

CITY OF HIBBING, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2015

CITY OF HIBBING, MINNESOTA

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CITY OF HIBBING, MINNESOTA

ORGANIZATION
December 31, 2015

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	Andy Borland
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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

Christine A. Towner, CPA
Kimberly A. Jarvis

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, 2015, 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, 89 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, 2015, 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.

Emphasis of Matter Regarding Restatement

As discussed in Note 1 to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date-an Amendment of GASB Statement No. 68*. As a result of the implementation of these standards the City of Hibbing reported a restatement for the change in accounting principle (see Note 20). Our auditors' opinion was not modified with respect to the restatement.

As discussed in Note 20 to the financial statements, the City restated the beginning net positions of the Primary Government's Governmental Activities and Business-Type Activities, due to a correction of OPEB expense allocation.

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 74 to 75 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.

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 August 2, 2016, 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
August 2, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015. 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 \$36,168,914. Invested in capital assets, net of related debt represents \$23,180,177 of the total.
- ➡ Business-type activities have a total net position of \$24,076,108. Invested in capital assets, net of related debt represents \$25,120,093 of the total.
- ➡ The Hibbing Economic Development Authority (EDA) has a total net position of \$3,272,439. Invested in capital assets, net of related debt represents \$290,688 of the total.
- ➡ The City of Hibbing's primary government's net position increased by \$6,388,140 for the year ended December 31, 2015. The Governmental activities' net position increased by \$4,382,372 and the business-type activities' net position increased by \$2,005,768.
- ➡ The EDA had an increase in net position of \$266,569 for the year ended December 31, 2015. General revenues, including items such as taxes and grants not restricted to specific programs, accounted for \$333,933 of this, with net program expenses over revenue of \$67,364. The EDA'S net position increased by \$266,569 primarily due to a transfer of \$109,791 from the primary government of residual funds that were left in the community economic development of the General Fund. Also contributing to the EDA net position was EDA taxes levied in 2015 exceeding EDA development activities expenses by \$63,591. Lastly, two TIF districts had current year tax revenues in excess of current year expenses.
- ➡ The net cost of governmental activities was \$12,756,815 for the current year. The net cost was funded by general revenues and other items totaling \$17,139,187.
- ➡ Governmental funds' fund balances increased by \$1,080,580.
- ➡ 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, Other Postemployment Benefits Debt Service Fund, 2013A G.O. Bond Debt Service Fund, Permanent Improvement Capital Projects Fund, and Mining Effects Capital Projects Fund revenues exceeded expenditures by \$1,561,119, \$512,299, \$167,851, \$270,460, and \$219,709, respectively. These increases were offset by expenditures exceeding revenues in the Capital Equipment and Improvement Capital Projects Fund and Privately Financed Capital Projects Fund by \$834,378 and \$86,286, respectively, along with the net transfers out of \$739,791.

CITY OF HIBBING, MINNESOTA

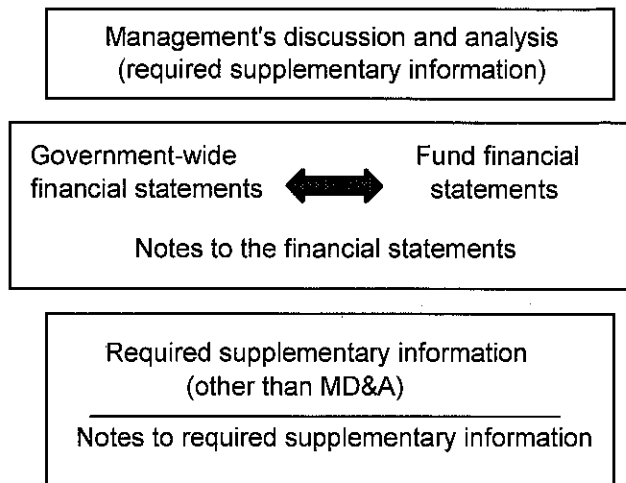
MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015

New Accounting Pronouncements

As further described in Note 1 to the financial statements, the City of Hibbing implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68 for the year ended December 31, 2015.

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 state 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, refuse removal services, and Memorial Building concessions 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, 2015

