)	(1,860,422)	(1,020,961)	
NET CHANGE IN FUND BALANCES	(68,055)	(68,055)	884,347	952,402	
FUND BALANCES - JANUARY 1	12,912,841	12,912,841	12,912,841	-	
FUND BALANCES - DECEMBER 31	\$ 12,844,786	\$ 12,844,786	\$ 13,797,188	\$ 952,402	

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year ended December 31, 2014

	Budgeted Amounts		Actual Amounts, Budgetary Basis		Variance with Final Budget- Positive (Negative)
			Original	Final	
REVENUE					
Taxes	\$ 586,043	\$ 586,043	\$ 585,733	\$ (310)	
Intergovernmental	-	-	310	310	
Charges for services	19,814	19,814	18,785	(1,029)	
Gifts and contributions	10,186	10,186	13,208	3,022	
Investment income (loss)	-	-	246	246	
Miscellaneous	-	-	-	-	
TOTAL REVENUE	616,043	616,043	618,282	2,239	
EXPENDITURES					
Current					
Culture and recreation	626,504	626,504	590,984	35,520	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(10,461)	(10,461)	27,298	37,759	
OTHER FINANCING SOURCES (USES)					
Transfers in	10,461	10,461	10,461	-	
Transfers out	-	-	-	-	
TOTAL OTHER FINANCING SOURCES (USES)	10,461	10,461	10,461	-	
NET CHANGE IN FUND BALANCES					
Fund Balances - January 1	218,105	218,105	218,105	-	
Fund Balances - December 31	\$ 218,105	\$ 218,105	\$ 255,864	\$ 37,759	

CITY OF HIBBING, MINNESOTA

INFRASTRUCTURE CONDITION DATA
Year ended December 31, 2014

MODIFIED APPROACH FOR CITY GRAVEL ROADS INFRASTRUCTURE CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City is required to account for and report infrastructure capital assets. The City defines infrastructure as the basic physical assets that allow the City to function and are utilized primarily by the public. They provide future economic benefit for a minimum of two years. Infrastructure assets are capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than other capital assets. The City's major infrastructure systems include streets, gravel roads, sidewalks, and bridges.

The City has elected to use a "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its gravel roads. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

The City manages the eligible infrastructure capital assets using an asset management system with characteristics of (1) an up-to-date inventory; (2) performed condition assessments and summarized the results using a measurement scale; and (3) estimated annual amount to maintain and preserve at the established condition assessment level.

The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

The City commissioned a physical condition assessment of its gravel roads as of May 2013. This condition assessment will be performed at least every three years. The study assists the City by providing current inspection data used to evaluate current road conditions. This helps to maintain a City-defined desirable level of road performance while optimizing the expenditure of limited fiscal resources. The entire gravel road network within the City is composed of approximately 65 miles of gravel road.

A visual inspection of all gravel roads was conducted to assess the existing condition of each of the individual gravel roads. Upon completion of the inspection, a level based on the condition is assessed to each gravel road based on the following criteria:

<u>Condition</u>	<u>Criteria</u>	<u>Level</u>
Poor	Road may have extreme potholes, standing or running water, soft spots, travel speeds below 5 mph or the road may be impassible.	1
Fair	Roads may have some potholes or puddles, minor soft spots, travel speeds up to 30 mph.	2
Good	Roads are in generally good condition, graded, travel speeds up to 45 mph.	3
Excellent	Roads are graded, dust control applied, travel speeds up to legal speed limit.	4

CITY OF HIBBING, MINNESOTA

INFRASTRUCTURE CONDITION DATA (CONTINUED)
Year ended December 31, 2014

Except in the condition of an extreme weather condition, rain storm, or flooded condition, the City of Hibbing will maintain gravel roads at a condition of Level 3. As of December 31, 2014, the City's gravel roads all rated at a Level 3.

The City expended \$324,888 on gravel road maintenance for the year ended December 31, 2014. This amount in 2014, included 6 road lifts and several spot road repairs. These routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the year 2016 is a minimum of \$750,000 (\$250,000 projected budget each year for the years ending December 31, 2014, 2015, and 2016).

A schedule of the estimated annual amount calculated to maintain and preserve its gravel roads at the current level compared to actual expenditures for gravel road maintenance for the years ended December 31, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, and 2014, is presented below:

Year	Estimated		Funded by General Fund
	Annual Expenditures	Actual Expenditures	
2006	\$ 125,000	\$ 141,244	\$ 141,244
2007	\$ 132,832	\$ 146,959	\$ 146,959
2008	\$ 139,680	\$ 150,345	\$ 150,345
2009	\$ 175,311	\$ 192,151	\$ 192,151
2010	\$ 175,311	\$ 183,088	\$ 183,088
2011	\$ 180,000	\$ 331,896	\$ 331,896
2012	\$ 200,000	\$ 362,118	\$ 362,118
2013	\$ 200,000	\$ 379,983	\$ 379,983
2014	\$ 306,000	\$ 324,888	\$ 324,888

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS
Year ended December 31, 2014

Other Postemployment Benefits

Primary Government

Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
12/31/2014	1/1/2013	\$ -	\$ 30,818,896	\$ 30,818,896	0.0%	\$ 8,086,793	381.1%
12/31/2013	1/1/2013	\$ -	\$ 30,761,648	\$ 30,761,648	0.0%	\$ 8,188,216	375.7%
12/31/2012	1/1/2011	\$ -	\$ 34,926,227	\$ 34,926,227	0.0%	\$ 7,966,015	438.5%
12/31/2011	1/1/2011	\$ -	\$ 34,267,574	\$ 34,267,574	0.0%	\$ 8,041,015	426.2%
12/31/2010	1/1/2009	\$ -	\$ 39,707,119	\$ 39,707,119	0.0%	\$ 8,103,552	490.0%
12/31/2009	1/1/2009	\$ -	\$ 40,368,826	\$ 40,368,826	0.0%	\$ 8,501,336	474.9%
12/31/2008	1/1/2007	\$ -	\$ 42,567,876	\$ 42,567,876	0.0%	\$ 8,623,539	493.6%

Component Unit - Hibbing Public Utilities Commission

Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
12/31/2014	1/1/2014	\$ -	\$ 25,878,606	\$ 25,878,606	0.0%	\$ 5,720,524	452.4%
12/31/2013	1/1/2011	\$ -	\$ 35,764,656	\$ 35,764,656	0.0%	\$ 5,674,104	630.3%
12/31/2012	1/1/2011	\$ -	\$ 35,764,656	\$ 35,764,656	0.0%	\$ 5,406,288	694.5%
12/31/2011	1/1/2011	\$ -	\$ 35,764,656	\$ 35,764,656	0.0%	\$ 5,224,365	684.6%
12/31/2010	1/1/2009	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 4,975,828	608.6%
12/31/2009	1/1/2009	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 5,065,929	597.7%

CITY OF HIBBING, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

December 31, 2014

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 the General Fund and Library Special Revenue Fund.

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 Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the General Fund and Library Special Revenue Fund present a comparison of budgetary data to actual results.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures did not exceed appropriations in any fund for the year ended December 31, 2014.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HIBBING, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

December 31, 2014

The Housing Incentive Special Revenue Fund is used to account for revenues and expenditures for the City's Housing Incentive projects.

The Small Cities Development Special Revenue Fund is used to account for loan and interest payments and administration expenditures for housing loans administered by AEOA.

The Minnesota Investment Revolving Loans Special Revenue Fund is used to account for the loan and interest payments and expenditures for business loans.

The Other Postemployment Benefits Debt Service Fund is used to account for the accumulation of resources to be set aside for postemployment benefits.

The 2002 G.O. Refunding Bonds Debt Service Fund is used to account for the accumulation of resources for, and the payment of refunded long-term debt principal, interest and related costs.

The 2013A G.O. Bonds Debt Service Fund is used to account for the accumulation of resources for, and the payment of long term debt principal, interest, and related costs.

The Permanent Improvement Capital Projects Fund is used to account for financial resources and expenditures for the City's major street construction projects.

The Privately-Financed Capital Projects Fund is used to account for special assessments financial resources for construction projects for the City's taxpayers.

The Memorial Building Capital Projects Fund is used to account for financial resources used for acquisition or construction projects related to the Memorial Building.

The Capital Equipment and Improvement Capital Projects Fund is used to account for financial resources used for the acquisition of equipment and major improvements.

The Mining Effects Capital Projects Fund is used to account for the accumulation of mining effects tax set aside for infrastructure and joint entity projects.

The Raceway Capital Projects Fund is used to account for financial resources and expenditures related to the Racetrack.

The MDI Maintenance Capital Projects Fund is used to account for financial resources used for maintenance construction of the MDI facility.

CITY OF HIBBING, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2014

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	Other Postemploy- ment Benefits Debt Service Fund
ASSETS				
Cash and cash equivalents	\$ 48,572	\$ 24,926	\$ 84,806	\$ 5,701,341
Taxes receivable	-	-	-	-
Special assessments receivable	-	-	-	-
Accounts receivable	-	-	-	-
Due from other governments	-	-	-	-
Loans receivable	-	54,865	-	-
TOTAL ASSETS	\$ 48,572	\$ 79,791	\$ 84,806	\$ 5,701,341
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-
Contracts payable	-	-	-	-
Unearned revenue	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Special assessments	-	-	-	-
Loans receivable	-	54,865	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	54,865	-	-
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	48,572	24,926	84,806	5,701,341
Assigned	-	-	-	-
TOTAL FUND BALANCES	48,572	24,926	84,806	5,701,341
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 48,572	\$ 79,791	\$ 84,806	\$ 5,701,341

2002 G.O. Refunding Bonds Debt Service Fund	2013A G.O. Bond Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund
\$ 357,631	\$ 307,916	\$ 2,520,400	\$ 33,581	\$ 206,855	\$ 4,376,030
-	1,418	4,104	7,037	-	17,198
-	-	-	153,166	-	-
-	-	61,863	-	2,400	277
-	-	-	-	-	1,527
<u>\$ 357,631</u>	<u>\$ 309,334</u>	<u>\$ 2,586,367</u>	<u>\$ 193,784</u>	<u>\$ 209,255</u>	<u>\$ 4,395,032</u>

\$ -	\$ 500	\$ -	\$ -	\$ -	\$ 10,406
-	-	3,447	-	-	-
-	123,073	5,609	-	-	31,063
-	-	-	-	-	957,758
-	500	123,073	9,056	-	999,227
-	-	-	153,166	-	-
-	-	-	153,166	-	-
357,631	308,834	2,463,294	31,562	-	849,629
-	-	-	-	209,255	2,266,457
-	-	-	-	-	279,719
357,631	308,834	2,463,294	31,562	209,255	3,395,805
<u>\$ 357,631</u>	<u>\$ 309,334</u>	<u>\$ 2,586,367</u>	<u>\$ 193,784</u>	<u>\$ 209,255</u>	<u>\$ 4,395,032</u>

CITY OF HIBBING, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (continued)
December 31, 2014

	Mining Effects Capital Projects Fund	Raceway Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,798,289	\$ 246,532	\$ 20,979	\$ 15,727,858
Taxes receivable				29,757
Special assessments receivable	-	-	-	153,166
Accounts receivable	-	-	-	2,677
Due from other governments	-	12,000	-	75,390
Loans receivable	-	-	-	54,865
TOTAL ASSETS	\$ 1,798,289	\$ 258,532	\$ 20,979	\$ 16,043,713
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 10,906
Due to other governments	-	-	-	3,447
Contracts payable	-	-	-	159,745
Unearned revenue	-	246,299	-	1,204,057
TOTAL LIABILITIES	-	246,299	-	1,378,155
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Special assessments	-	-	-	153,166
Loans receivable	-	-	-	54,865
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	208,031
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	959,235	-	-	4,970,185
Committed	-	-	-	8,335,357
Assigned	839,054	12,233	20,979	1,151,985
TOTAL FUND BALANCES	1,798,289	12,233	20,979	14,457,527
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,798,289	\$ 258,532	\$ 20,979	\$ 16,043,713

CITY OF HIBBING, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2014

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	Other Postemploy- ment Benefits Debt Service Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Gifts and contributions	-	-	-	-
Interest	66	33	4	-
Miscellaneous	-	-	-	-
TOTAL REVENUES	\$ 66	\$ 33	\$ 4	\$ -
EXPENDITURES				
Current				
Economic development	\$ -	\$ -	\$ -	\$ -
Principal	-	-	-	-
Interest and other charges	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	66	33	4	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	829,000
Transfers out	-	-	-	-
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	829,000
Net Change In Fund Balances	66	33	4	829,000
FUND BALANCE - JANUARY 1	48,506	24,893	84,802	4,872,341
FUND BALANCE - DECEMBER 31	\$ 48,572	\$ 24,926	\$ 84,806	\$ 5,701,341