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, 2015

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position decreased from \$60,863,025 to \$60,245,022. This decrease is impacted by the change in accounting principle for pensions and the restatement of beginning net position (see page 10). 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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 32,452,839	\$ 32,127,916	\$ 2,792,313	\$ 1,524,433	\$ 35,245,152	\$ 33,652,349
Capital assets	28,349,222	24,961,474	36,611,502	36,294,812	64,960,724	61,256,286
Total assets	\$ 60,802,061	\$ 57,089,390	\$ 39,403,815	\$ 37,819,245	\$100,205,876	\$ 94,908,635
Deferred outflows of resources						
Deferred outflows-pensions	\$ 1,426,115	\$ -	\$ 133,438	\$ -	\$ 1,559,553	\$ -
Total assets and deferred outflows of resources	\$ 62,228,176	\$ 57,089,390	\$ 39,537,253	\$ 37,819,245	\$101,765,429	\$ 94,908,635
Long-term liabilities	\$ 22,886,495	\$ 17,914,534	\$ 14,640,275	\$ 12,596,824	\$ 37,526,770	\$ 30,511,358
Other liabilities	2,153,402	3,131,555	735,815	402,697	2,889,217	3,534,252
Total liabilities	\$ 25,039,897	\$ 21,046,089	\$ 15,376,090	\$ 12,999,521	\$ 40,415,987	\$ 34,045,610
Deferred inflows of resources						
Deferred inflows - pensions	\$ 1,019,365	\$ -	\$ 85,055	\$ -	\$ 1,104,420	\$ -
Total liabilities and deferred inflows of resources	\$ 26,059,262	\$ 21,046,089	\$ 15,461,145	\$ 12,999,521	\$ 41,520,407	\$ 34,045,610
Net position						
Invested in capital assets						
net of debt	\$ 23,180,177	\$ 19,099,238	\$ 25,120,093	\$ 23,782,656	\$ 48,300,270	\$ 42,881,894
Restricted	5,322,234	5,285,490	-	-	5,322,234	5,285,490
Unrestricted	7,666,503	11,658,573	(1,043,985)	1,037,068	6,622,518	12,695,641
Total net position	\$ 36,168,914	\$ 36,043,301	\$ 24,076,108	\$ 24,819,724	\$ 60,245,022	\$ 60,863,025

Net position of the City's governmental activities increased by 0.35 percent (\$36,168,914 in 2015 compared to \$36,043,301 in 2014). 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 \$11,658,573 at December 31, 2014, to \$7,666,503 at the end of 2015.

Net position of the City's business-type activities decreased 3.00 percent (\$24,076,108 in 2015 compared to \$24,819,724 in 2014). Again, the 2015 net position amounts of the city's governmental activities and its business-type activities were impacted by the change in accounting principle for pensions and the related restatement of beginning net position (see page 10).

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,541,016	\$ 2,812,617	\$ 6,143,662	\$ 5,728,129	\$ 8,684,678	\$ 8,540,746
Operating grants and contributions	1,338,839	1,522,432	-	-	1,338,839	1,522,432
Capital grants and contributions	1,535,784	937,669	942,076	466,665	2,477,860	1,404,334
General revenues:						
Taxes	9,700,911	8,957,817	-	-	9,700,911	8,957,817
Intergovernmental	8,123,311	8,109,953	-	-	8,123,311	8,109,953
Other general revenues (expenses)	54,756	57,362	7,359	(47,778)	62,115	9,584
Total revenues	<u>23,294,617</u>	<u>22,397,850</u>	<u>7,093,097</u>	<u>6,147,016</u>	<u>30,387,714</u>	<u>28,544,866</u>
Program expenses:						
General government	3,477,508	3,439,014	-	-	3,477,508	3,439,014
Public safety	7,563,291	7,648,708	-	-	7,563,291	7,648,708
Public works	3,576,579	4,850,785	-	-	3,576,579	4,850,785
Culture and recreation	3,076,408	3,038,500	-	-	3,076,408	3,038,500
Other	349,767	314,197	590	590	350,357	314,787
Interest	128,901	136,740	219,409	234,512	348,310	371,252
Garbage and refuse collection	-	-	2,577,850	2,454,079	2,577,850	2,454,079
Sewer operating and maintenance	-	-	2,918,527	2,577,879	2,918,527	2,577,879
Memorial building concessions	-	-	953	886	953	886
Total program expenses	<u>18,172,454</u>	<u>19,427,944</u>	<u>5,717,329</u>	<u>5,267,946</u>	<u>23,889,783</u>	<u>24,695,890</u>
Transfers	(739,791)	(35,222)	630,000	-	(109,791)	(35,222)
Operations transfer in	<u>-</u>	<u>194,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>194,272</u>
Increase (decrease) in net position	<u>4,382,372</u>	<u>3,128,956</u>	<u>2,005,768</u>	<u>879,070</u>	<u>6,388,140</u>	<u>4,008,026</u>
Beginning Net Position, as Reported	36,043,301		24,819,724		60,863,025	
Restatement Due to Change in Accounting Principle	(6,141,072)		(865,071)		(7,006,143)	
Restatement Due to Correction of OPEB Expenses	<u>1,884,313</u>		<u>(1,884,313)</u>		<u>-</u>	
Beginning Net Position, as Restated	<u>31,786,542</u>		<u>22,070,340</u>		<u>53,856,882</u>	
Ending Net Position, as Restated	<u>\$ 36,168,914</u>		<u>\$ 24,076,108</u>		<u>\$ 60,245,022</u>	

The City's total revenues increased by \$1,842,848 or 6.46 percent. The total cost of all programs and services decreased by \$806,107 or 3.27 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 \$896,767 or 4.01 percent and total expenses decreased by \$1,255,490 or 6.47 percent. The difference in the changes in net position for governmental activities was \$1,253,416 for 2015 compared to 2014.