2002 G.O. Refunding Bonds Debt Service Fund	2013A G.O. Bond Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund
\$ -	\$ 120,686	\$ 349,815	\$ 76,063	\$ -	\$ 1,465,297
-	241,205	1,095,702	-	-	2,303
-	-	-	-	15,666	-
-	-	-	-	274	10,384
-	-	3,155	-	-	5,102
-	-	-	-	-	1,175
\$ -	\$ 361,891	\$ 1,448,672	\$ 76,063	\$ 15,940	\$ 1,484,261
 \$ -	 \$ -	 \$ -	 \$ -	 \$ -	 \$ -
-	53,057	-	-	-	540,000
-	-	-	-	-	50,045
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,326,814	114,358	-	987,318
-	53,057	1,326,814	114,358	-	1,577,363
-	308,834	121,858	(38,295)	15,940	(93,102)
 - -	 - -	 388,000 (50,000)	 50,000	 - -	 198,812
-	-	-	-	-	-
-	-	-	-	-	6,151
-	-	338,000	50,000	-	204,963
-	308,834	459,858	11,705	15,940	111,861
357,631	-	2,003,436	19,857	193,315	3,283,944
\$ 357,631	\$ 308,834	\$ 2,463,294	\$ 31,562	\$ 209,255	\$ 3,395,805

CITY OF HIBBING, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (continued)
Year Ended December 31, 2014

	Mining Effects Capital Projects Fund	Raceway Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 222,318	\$ -	\$ -	\$ 2,158,116
Special assessments	-	-	-	76,063
Intergovernmental	-	15,701	-	1,354,911
Charges for services	-	-	-	15,666
Gifts and contributions	-	-	-	10,384
Interest	-	233	28	8,895
Miscellaneous	-	-	-	1,175
TOTAL REVENUES	\$ 222,318	\$ 15,934	\$ 28	\$ 3,625,210
EXPENDITURES				
Current				
Economic development	\$ -	\$ -	\$ -	\$ -
Principal	-	-	-	540,000
Interest and other charges	-	-	-	103,102
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
Capital Outlay	-	3,701	-	2,432,191
TOTAL EXPENDITURES	-	3,701	-	\$ 3,075,293
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	222,318	12,233	28	549,917
OTHER FINANCING SOURCES (USES)				
Transfers in	411,139	-	-	\$ 1,876,951
Transfers out	-	-	-	(50,000)
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	6,151
TOTAL OTHER FINANCING SOURCES (USES)	411,139	-	-	1,833,102
Net Change In Fund Balances	633,457	12,233	28	2,383,019
FUND BALANCE - JANUARY 1	1,164,832	-	20,951	12,074,508
FUND BALANCE - DECEMBER 31	\$ 1,798,289	\$ 12,233	\$ 20,979	\$ 14,457,527

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

REVENUES

Taxes

General property	\$ 2,470,128
Taconite	
Production	458,754
Homestead credit	476,765
Municipal aid	1,586,096
School replacement aid	411,139
Franchise	150,360
Other	<u>663,408</u>
Total Taxes	<u>6,216,650</u>
Licenses and Permits	<u>192,326</u>

Intergovernmental

Federal grants	
Federal Transportation grant	232,691
Bulletproof Vest grant	6,755
Rural Access to Emergency Devices	173
Fire SAFER grant	308,290
State grants	
Market value credit	1,847
Local government aid	8,082,406
Police aid	194,842
Police disability benefit	13,298
Firemen's aid	73,451
State transportation grant	143,246
PERA rate increase aid	24,366
Petro tank reimbursement	
IRRBB	31,502
Other	25,305
County grants	
Ambulance	1,730
Local grants	
Police liaison grant	<u>41,461</u>
Total Intergovernmental	<u>9,181,363</u>

Charges for Services

General government	
Bus transportation	58,059
Miscellaneous	11,950
Public safety	
Ambulance calls	1,871,464
Fire protection contracts	5,120
Other	6,882
Highways and streets	
Miscellaneous	506
Culture and recreation	
Rent	167,066
Other	137,504
Cemetery	<u>81,623</u>
Total Charges for Services	<u>2,340,174</u>

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

REVENUES (continued)

Fines

Court fines	\$ 94,171
Police forfeitures	14,327
Administrative fines	-
Total Fines	108,498

Gifts and Contributions

Investment Income (Loss)

Interest on investments	15,447
Increase (decrease) in fair value of investments	26,384
Total Investment Income (Loss)	41,831

Miscellaneous

Insurance recoveries	55,201
Insurance dividends	21,988
Other	-
Total Miscellaneous	77,189
TOTAL REVENUES	18,169,209

EXPENDITURES

Current

General Government

Mayor and council	264,914
Elections	36,227
City administration	169,994
City clerk	458,641
City hall	76,358
Accounting	48,000
Data processing	68,277
Legal	112,149
Personnel administration	145,311
Zoning and housing	311,525
Assessor	67,226
Total General Government	1,758,622

Public Safety

Police	2,925,945
Animal Shelter	104,644
Fire	1,834,775
Paid on-call fire	139,278
Ambulance	1,143,878
Civil defense	9,216
Total Public Safety	6,157,736

Public Works

Highways and streets	2,006,801
Streets and alleys	240,139
Engineering	553,469
Garage	51,302
Street lighting	-
Total Public Works	2,851,711

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

EXPENDITURES (continued)

Current	
Culture and Recreation	
Recreation	\$ 50,708
Memorial building	357,930
Municipal golf course	44,818
Parks	143,051
City Services	<u>1,275,880</u>
Total Culture and Recreation	<u>1,872,387</u>
Economic Development	
Administration	<u>16,473</u>
Transportation	
Bus	<u>294,151</u>
Miscellaneous	
Cemetery	210,069
Public access	109,972
Insurance	1,793,638
Donations and contributions	37,873
Other	<u>107,241</u>
Total Miscellaneous	<u>2,258,793</u>
Debt Service	
Principal	24,707
Interest and agent fees	<u>14,128</u>
Total Debt Service	<u>38,835</u>
Capital Outlay	
Transportation	<u>175,732</u>
TOTAL EXPENDITURES	<u>15,424,440</u>
EXCESS (DEFICIENCY) OF REVENUES	
OVER EXPENDITURES	2,744,769
OTHER FINANCING SOURCES (USES)	
Transfers out	(1,872,634)
Sale of capital assets	<u>12,212</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,860,422)</u>
NET CHANGE IN FUND BALANCE	884,347
FUND BALANCE - JANUARY 1	<u>12,912,841</u>
FUND BALANCE - DECEMBER 31	<u>\$ 13,797,188</u>

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

REVENUES**Taxes**

General property	\$ 416,915
Taconite homestead credit	79,963
Other	<u>88,855</u>
Total Taxes	<u>585,733</u>

Intergovernmental

State grants	310
Market value credit	<u>310</u>

Charges for Services

Gifts and Contributions	<u>13,208</u>
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Interest

Miscellaneous	<u>246</u>
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TOTAL REVENUES	<u>618,282</u>
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EXPENDITURES**Current**

Culture and Recreation	
Library	
Personal services	414,050
Supplies	92,748
Other services and charges	83,948
Other	<u>238</u>
TOTAL EXPENDITURES	<u>590,984</u>

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	27,298
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OTHER FINANCING SOURCES (USES)

Transfer in	10,461
Transfer out	<u>10,461</u>
TOTAL OTHER FINANCING SOURCES (USES)	10,461

NET CHANGE IN FUND BALANCES	37,759
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FUND BALANCE - JANUARY 1	218,105
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FUND BALANCE - DECEMBER 31	<u>\$ 255,864</u>
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CITY OF HIBBING, MINNESOTA

HOUSING INCENTIVE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

REVENUES

Interest	\$	66
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EXPENDITURES

NET CHANGE IN FUND BALANCE	66
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FUND BALANCE - JANUARY 1	<u>48,506</u>
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FUND BALANCE - DECEMBER 31	\$ 48,572
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CITY OF HIBBING, MINNESOTA

SMALL CITIES DEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

REVENUES

Interest	\$ 33
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EXPENDITURES

NET CHANGE IN FUND BALANCE	33
FUND BALANCE - JANUARY 1	24,893
FUND BALANCE - DECEMBER 31	\$ 24,926

CITY OF HIBBING, MINNESOTA

MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

REVENUES

Interest	\$	4
Miscellaneous		
Principal on loans repayments		-
Interest on loans repayments		-
Total Miscellaneous		-
TOTAL REVENUE		<u>4</u>

EXPENDITURES

Current

Economic Development

Miscellaneous

 Repayments to DEED

TOTAL EXPENDITURES

NET CHANGE IN FUND BALANCE	4
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FUND BALANCE - JANUARY 1	<u>84,802</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 84,806</u>
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CITY OF HIBBING, MINNESOTA

DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

REVENUES	Other	2002 G.O.	2013A G.O.	Totals
	Postemployment Benefits	Refunding Bonds		
Taxes				
General property	\$ -	\$ -	\$ 85,862	\$ 85,862
Taconite homestead credit	-	-	16,495	16,495
Other	-	-	18,329	18,329
Total Taxes	-	-	120,686	120,686
Intergovernmental				
State grants				
Market value credit	-	-	64	64
MSA maintenance	-	-	96,141	96,141
MSA construction	-	-	145,000	145,000
Total Intergovernmental	-	-	241,205	241,205
TOTAL REVENUES	-	-	361,891	361,891
 EXPENDITURES				
Debt Service				
Principal	-	-		
Interest	-	-	52,557	52,557
Other charges	-	-	500	500
TOTAL EXPENDITURES	-	-	53,057	53,057
EXCESS OF REVENUES OVER EXPENDITURES			308,834	308,834
OTHER FINANCING SOURCES (USES)				
Transfer in	829,000	-	-	829,000
Transfer out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	829,000	-	-	829,000
NET CHANGE IN FUND BALANCES	829,000	-	308,834	1,137,834
FUND BALANCE - JANUARY 1	4,872,341	357,631	-	5,229,972
FUND BALANCE - DECEMBER 31	\$ 5,701,341	\$ 357,631	\$ 308,834	\$ 6,367,806

CITY OF HIBBING, MINNESOTA
CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2014

	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement
REVENUES				
Taxes				
General property	\$ 249,054	\$ -	\$ -	\$ 1,042,987
Taconite homestead credit	47,727	-	-	200,034
Taconite production	-	-	-	-
Other	53,034	-	-	222,276
Total Taxes	349,815	-	-	1,465,297
Special Assessments				
Principal	-	73,848	-	-
Interest and penalties	-	2,215	-	-
Total Special Assessments	-	76,063	-	-
Intergovernmental				
Federal grants	-	-	-	-
Public Safety Interoperable Communications	-	-	-	-
Other	-	-	-	-
State grants	185	-	-	775
Market value credit	312,191	-	-	-
MSA maintenance municipal	629,363	-	-	-
MSA construction municipal	153,963	-	-	-
IRRB	-	-	-	1,528
Other	-	-	-	-
County grants	-	-	-	-
Total Intergovernmental	1,095,702	-	-	2,303
Charges for Services				
Rent and advertising	-	-	15,666	-
Gifts and Contributions				
Interest	3,155	-	274	5,102
Miscellaneous				
Other	-	-	-	1,175
TOTAL REVENUES	\$ 1,448,672	\$ 76,063	\$ 15,940	\$ 1,484,261

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2014

REVENUES	Mining Effects	Raceway	MDI Maintenance	Total
Taxes				
General property	\$ -	\$ -	\$ -	\$ 1,292,041
Taconite homestead credit	222,318	-	-	247,761
Taconite production	-	-	-	222,318
Other	-	-	-	275,310
Total Taxes	<u>222,318</u>	<u>-</u>	<u>-</u>	<u>2,037,430</u>
Special Assessments				
Principal	-	-	-	73,848
Interest and penalties	-	-	-	2,215
Total Special Assessments	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,063</u>
Intergovernmental				
Federal grants	-	-	-	-
Public Safety Interoperable				
Communications	-	-	-	-
Other	-	-	-	-
State grants	-	-	-	-
Market value credit	-	-	-	960
MSA maintenance municipal	-	-	-	312,191
MSA construction municipal	-	-	-	629,363
IRRRB	-	-	-	153,963
Other	-	-	-	1,528
County grants	-	<u>15,701</u>	-	<u>15,701</u>
Total Intergovernmental	<u>-</u>	<u>15,701</u>	<u>-</u>	<u>1,113,706</u>
Charges for Services				
Rent and advertising	-	-	-	15,666
Gifts and Contributions				
	-	-	-	10,384
Interest				
	-	<u>233</u>	<u>28</u>	<u>8,792</u>
Miscellaneous				
Other	-	-	-	1,175
TOTAL REVENUES	<u>\$ 222,318</u>	<u>\$ 15,934</u>	<u>\$ 28</u>	<u>\$ 3,263,216</u>