The cost of all governmental activities this year was \$18,172,454. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs, \$2,541,016, or by other governments and organizations that subsidized certain programs with grants and contributions, \$10,997,934. Taxpayers paid \$9,700,911 in taxes in 2015.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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	
	2015	2014	2015	2014
Public safety	\$ 7,563,291	\$ 7,648,708	\$ 5,267,403	\$ 4,934,863
Public works	3,576,579	4,850,785	1,595,745	3,424,443
General government	3,477,508	3,439,014	3,174,194	3,127,405
Culture and recreation	3,076,408	3,038,500	2,532,191	2,651,574
Other	349,767	314,197	58,381	(119,779)
Interest on long-term debt	128,901	136,740	128,901	136,740
Totals	\$ 18,172,454	\$ 19,427,944	\$ 12,756,815	\$ 14,155,246

Business-Type Activities

Revenues of the City's business-type activities were \$7,093,097 and expenses were \$5,717,329 (see Table 2). There was an increase in net position of \$2,005,768 during the year ended December 31, 2015. The factors driving these results include:

Operations produced \$646,332 of income for the year ended December 31, 2015.

The City recognized capital grants totaling \$942,076 for the year.

The City had non-operating interest expense totaling \$219,409 for the year.

EDA Component Unit Activity

The EDA had an increase in net position of \$266,569 for the year ended December 31, 2015. General revenues, including items such as taxes and grants not restricted to specific programs, accounted for \$333,933 of this, with net program expenses over revenue of \$67,364. The EDA's net position increased by \$266,569 primarily due to a transfer of \$109,791 from the primary government of residual funds that were left in the community economic development of the General Fund. Also contributing to the increase in the EDA net position was EDA taxes levied in 2015 exceeding EDA development activities expenses by \$63,591. Lastly, two TIF districts had current year tax revenues in excess of current year expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$29,591,159 which is greater than last year's total of \$28,510,579. The general fund had an increase of \$1,247,099 primarily due to actual expenditures coming in below budgeted by \$1,308,999. The Library Fund had a \$233,837 decrease in fund balance after considering a \$227,057 transfer to the Capital Equipment and Improvement Fund. The largest increase in other governmental funds was for \$512,299 in the Other Post Employment Benefits Debt Service Fund which was due to current year funding. The next largest increase was \$167,851 in the 2013A G.O. Bond Debt Service Fund which was mainly due to current year revenues from specific tax levies and State grant funding that was available.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$1,308,999 below the final budget amounts. The most significant positive variances occurred in the City's public safety, \$508,481, and miscellaneous, \$364,574. The most significant negative variance (\$9,567) occurred in the City's culture and recreation expenditures. Resources available for appropriation were above the final budgeted amounts by \$112,939. The City received more in intergovernmental revenue, taxes, fines, gifts and contributions, investment income, and miscellaneous revenue than expected.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the City had \$64,963,724 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 \$3,707,438 over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land, improvements, intangibles, artwork, gravel roads	\$ 7,784,594	\$ 6,508,440	\$ 423,719	\$ 423,719	\$ 8,208,313	\$ 6,932,159
Buildings and improvements	9,510,634	8,093,527	20,912,683	14,403,137	30,423,317	22,496,664
Infrastructure	7,713,846	6,178,645	12,600,686	12,546,312	20,314,532	18,724,957
Equipment, machinery and furniture	3,320,226	3,186,536	860,629	984,289	4,180,855	4,170,825
Construction in progress	19,922	994,326	1,816,785	7,937,355	1,836,707	8,931,681
Totals	\$ 28,349,222	\$ 24,961,474	\$ 36,614,502	\$ 36,294,812	\$ 64,963,724	\$ 61,256,286

This year's major additions included:

Racetrack bleachers	\$ 11,130
Parks & Rec CAT Skid steer loader engine replacement	11,325
Recycling 95-gallon carts (200)	11,700
Memorial Building Disc Rider floor scrubber	12,951
Sewer Hydroseeder 335 gallon working capacity tank	13,990
City Hall hi-speed internet	15,824
Groundmaster mower for cemetery	16,840
Sewer Department pump repair	17,232
Townline Station insulation & flashing	19,253
Cemetery 80-Niche Columbarium	19,390
Bennet Park parking lot upgrade	21,260
Sanitation engine replacement	21,805
Parks & Recreation field groomer	23,170
Ambulance Lucas PPR devices	23,197
Kitzville play structure	23,629
Ambulance three portable ventilators	24,030
Streets & Alleys 2015 Ford F150	27,953
Memorial Building arena flooring	28,860
Parks & Recreation Groundskeeper mower	30,907
Sewer 2015 Ford F250 with plow	33,111
Police 2015 Dodge Charger	33,509
Bocce Ball Club roof	34,029
Police 2015 Chevy Tahoe	40,161
Council Chamber AV system	43,811
SVL Skidsteer with bucket	63,687
Memorial Building electrical lighting upgrades	66,349
MAC building purchase	75,470
Streets & Alleys 2015 Ford F550 sign truck	91,050
Dillon Road project	97,125
Memorial Building doors	106,525
3rd East project	109,110
13th Avenue East project	115,522
31st Street project	122,080