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2014

	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement
EXPENDITURES				
Debt Service				
Principal	\$ -	\$ -	\$ -	\$ 540,000
Interest and other charges	- - -	- - -	- - -	50,045
Total Debt Service	- - -	- - -	- - -	590,045
Capital Outlay				
General government				
Mayor and council	- - -	- - -	- - -	- - -
Elections	- - -	- - -	- - -	19,740
City clerk	- - -	- - -	- - -	- - -
City hall	- - -	- - -	- - -	84,573
Data processing	- - -	- - -	- - -	13,830
Personnel administration	- - -	- - -	- - -	- - -
Public safety				
Police	- - -	- - -	- - -	68,739
Fire	- - -	- - -	- - -	66,405
Paid on-call fire	- - -	- - -	- - -	21,405
Ambulance	- - -	- - -	- - -	326,148
Civil defense	- - -	- - -	- - -	- - -
Animal shelter	- - -	- - -	- - -	- - -
Public works				
Streets and alleys	1,326,814	114,358	- - -	77,849
Engineering	- - -	- - -	- - -	- - -
Garage	- - -	- - -	- - -	- - -
Culture and recreation				
Memorial building	- - -	- - -	- - -	141,500
Municipal golf course	- - -	- - -	- - -	8,379
Parks	- - -	- - -	- - -	102,873
Library	- - -	- - -	- - -	- - -
Racetrack	- - -	- - -	- - -	- - -
Miscellaneous				
Cemetery	- - -	- - -	- - -	55,877
Other	- - -	- - -	- - -	- - -
Total Capital Outlay	1,326,814	114,358	- - -	987,318
TOTAL EXPENDITURES	1,326,814	114,358	- - -	1,577,363
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	121,858	(38,295)	15,940	(93,102)
OTHER FINANCING SOURCES (USES)				
Transfers in	388,000	50,000	- - -	198,812
Transfers out	(50,000)	- - -	- - -	- - -
Debt issuance	- - -	- - -	- - -	- - -
Sale of capital assets	- - -	- - -	- - -	6,151
TOTAL OTHER FINANCING SOURCES (USES)	338,000	50,000	- - -	204,963
NET CHANGE IN FUND BALANCES	459,858	11,705	15,940	111,861
FUND BALANCES - JANUARY 1	2,003,436	19,857	193,315	3,283,944
FUND BALANCES - DECEMBER 31	\$ 2,463,294	\$ 31,562	\$ 209,255	\$ 3,395,805

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2014

	Mining Effects	Raceway	MDI Maintenance	Total
EXPENDITURES				
Debt Service				
Principal	\$ -	\$ -	\$ -	\$ 540,000
Interest and other charges	- - -	- - -	- - -	50,045
Total Debt Service	- - -	- - -	- - -	590,045
Capital Outlay				
General government				
Mayor and council	- - -	- - -	- - -	- - -
Elections	- - -	- - -	- - -	19,740
City clerk	- - -	- - -	- - -	- - -
City hall	- - -	- - -	- - -	84,573
Data processing	- - -	- - -	- - -	13,830
Personnel administration	- - -	- - -	- - -	- - -
Public safety				
Police	- - -	- - -	- - -	68,739
Fire	- - -	- - -	- - -	66,405
Paid on-call fire	- - -	- - -	- - -	21,405
Ambulance	- - -	- - -	- - -	326,148
Civil defense	- - -	- - -	- - -	- - -
Animal shelter	- - -	- - -	- - -	- - -
Public works				
Streets and alleys	- - -	- - -	- - -	1,519,021
Engineering	- - -	- - -	- - -	- - -
Garage	- - -	- - -	- - -	- - -
Culture and recreation				
Memorial building	- - -	- - -	- - -	141,500
Municipal golf course	- - -	- - -	- - -	8,379
Parks	- - -	- - -	- - -	102,873
Library	- - -	- - -	- - -	- - -
Racetrack	- - -	3,701	- - -	3,701
Miscellaneous				
Cemetery	- - -	- - -	- - -	55,877
Other	- - -	- - -	- - -	- - -
Total Capital Outlay	- - -	3,701	- - -	2,432,191
TOTAL EXPENDITURES	- - -	3,701	- - -	3,022,236
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	222,318	12,233	28	240,980
OTHER FINANCING SOURCES (USES)				
Transfers in	411,139	- - -	- - -	1,047,951
Transfers out	- - -	- - -	- - -	(50,000)
Debt issuance	- - -	- - -	- - -	- - -
Sale of capital assets	- - -	- - -	- - -	6,151
TOTAL OTHER FINANCING SOURCES (USES)	411,139	- - -	- - -	1,004,102
NET CHANGE IN FUND BALANCES	633,457	12,233	28	1,245,082
FUND BALANCES - JANUARY 1	1,164,832	- - -	20,951	6,686,335
FUND BALANCES - DECEMBER 31	<u>\$ 1,798,289</u>	<u>\$ 12,233</u>	<u>\$ 20,979</u>	<u>\$ 7,931,417</u>

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014

	General Fund	Economic Development Special Revenue Fund		Tax Increment VII	Debt Service Funds			Animal Shelter
		Tax Increment XI	Tax Increment XII		Debt Service Funds	Tax Increment XI	Tax Increment XII	
ASSETS								
Cash and cash equivalents	\$ 536,265	\$ 668,308	\$ 131,052	\$ -	\$ -	\$ -	\$ 115,903	
Cash - restricted	-	-	-	-	-	-	-	46,286
Investments - restricted	-	-	-	-	-	-	-	-
Taxes receivable								
Unapportioned	1,231	-	158	-	-	-	-	-
Delinquent	-	-	110,617	15,960	-	-	-	-
Accounts receivable	879	-	-	-	-	-	-	-
Due from other funds	1,664	213,000	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-	-
Loans receivable	-	660,942	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 540,039	\$ 1,542,250	\$ 241,827	\$ 15,960	\$ -	\$ -	\$ 162,189	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 2,917	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ -	
Salaries payable	115	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	1,664	-	-	-
Due to other governments	-	-	402	402	-	-	-	-
Contracts payable	1,700	-	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	4,732			402	2,066	500		
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue:								
Property taxes	-	-	110,617	15,960	-	-	-	-
Loans receivable	-	660,942	-	-	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES		660,942	110,617	15,960				
FUND BALANCES								
Nonspendable	-	-	-	-	-	-	-	
Restricted	-	-	130,808	-	-	-	-	
Committed	-	881,308	-	-	-	-	-	162,189
Assigned	-	-	-	-	-	-	-	-
Unassigned	-	-	-	(2,066)	-	(500)	-	-
TOTAL FUND BALANCES	535,307	881,308	130,808	(2,066)	(500)	162,189		
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 540,039	\$ 1,542,250	\$ 241,827	\$ 15,960	\$ -	\$ 162,189		