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

This year's major additions included (continued):

Sanitary sewer lining	186,469
South Leighton Road project	188,494
Cemetery blacktopping	200,823
Library flooring	221,914
John Deere 644k wheel loader	236,178
Wausau snow blower	239,963
Lindquist Road project	316,574
Ansley Road Marshview project	356,247
41st Street project	677,608
North & South Salmi Roads project	787,874
Memorial Building new heating system	856,189
Memorial Building improvements	936,792
Carey Lake path project	962,059
Gravel roads update	1,201,750
Mercury Building sewer project	7,220,250
Total additions	\$ 15,995,169

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

Debt

At year-end, the City had \$38,769,053 in long-term debt outstanding versus \$31,817,123 last year (see Table 5 below).

**Table 5
Outstanding Debt at Year-end**

	Governmental Activities		Business-type Activities		EDA Component Unit	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General obligation bonds (backed by the City)	\$ 4,818,036	\$ 5,424,037	\$ -	\$ -	\$ 1,234,794	\$ 1,305,765
Certificates of indebtedness	32,000	93,000	-	-	-	-
Capital leases	319,009	345,199	-	-	-	-
Police and Fire indebtedness	-	-	-	-	-	-
General obligation revenue notes	-	-	8,870,065	9,748,166	-	-
General obligation revenue bonds	-	-	2,624,344	2,763,990	-	-
Compensated absences	256,819	275,339	80,126	84,668	-	-
Net pension liability	6,935,169	-	941,387	-	7,489	-
OPEB liability	10,525,462	11,776,959	2,124,353	-	-	-
Total	\$ 22,886,495	\$ 17,914,534	\$ 14,640,275	\$ 12,596,824	\$ 1,242,283	\$ 1,305,765

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 \$4,818,036 is significantly below the \$19,538,898 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 \$317,445 as compared to the actual costs during the current year of \$305,000, which included 3 road lifts and 10 spot road repairs.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2016 budget, tax rates, and fees that will be charged for the business-type activities.

The General Fund expenditures and transfers for 2016 are budgeted to be \$17,449,649, which is a \$550,739 increase from the 2015 final budget of \$16,898,910. This is a \$335,395, or 2% increase from the 2015 original General Fund budgeted expenditures of \$17,114,254.

Property tax levies increased 4.38 percent for 2016.

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 is 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 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 increased LGA by \$12,875 in 2015, up from the \$8,082,406 received in 2014. LGA is up \$100,965 in 2015 from the \$7,994,316 received in 2011, 2012, and 2013. The anticipated 2016 LGA is \$3,513 greater than the \$8,095,281 received in 2015.

The City relies heavily on State LGA and taconite aids to fund its budget. LGA payments are anticipated to supply 46% of General Fund revenues, with taconite aids expected to furnish 11.3% 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.

The City's 2016 capital budget calls for it to spend another \$2,124,580 for capital projects, principally for the following:

Ambulance	\$ 252,000
Cemetery	25,000
General government	101,292
Library	19,226
Memorial Building	375,500
Parks, recreation and arena	279,000
Public safety	229,450
Public works	310,000
Other	533,112
Total	<u>\$ 2,124,580</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, 2015

	Governmental Activities	Primary government		Component Units	
		Business - Type Activities	Total	EDA	PUC
ASSETS					
Cash and cash equivalents	\$ 24,420,923	\$ 2,639,942	\$ 27,060,865	\$ 2,639,175	\$ -
Investments	4,350,829	-	4,350,829	-	-
Taxes receivable	466,393	-	466,393	128,740	-
Special assessments receivable	175,853	97,490	273,343	-	-
Accounts receivable	188,602	1,648	190,250	130,304	6,032,523
Interest receivable	9,881	-	9,881	-	-
Unbilled revenues	-	-	-	-	1,195,201
Internal balances	1,200,000	(1,200,000)	-	-	-
Due from other governments	1,257,556	423,856	1,681,412	-	-
Due from other component units	-	824,136	824,136	-	-
Due from primary government	-	-	-	319,009	-
Loans receivable	-	-	-	1,126,667	-
Inventories	531	2,241	2,772	-	874,138
Prepaid expenses	196,611	-	196,611	250	261,664
Equity in joint venture	-	-	-	-	14,638,633
Net pension asset	185,660	-	185,660	-	-
Temporarily restricted assets					
Cash and cash equivalents	-	-	-	46,286	1,290,247
Investments held with fiscal agents	-	-	-	-	2,433,890
Capital assets not being depreciated					
Land, improvements, artwork, gravel roads, intangibles and construction in progress	7,804,516	2,240,504	10,045,020	274,272	2,241,493
Capital assets net of accumulated depreciation					
Infrastructure	26,422,910	14,259,431	40,682,341	19,699	-
Buildings and improvements	25,222,433	32,058,304	57,280,737	-	9,265,739
Transmissions and distribution system	-	-	-	-	47,789,059
Equipment, machinery and furniture	12,463,864	4,400,135	16,863,999	-	46,085,777
Less: accumulated depreciation	(43,564,501)	(16,343,872)	(59,908,373)	(3,283)	(68,194,173)
TOTAL ASSETS	\$ 60,802,061	\$ 39,403,815	\$ 100,205,876	\$ 4,681,119	\$ 63,914,191
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - Pension	1,426,115	133,438	1,559,553	1,062	674,780
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 62,228,176	\$ 39,537,253	\$ 101,765,429	\$ 4,682,181	\$ 64,588,971

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

CITY OF HIBBING, MINNESOTA
STATEMENT OF NET POSITION (continued)
December 31, 2015

	Primary government			Component Units	
	Governmental Activities	Business - Type Activities	Total	EDA	PUC
LIABILITIES					
Accounts payable	\$ 147,140	\$ 85,525	\$ 232,665	\$ 137,993	\$ 3,739,849
Salaries payable	998,206	41,034	1,039,240	-	-
Notes payable	-	-	-	-	-
Due to other governments	300,048	19,143	319,191	2,108	-
Due to primary government	-	-	-	-	824,136
Contracts payable	156,547	370,651	527,198	1,700	-
Customer deposits	-	-	-	-	338,325
Other accrued liabilities	165,741	-	165,741	-	104,517
Unearned revenue	333,918	-	333,918	125	38,652
Accrued interest payable	51,802	81,254	133,056	24,856	7,697
Compensated absences	-	138,208	138,208	-	414,612
Long-term liabilities					
Due to component unit	319,009	-	319,009	-	-
Net pension liability	6,935,169	941,387	7,876,556	7,489	4,866,386
Compensated absences	256,819	80,126	336,945	-	1,004,954
OPEB liability	10,525,462	2,124,353	12,649,815	-	16,388,469
Due within one year	667,000	1,043,000	1,710,000	82,761	1,342,622
Due in more than one year	4,183,036	10,451,409	14,634,445	1,152,033	7,787,118
TOTAL LIABILITIES	\$ 25,039,897	\$ 15,376,090	\$ 40,415,987	\$ 1,409,065	\$ 36,857,337
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - Pension	1,019,365	85,055	1,104,420	677	565,952
NET POSITION					
Invested in capital assets, net of related debt	23,180,177	25,120,093	48,300,270	290,688	28,044,329
Restricted for					
Capital projects	3,375,027	-	3,375,027	76,626	-
Debt service	1,706,862	-	1,706,862	321,579	913,270
Other purposes	240,345	-	240,345	250	-
Unrestricted	7,666,503	(1,043,985)	6,622,518	2,583,296	(1,791,917)
TOTAL NET POSITION	36,168,914	24,076,108	60,245,022	3,272,439	27,165,682
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 62,228,176	\$ 39,537,253	\$ 101,765,429	\$ 4,682,181	\$ 64,588,971

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Interest on Loans Receivable
Primary Government					
Governmental activities					
General government	\$ 3,477,508	\$ 242,974	\$ 60,340	\$ -	\$ -
Public safety	7,563,291	1,870,631	425,257	-	-
Public works	3,576,579	50,147	608,634	1,322,053	-
Culture and recreation	3,076,408	318,973	11,513	213,731	-
Economic development	24,412	-	-	-	-
Transportation	325,355	58,291	233,095	-	-
Interest on long-term debt	128,901	-	-	-	-
Total Governmental Activities	<u>18,172,454</u>	<u>2,541,016</u>	<u>1,338,839</u>	<u>1,535,784</u>	<u>-</u>
Business-Type Activities					
Garbage and refuse collection	2,577,850	2,817,095	-	-	-
Sewer operating and maintenance	3,138,526	3,316,725	-	942,076	-
Memorial building concessions	953	9,842	-	-	-
Total Business-Type Activities	<u>5,717,329</u>	<u>6,143,662</u>	<u>-</u>	<u>942,076</u>	<u>-</u>
Total Primary Government	<u>\$ 23,889,783</u>	<u>\$ 8,684,678</u>	<u>\$ 1,338,839</u>	<u>\$ 2,477,860</u>	<u>\$ -</u>
Component Units					
EDA	\$ 119,921	\$ -	\$ -	\$ -	\$ 52,557
PUC	26,504,763	25,297,892	-	-	-
Total Component Units	<u>\$ 26,624,684</u>	<u>\$ 25,297,892</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,557</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 - Loss from impairment of an asset