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
December 31, 2014

Capital Projects Funds							
	Central Range Public Works	Storefront Renovation Project	District VIII Tax Increment	District XII Tax Increment	Tax Abatement	Totals	
ASSETS							
Cash and cash equivalents	\$ -	\$ 42,261	\$ 65,640	\$ 45,765	\$ 49,617	\$ 1,654,811	
Cash - restricted						46,286	
Investments	- - -	- - -	- - -	- - -	- - -	- - -	
Taxes receivable							
Unapportioned							
Delinquent	- - -	- - -	- - -	- - -	173	1,562	
Accounts receivable	- - -	210	- - -	- - -	- - -	- - -	
Due from other funds	- - -	- - -	- - -	- - -	- - -	- - -	
Due from other governments	- - -	- - -	- - -	- - -	- - -	- - -	
Loans receivable	- - -	309,172	461,924	- - -	- - -	- - -	
Prepaid items	- - -	- - -	- - -	- - -	- - -	- - -	
TOTAL ASSETS	\$ -	\$ 351,643	\$ 527,831	\$ 45,765	\$ 49,790	\$ 3,477,294	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ - -	\$ - -	\$ - -	\$ - -	\$ 9,068	\$ 12,485	
Salaries payable	- - -	- - -	- - -	- - -	- - -	115	
Due to other funds	- - -	213,000	- - -	- - -	- - -	- - -	
Due to other governments	- - -	- - -	402	402	- - -	1,608	
Contracts payable	- - -	- - -	- - -	- - -	- - -	1,700	
Unearned revenue	- - -	- - -	- - -	- - -	- - -	- - -	
TOTAL LIABILITIES	- - -	213,000	402	402	9,068	230,572	
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue:							
Property taxes	- - -	- - -	267	- - -	- - -	- - -	
Loans receivable	- - -	309,172	461,924	- - -	- - -	- - -	
TOTAL DEFERRED INFLOWS OF RESOURCES	- - -	309,172	462,191	- - -	- - -	1,558,882	
FUND BALANCES							
Nonspendable	- - -	- - -	- - -	- - -	- - -	- - -	
Restricted	- - -	- - -	65,238	45,363	- - -	403,598	
Committed	- - -	- - -	- - -	- - -	- - -	1,416,615	
Assigned	- - -	- - -	- - -	- - -	40,722	40,722	
Unassigned	- - -	(170,529)	- - -	- - -	- - -	(173,095)	
TOTAL FUND BALANCES	- - -	(170,529)	65,238	45,363	40,722	1,687,840	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ - - -	\$ 351,643	\$ 527,831	\$ 45,765	\$ 49,790	\$ 3,477,294	

CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**
Year Ended December 31, 2014

	General Fund	Economic Development Special Revenue Fund	Debt Service Funds			Animal Shelter
			Tax Increment VII	Tax Increment XI	Tax Increment XII	
REVENUES						
Taxes						
General	\$ 74,893	\$ -	\$ 70,526	\$ 14,979	\$ -	\$ -
Taconite homestead credit	14,318	-	-	-	-	-
Other	15,910	-	-	-	-	-
Intergovernmental						
State grants	56	-	-	-	-	-
Market value credit	-	-	-	-	-	-
IRRRB grant	-	-	-	-	-	-
Interest in Capital Lease	-	-	-	-	-	38,835
Gifts and contributions	-	-	-	-	-	-
Interest	476	741	162	3	-	23
Miscellaneous						
Principal on loan repayments	-	90,676	-	-	-	-
Interest on loan repayments	-	11,435	-	-	-	-
TOTAL REVENUES	105,653	102,852	70,688	14,982	-	38,858
EXPENDITURES						
Current						
Economic development						
Community development	400	-	-	-	-	-
Administration	11,496	2,400	3,944	-	-	-
Professional services	7,563	-	402	402	-	-
Loans	-	479,972	-	-	-	-
Tax increment projects	-	-	-	-	-	-
Debt Service						
Principal	-	-	30,000	15,000	-	24,707
Interest	-	-	9,000	3,183	19,434	14,128
Other charges	-	-	-	-	500	-
Fiscal charges	-	-	450	-	-	-
Capital Outlay						
Community development	6,880	-	-	-	-	-
TOTAL EXPENDITURES	26,339	482,372	43,796	18,585	19,934	38,835
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	79,314	(379,520)	26,892	(3,603)	(19,934)	23
OTHER FINANCING SOURCES (USES)						
Debt Issuance	-	-	-	-	-	-
Transfers in	109,034	-	-	3,535	19,434	-
Transfers out	(3,535)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	105,499	-	-	3,535	19,434	-
NET CHANGE IN FUND BALANCES	184,813	(379,520)	26,892	(68)	(500)	23
FUND BALANCES - JANUARY 1	350,494	1,260,828	103,916	(1,998)	-	162,166
FUND BALANCES - DECEMBER 31	\$ 535,307	\$ 881,308	\$ 130,808	\$ (2,066)	\$ (500)	\$ 162,189

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
Year Ended December 31, 2014

Capital Projects Funds						
	Central Range Public Works	Storefront Renovation Project	District VIII Tax Increment	District XII Tax Increment	Tax Abatement	Totals
REVENUES						
Taxes						
General	\$ -	\$ -	\$ 11,796	\$ -	\$ 10,750	182,944
Taconite homestead credit	-	-	-	-	2,010	16,328
Other	-	-	-	-	2,233	18,143
Intergovernmental						
State grants						
Market value credit	-	-	-	-	8	64
IRRRB grant	-	-	-	-	-	-
Interest in Capital Lease	-	-	-	-	-	38,835
Gifts and contributions	-	-	-	-	-	-
Interest	-	-	77	243	142	1,867
Miscellaneous						
Principal on loan repayments	-	72,925	-	-	-	163,601
Interest on loan repayments	-	10,085	-	-	-	21,520
TOTAL REVENUES	-	83,010	11,873	243	15,143	443,302
EXPENDITURES						
Current						
Economic development						
Community development	-	-	-	-	82,857	83,257
Administration	-	-	-	-	-	17,840
Professional services	-	-	402	402	-	9,171
Loans	-	152,000	-	-	5,532	637,504
Tax increment projects	-	-	-	700,000	-	700,000
Debt Service						
Principal	-	-	-	-	-	69,707
Interest	-	-	-	-	-	45,745
Other charges	-	-	-	41,598	-	42,098
Fiscal charges	-	-	-	-	-	450
Capital Outlay						
Community development	-	-	-	-	-	6,880
TOTAL EXPENDITURES	-	152,000	402	742,000	88,389	1,612,652
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(68,990)	11,471	(741,757)	(73,246)	(1,169,350)
OTHER FINANCING SOURCES (USES)						
Debt issuance	-	-	-	830,000	-	830,000
Transfers in	-	-	-	-	-	132,003
Transfers out	(73,812)	-	-	(19,434)	-	(96,781)
TOTAL OTHER FINANCING SOURCES (USES)	(73,812)	-	-	810,566	-	865,222
NET CHANGE IN FUND BALANCES	(73,812)	(68,990)	11,471	68,809	(73,246)	(304,128)
FUND BALANCES - JANUARY 1	73,812	(101,539)	53,767	(23,446)	113,968	1,991,968
FUND BALANCES - DECEMBER 31	\$ -	\$ (170,529)	\$ 65,238	\$ 45,363	\$ 40,722	\$ 1,687,840

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
STATEMENT OF NET POSITION
ENTERPRISE FUND
December 31, 2014

	<u>Family Center</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 510,690
Due from other governments	<u>421,866</u>
Loans receivable	<u>421,866</u>
TOTAL ASSETS	<u>\$ 932,556</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ -
Deferred revenue	-
Due to other funds	<u>-</u>
TOTAL LIABILITIES	<u>-</u>
NET POSITION	
Unrestricted	<u>932,556</u>
TOTAL NET POSITION	<u>\$ 932,556</u>

CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUND
December 31, 2014**

	Family Center
OPERATING REVENUES	
Charges for services	\$
Miscellaneous	-
TOTAL OPERATING REVENUES	-
OPERATING EXPENSES	
Personal services	-
Supplies	-
Maintenance and repairs	-
Contracted services	-
Utilities	-
Depreciation	-
Miscellaneous	-
TOTAL OPERATING EXPENSES	-
OPERATING INCOME	-
NONOPERATING REVENUES	
Interest income	-
Interest on notes	24,553
Interest expense	-
Amortization	-
Gain on disposal of student housing facility	-
TOTAL NONOPERATING REVENUES	<u>24,553</u>
INCOME BEFORE TRANSFERS	<u>24,553</u>
Transfers in	-
Transfers out	-
CHANGE IN NET POSITION	24,553
TOTAL NET POSITION - JANUARY 1	<u>908,003</u>
TOTAL NET POSITION - DECEMBER 31	<u>\$ 932,556</u>

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
December 31, 2014

	Family Center
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ -
Cash paid to suppliers	- -
Cash paid to employees	- -
NET CASH PROVIDED BY OPERATING ACTIVITIES	- -
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer in from other funds	- -
Transfer out to other funds	- -
Prior year cash deficit payment	- -
Interfund financing of cash deficit	- -
Principal received on note	44,934
Interest received on note	24,553
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	- -
	<u>69,487</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase or construction of fixed assets	- -
Principal paid on long-term debt	- -
Interest paid on long-term debt	- -
Sale of facility	- -
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	- -
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	- -
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	69,487
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>441,203</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 510,690</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ -
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:	
Depreciation	- -
Decrease in: Accounts receivable	- -
Prepaid items	- -
Increase (decrease) in: Accounts payable	- -
Due to other governments	- -
Customer deposits	- -
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ -

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
TAX INCREMENT FINANCING DISTRICTS VII, VIII, XI, AND XII
Year Ended December 31, 2014

Tax Increment District VII

District type	Redevelopment	
Authorized under Minn. Statute, ch#	469	
Established in	1993	
Planned completion in	2019	
Original net tax capacity	\$ 2,160	
Current net tax capacity	49,586	
Fiscal disparity deduction		
Captured Net Tax Capacity Retained by the City	\$ 47,426	
	Accounted	
	for in	
	Prior Years	
SOURCES OF FUNDS		Current
		Year
Bond proceeds	\$ 320,000	\$ -
Note proceeds	-	-
Tax increments received	858,109	70,526
General property taxes received	-	-
Interest on invested funds	11,413	162
Grants	299,999	-
Local contributions	8,251	-
Miscellaneous	19,619	-
TOTAL SOURCES OF FUNDS	1,517,391	70,688
USES OF FUNDS		
Building acquisition	-	-
Other public improvements	721,672	-
Bond payments		
Principal	185,000	30,000
Interest and fiscal charges	322,923	9,450
Professional services	32,382	402
Administrative costs	136,333	3,944
TOTAL USES OF FUNDS	1,398,310	43,796
EXCESS (DEFICIENCY) OF SOURCES OVER		
USES OF FUNDS BEFORE TRANSFERS	119,081	26,892
TRANSFERS		
Decertified district - remittance to County	-	-
Transfers to other districts	-	-
Transfers to other funds	(15,165)	-
Transfers from other districts	-	-
Transfers from other funds	-	-
TOTAL TRANSFERS	(15,165)	-
EXCESS (DEFICIENCY) OF SOURCES OVER		
USES OF FUNDS AND TRANSFERS	\$ 103,916	26,892
DISTRICT BALANCE - JANUARY 1	103,916	
DISTRICT BALANCE - DECEMBER 31	\$ 130,808	

Tax Increment District VIII	Tax Increment District XI	Tax Increment District XII			
Qualified Housing	Redevelopment	Redevelopment			
469	469	469			
1993	1999	2012			
2020	2025	2038			
\$ 472	\$ 525	\$ 12,660			
8,377	13,636	12,660			
-	3,073	-			
<u>\$ 7,905</u>	<u>\$ 10,038</u>	<u>\$ -</u>			
Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year
\$ -	\$ -	\$ 165,000	\$ -	\$ -	\$ 830,000
216,408	11,796	142,253	14,979	-	-
5,577	77	1,874	3	-	243
385,000	-	-	-	-	-
-	-	67,786	-	-	-
18,670	-	2,786	-	-	-
<u>625,655</u>	<u>11,873</u>	<u>379,699</u>	<u>14,982</u>	<u> -</u>	<u>830,243</u>
555,095	-	-	-	-	-
67,392	-	253,248	-	-	700,000
-	-	115,000	15,000	-	-
-	-	130,325	3,183	-	61,532
10,593	402	32,243	402	23,446	402
30,205	-	45	-	-	-
<u>663,285</u>	<u>402</u>	<u>530,861</u>	<u>18,585</u>	<u>23,446</u>	<u>761,934</u>
<u>(37,630)</u>	<u>11,471</u>	<u>(151,162)</u>	<u>(3,603)</u>	<u>(23,446)</u>	<u>68,309</u>
-	-	-	-	-	-
-	-	-	-	-	-
(4,926)	-	-	-	-	-
-	-	35,055	-	-	-
96,323	-	114,109	3,535	-	-
91,397	-	149,164	3,535	-	-
<u>\$ 53,767</u>	<u>11,471</u>	<u>\$ (1,998)</u>	<u>(68)</u>	<u>\$ (23,446)</u>	<u>68,309</u>
	53,767		(1,998)		(23,446)
	<u>\$ 65,238</u>		<u>\$ (2,066)</u>		<u>\$ 44,863</u>

Fort & Company, P.A.

Certified Public Accountants

Diane D. Krueger-Pirnat, CPA
John W. Fort, CPA

Connor B. Michels, EA
Victoria C. Arnoldy, CPA

Kimberly A. Jarvis

Christine A. Towner, CPA
Benjamin R. Wilson

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 Hibbing, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of and for the year ended December 31, 2014, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated July 24, 2015. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Public Utilities Commission, as described in our report on the City of Hibbing, Minnesota's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 2014-1, 2014-2 and 2014-3 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

We also conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

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

The City of Hibbing, Minnesota's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The City of Hibbing's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of the Report

The purpose of this 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 Hibbing, Minnesota's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hibbing, Minnesota's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Fort + Company
Fort & Company, P.A.
July 24, 2015

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2014

SIGNIFICANT DEFICIENCIES

2014-1. SEGREGATION OF DUTIES

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.

Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response of Finding

The City Finance Director 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. The Finance Director will provide additional oversight to the operations of the finance office. In addition, the City Clerk provides oversight, consistent with his statutory duties of City Clerk/Treasurer, operating in a statutory City with a standard plan.