Transfers

Total General Revenues, and Transfers

Change in Net Position

NET POSITION - JANUARY 1

Restatement Due To Change in Accounting Principle - See Note 20

Restatement Due To Correction of OPEB Expense Allocation - See Note 20

NET POSITION - JANUARY 1, AS RESTATED

NET POSITION - DECEMBER 31

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

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	EDA	PUC
\$ (3,174,194)	\$ -	\$ (3,174,194)		
(5,267,403)	-	(5,267,403)		
(1,595,745)	-	(1,595,745)		
(2,532,191)	-	(2,532,191)		
(24,412)	-	(24,412)		
(33,969)	-	(33,969)		
(128,901)	-	(128,901)		
(12,756,815)	-	(12,756,815)		
-	239,245	239,245		
-	1,120,275	1,120,275		
-	8,889	8,889		
-	1,368,409	1,368,409		
(12,756,815)	1,368,409	(11,388,406)		
			\$ (67,364)	\$ -
			-	(1,206,871)
			\$ (67,364)	\$ (1,206,871)
5,824,424	-	5,824,424	-	-
3,735,314	-	3,735,314	120,100	-
141,173	-	141,173	-	-
-	-	-	101,151	-
8,123,311	-	8,123,311	77	-
53,854	7,359	61,213	2,814	8,120
902	-	902	-	-
-	-	-	-	(239,864)
(739,791)	630,000	(109,791)	109,791	-
17,139,187	637,359	17,776,546	333,933	(231,744)
4,382,372	2,005,768	6,388,140	266,569	(1,438,615)
36,043,301	24,819,724	60,863,025	3,012,752	33,242,219
(6,141,072)	(865,071)	(7,006,143)	(6,882)	(4,637,922)
1,884,313	(1,884,313)	-	-	-
31,786,542	22,070,340	53,856,882	3,005,870	28,604,297
\$ 36,168,914	\$ 24,076,108	\$ 60,245,022	\$ 3,272,439	\$ 27,165,682

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

CITY OF HIBBING, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
 December 31, 2015

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,691,960	\$ 53,700	\$ 13,675,263	\$ 24,420,923
Investments	4,350,829	-	-	4,350,829
Taxes receivable	420,357	8,843	37,194	466,394
Special assessments receivable	-	-	175,853	175,853
Accounts receivable	179,336	92	9,174	188,602
Interest receivable	9,880	-	-	9,880
Due from other funds	1,200,000	-	-	1,200,000
Due from other governments	137,846	-	1,119,710	1,257,556
Due from developers	-	-	-	-
Loans receivable	-	-	46,131	46,131
Prepaid items and other assets	12,946	6,784	177,412	197,142
TOTAL ASSETS	\$ 17,003,154	\$ 69,419	\$ 15,240,737	\$ 32,313,310
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 116,677	\$ 10,472	\$ 19,990	\$ 147,139
Salaries payable	982,495	15,711	-	998,206
Due to other funds	-	-	-	-
Due to other governments	280,816	4,262	14,970	300,048
Contracts payable	-	-	156,546	156,546
Unearned revenue	14,569	16,947	244,626	276,142
Other accrued liabilities	165,741	-	-	165,741
TOTAL LIABILITIES	1,560,298	47,392	436,132	2,043,822
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Property taxes	398,569	-	-	398,569
Special assessments	-	-	175,853	175,853
Loans receivable	-	-	103,907	103,907
TOTAL DEFERRED INFLOWS OF RESOURCES	398,569	-	279,760	678,329
FUND BALANCES				
Nonspendable	12,415	6,784	177,412	196,611
Restricted	28,491	15,243	5,081,889	5,125,623
Committed	-	-	7,969,317	7,969,317
Assigned	9,518,248	-	1,296,227	10,814,475
Unassigned	5,485,133	-	-	5,485,133
TOTAL FUND BALANCES	15,044,287	22,027	14,524,845	29,591,159
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 17,003,154	\$ 69,419	\$ 15,240,737	\$ 32,313,310

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, 2015

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 29,591,159
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	28,349,222
Some receivables are not available soon enough to pay for current period expenditures and therefore are unavailable in the funds.	
Loans receivable	-
Delinquent property taxes	398,569
Deferred and delinquent special assessments	175,853
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.	(51,802)
The City's net pension liability and related deferred inflows and outflows for its defined benefit pension plans are recorded only on the statement of net position. Balances at year end are:	
Net pension asset	185,660
Net pension liability	(6,935,169)
Deferred inflows of resources - pensions	(1,019,366)
Deferred outflows of resources - pensions	1,426,114
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.	(15,951,326)
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 36,168,914</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, 2015

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 5,728,169	\$ 585,667	\$ 3,369,027	\$ 9,682,863
Special assessments	-	-	26,980	26,980
Licenses and permits	91,925	-	-	91,925
Intergovernmental	8,787,991	376	2,110,279	10,898,646
Charges for services	2,154,756	11,874	27,866	2,194,496
Fines	103,853	-	-	103,853
Gifts and contributions	668	10,690	36,194	47,552
Investment income (loss)	36,544	329	16,373	53,246
Miscellaneous	108,867	-	-	108,867
TOTAL REVENUES	17,012,773	608,936	5,586,719	23,208,428
EXPENDITURES				
Current				
General government	1,756,127	-	-	1,756,127
Public safety	6,195,626	-	-	6,195,626
Public works	2,973,614	-	-	2,973,614
Culture and recreation	1,912,891	622,916	-	2,535,807
Economic development	15,678	-	-	15,678
Transportation	290,047	-	-	290,047
Miscellaneous	2,268,085	-	-	2,268,085
Debt Service				
Principal	26,190	-	666,000	692,190
Interest and other charges	13,396	-	121,674	135,070
Capital Outlay				
General government	-	-	1,995	1,995
Public safety	-	-	168,521	168,521
Public works	-	-	2,387,895	2,387,895
Culture and recreation	-	-	1,918,910	1,918,910
Transportation	-	-	-	-
Miscellaneous	-	-	56,053	56,053
TOTAL EXPENDITURES	15,451,654	622,916	5,321,048	21,395,618
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,561,119	(13,980)	265,671	1,812,810
OTHER FINANCING SOURCES (USES)				
Transfers in	-	7,200	501,114	508,314
Transfers out	(316,048)	(227,057)	(705,000)	(1,248,105)
Debt issuance	-	-	-	-
Sale of capital assets	2,028	-	5,533	7,561
TOTAL OTHER FINANCING SOURCES (USES)	(314,020)	(219,857)	(198,353)	(732,230)
NET CHANGE IN FUND BALANCES	1,247,099	(233,837)	67,318	1,080,580
FUND BALANCES - JANUARY 1	13,797,188	255,864	14,457,527	28,510,579
FUND BALANCES - DECEMBER 31	\$ 15,044,287	\$ 22,027	\$ 14,524,845	\$ 29,591,159

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, 2015

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,080,580

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	5,295,164	
Less current year depreciation	<u>(1,900,757)</u>	
Net capital assets		3,394,407

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and disposals) is to decrease net assets. (6,660)

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	17,718	
Change in deferred inflows of resources - special assessments	22,688	
Change in deferred inflows of resources - loans receivable	<u>(8,734)</u>	
		31,672

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 reduces long-term liabilities in the statement of net position.

Debt issued	-	
Principal repaid	692,190	
Bond premium	<u>1,001</u>	
		693,191

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	5,167	
Change in long-term compensated absences	18,520	
Change in long-term other postemployment benefits	<u>(632,816)</u>	
		(609,129)

Pension expenditures on the governmental funds are measured by current contributions for employees. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources, offset by State of Minnesota grant revenue. (201,689)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 4,382,372

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2015

	Business-Type Activities - Enterprise Funds			Totals
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,306,717	\$ 149,788	\$ 183,437	\$ 2,639,942
Special assessments receivable	32,497	64,993	-	97,490
Taxes receivable	-	-	-	-
Accounts receivable	-	1,648	-	1,648
Due from other governments	505	423,351	-	423,856
Due from component units	216,636	607,500	-	824,136
Inventories	2,241	-	-	2,241
Prepaid expenses	-	-	-	-
TOTAL CURRENT ASSETS	<u>2,558,596</u>	<u>1,247,280</u>	<u>183,437</u>	<u>3,989,313</u>
NONCURRENT ASSETS				
OTHER ASSETS				
Capital assets				
Land and improvements	297,689	126,030	-	423,719
Construction in progress	-	1,816,785	-	1,816,785
Infrastructure	-	14,259,431	-	14,259,431
Buildings and improvements	121,085	31,937,219	-	32,058,304
Equipment, machinery and furniture	2,940,394	1,435,381	24,360	4,400,135
Less accumulated depreciation	(2,559,028)	(13,760,484)	(24,360)	(16,343,872)
TOTAL NONCURRENT ASSETS	<u>800,140</u>	<u>35,814,362</u>	<u>-</u>	<u>36,614,502</u>
TOTAL ASSETS	<u>3,358,736</u>	<u>37,061,642</u>	<u>183,437</u>	<u>40,603,815</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - Pensions	67,430	66,008	-	133,438
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>3,426,166</u>	<u>37,127,650</u>	<u>183,437</u>	<u>40,737,253</u>
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	56,830	28,695	-	85,525
Salaries payable	8,506	32,528	-	41,034
Accrued interest payable	-	81,254	-	81,254
Due to other funds	-	1,200,000	-	1,200,000
Due to other governments	10,463	8,680	-	19,143
Other accrued expenses	-	-	-	-
Unearned revenue	-	-	-	-
Compensated absences	76,800	61,408	-	138,208
Contracts payable	-	370,651	-	370,651
OPEB liability	1,070,857	1,053,496	-	2,124,353
Bonds, notes and leases payable-current	-	1,043,000	-	1,043,000
TOTAL CURRENT LIABILITIES	<u>1,223,456</u>	<u>3,879,712</u>	<u>-</u>	<u>5,103,168</u>
NONCURRENT LIABILITIES				
Net pension liability	475,710	465,677	-	941,387
Compensated absences	47,884	32,242	-	80,126
Bonds, notes and leases payable	-	10,451,409	-	10,451,409
TOTAL NONCURRENT LIABILITIES	<u>523,594</u>	<u>10,949,328</u>	<u>-</u>	<u>11,472,922</u>
TOTAL LIABILITIES	<u>1,747,050</u>	<u>14,829,040</u>	<u>-</u>	<u>16,576,090</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - Pensions	42,981	42,074	-	85,055
NET POSITION				
Invested in Capital assets, net of related debt	800,140	24,319,953	-	25,120,093
Unrestricted	835,995	(2,063,417)	183,437	(1,043,985)
TOTAL NET POSITION	<u>1,636,135</u>	<u>22,256,536</u>	<u>183,437</u>	<u>24,076,108</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 3,426,166</u>	<u>\$ 37,127,650</u>	<u>\$ 183,437</u>	<u>\$ 40,737,253</u>