3. Official Responsible for Ensuring CAP

Sherri A. Renskers, Finance Director, is the official responsible for ensuring this plan.

4. Planned Completion Date for CAP

The City's Finance Director has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.

5. Plan to Monitor Completion of CAP

The City Council recognized the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014

**2014-2. FINANCIAL REPORTING PROCESS - REPORT WRITING FUNCTION OF INCODE SOFTWARE
NOT UTILIZED**

Condition and Criteria

The report writing function of the City's enterprise software package, Incode, is not utilized and fully functional. Thus, as part of the audit, management requested that we prepare the general ledger account groupings necessary to draft the City's financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Effect

Having the report writing function in Excel, outside of the Incode system, gives rise to the potential of account balances and/or account balance adjustments not being captured in published financial statements.

Cause

This situation exists because of staffing and software limitations caused by fiscal constraints.

Recommendations

In order to provide controls over the financial statement preparation process at an appropriate level, we suggest management investigate the cost of utilizing the report writing function within Incode and establish effective review policies and procedures.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding; the City acknowledges that this finding is a result of the SAS 112 requirements, which make this an expected finding given the cost/benefit of preparing the financial statements.

2. Actions Planned in Response to Finding

The City will continue to evaluate the prospect of incorporating the report writing function within the software system. However, given the current level of staffing, the City does not anticipate changing the process for the foreseeable future.

3. Officials Responsible for Ensuring CAP

Sherri A. Renskers, Finance Director
Patrick L. Garrity, City Clerk/Treasurer

4. Planned Completion Date for CAP

No timeline; continue to keep under consideration should resources become available. For the time being, Sherri Renskers will continue as the City's designated individual responsible for reviewing the report captioning and adjustments being captured in the financial statements.

5. Plan to Monitor Completion of CAP

Patrick L. Garrity, City Clerk/Treasurer is monitoring the procedures to ensure that they are consistent with the Internal Financial Control Policy.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014

**2014-3. RECONCILIATION OF THE PAYROLL WITHHOLDING LIABILITY ACCOUNT -
MINNESOTA LIFE DEDUCTIONS**

Condition and Criteria

In prior year audits, Fort & Company, P.A. noted a debit balance within the payroll withholding liability account - Minnesota Life Deductions (which normally is a liability account and should have a credit balance). The debit balance in this General Fund account was \$2,923 at December 31, 2012. The debit balance increased to \$5,759 at December 31, 2013. Fort & Company discussed this account balance with the Finance Department in the prior year audits and noted that the debit balance increased to \$6,698 as of December 31, 2014. As the debit balance continued to exist at December 31, 2014, Fort & Company performed additional research to understand the nature of the transactions creating the unexpected debit balance. Fort & Company's initial research identified a discrepancy between the total payroll withholding amounts and the monthly invoice from Minnesota Life. Fort & Company was able to see that some individuals' rates on the Minnesota Life invoice were different than the amounts listed on their payroll withholding amount for Minnesota Life for the month. Fort & Company communicated these finding to the Finance Department for them to further review the nature of the discrepancies and identify the cause of the inconsistencies on the Minnesota Life insurance invoice amounts and the payroll withholding and/or retiree billing amounts.

Effect

The effect is to potentially have inaccurate withholdings on employees payroll deductions and/or inaccurate billings to retirees.

Cause

The reconciliation process over agreeing employee deductions and/or retiree billings to monthly invoices from Minnesota Life was not functioning properly. Additionally, there could potentially be other payroll withholdings that were incorrectly coded to this general ledger account and a step or process to review how such withholding amounts are coded was not in place.

Recommendations

In order to assure that employee withholdings and retiree billings are accurate for Minnesota Life and that the general ledger coding of all payroll withholding amounts are correct, we suggest that procedures and controls are implemented immediately.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Year Ended December 31, 2014

**2014-3. RECONCILIATION OF THE PAYROLL WITHHOLDING LIABILITY ACCOUNT -
MINNESOTA LIFE DEDUCTIONS (continued)**

2. Actions Planned in Response to Finding

Procedures have been in place to ensure both segregation of duties and accuracy of payroll deductions and retiree billings by having both the human resources and finance departments involved in this process. However, relying on those procedures without fully investigating a debit balance resulted in a growing discrepancy. Since the amount was materially insignificant for the financial statements as a whole, a judgment was made by the Finance Director to not delay the issuance of the financial statements in the prior year beyond the statutory deadline. Because payroll commands precision, a comprehensive analysis of the discrepancies contributing to the debit balance was to occur after the issuance of the financial statements, but due to time and staffing constraints it wasn't completed until the end of the 2014 audit.

We have examined the underlying source documents and all transactions that have flowed through said liability account and have identified all of the errors that led to a debit balance in this account. Results of the investigation revealed a number of inadvertent errors involving communication to payroll of incorrect voluntary employee life insurance deduction amounts, individuals remaining on the insurance invoice after termination of employment, and coding of insurance premiums to incorrect general ledger accounts.

The Human Resources Director has requested credits from the insurance companies for amounts the City has overpaid. The City is waiting for credits from the insurance company, which should be reflected on the August, 2015 bill.

Correcting journal entries will be posted as of January 1, 2015 to address the remaining balance after factoring in credits from the life insurance company and evaluating withholding differences with employees.

Additional procedures have been put in place to enhance our existing procedures. Such procedures include a change in responsibility for coding the insurance invoices to reduce the number of people involved in the insurance premium withholding and payment process and increase the likelihood that discrepancies will be identified. Additionally, a bi-monthly review/analysis of the insurance invoices for accuracy of account coding, amounts, and employee/retiree deduction/billings will be performed by the Accountant and/or Internal Auditor for life, health, and dental insurance. The Financial Director will review the analysis on a quarterly basis.

3. Officials Responsible for Ensuring CAP

Sherri A. Renskers, Finance Director
Patrick L. Garrity, City Clerk/Treasurer
Tom Dicklich, City Administrator
Mary Ann Kepler, Internal Auditor

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2014

**2014-3. RECONCILIATION OF THE PAYROLL WITHHOLDING LIABILITY ACCOUNT -
MINNESOTA LIFE DEDUCTIONS (continued)**

4. Planned Completion Date for CAP

Immediate correction of identified errors of deduction amounts were made with the June 5, 2015 payroll. Coding of insurance related invoices are now being completed by the accountant in the Finance Department/Clerk's Office beginning with June Minnesota Life and July for health and dental insurance invoices. Bi-monthly review and analysis of insurance invoices compared to employee/retiree contributions amounts and related deductions/billings will begin August 2015.

5. Plan to Monitor Completion of CAP

Patrick L Garrity, City Clerk/Treasurer and Tom Dicklich, City Administrator will monitor the procedures to ensure that they are consistent with the updated procedures that have been set in place.