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, 2015

	Business-Type Activities - Enterprise Funds			Totals
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	
OPERATING REVENUES				
Charges for services	\$ 2,778,074	\$ 3,271,377	\$ 9,842	\$ 6,059,293
Sewer connect fees	-	42,119	-	42,119
Miscellaneous	39,021	3,229	-	42,250
TOTAL OPERATING REVENUES	2,817,095	3,316,725	9,842	6,143,662
OPERATING EXPENSES				
Personal services	860,548	826,540	-	1,687,088
OPEB expense of retiree health insurance premiums	48,301	65,663	-	113,964
OPEB expense - actuarial impact	128,700	111,339	-	240,039
Pension expense - actuarial impact	14,116	13,818	-	27,934
Contractual services	1,048,159	106,821	-	1,154,980
Administration	152	-	-	152
Utilities	85,498	260,903	-	346,401
Repairs and maintenance	16,015	74,404	-	90,419
Other supplies and expenses	156,841	213,847	96	370,784
Insurance claims and expenses	61,178	52,178	-	113,356
Depreciation	152,599	1,174,084	-	1,326,683
Miscellaneous	5,743	18,930	857	25,530
OTHER OPERATING EXPENSES	2,577,850	2,918,527	953	5,497,330
OPERATING INCOME	239,245	398,198	8,889	646,332
NONOPERATING REVENUES (EXPENSES)				
Interest income	5,700	1,157	502	7,359
Miscellaneous revenue (expense)	-	(590)	-	(590)
Impairment loss on capital assets	-	-	-	-
Sale of capital assets	-	-	-	-
Operating grants	-	-	-	-
Interest expense	-	(219,409)	-	(219,409)
Transfer from primary government	-	630,000	-	630,000
TOTAL NONOPERATING REVENUES (EXPENSES)	5,700	411,158	502	417,360
INCOME BEFORE CAPITAL GRANTS	244,945	809,356	9,391	1,063,692
CAPITAL GRANTS	-	942,076	-	942,076
CHANGE IN NET POSITION	244,945	1,751,432	9,391	2,005,768
TOTAL NET POSITION - JANUARY 1	2,770,492	21,875,186	174,046	24,819,724
RESTATEMENT DUE TO CHANGE IN ACCOUNTING PRINCIPLE (See Note 20)	(437,145)	(427,926)	-	(865,071)
RESTATEMENT DUE TO CORRECTION OF OPEB EXPENSE ALLOCATION (See Note 20)	(942,157)	(942,156)	-	(1,884,313)
TOTAL NET POSITION - JANUARY 1, AS RESTATED	1,391,190	20,505,104	174,046	22,070,340
TOTAL NET POSITION - DECEMBER 31	\$ 1,636,135	\$ 22,256,536	\$ 183,437	\$ 24,076,108

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, 2015

	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	\$ 2,814,613	\$ 2,958,762	\$ 9,842	\$ 5,783,217
Cash paid to suppliers	(1,668,111)	(975,641)	(953)	(2,644,705)
Cash paid to employees	(592,301)	(572,289)	-	(1,164,590)
Cash paid for retiree health insurance premiums	(48,301)	(65,663)	-	(113,964)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>505,900</u>	<u>1,345,169</u>	<u>8,889</u>	<u>1,859,958</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous (payment) collection	-	(590)	-	(590)
Interfund financing payments	-	(498,123)	-	(498,123)
Transfer from primary government	-	630,000	-	630,000
Prior year cash deficit advances	-	-	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>131,287</u>	<u>-</u>	<u>131,287</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase or construction of capital assets	(74,726)	(1,212,937)	-	(1,287,663)
Proceeds from sale of capital assets	-	-	-	-
Advances on notes payable	-	-	-	-
Principal paid on long-term debt	-	(1,017,747)	-	(1,017,747)
Interest paid on long-term debt	-	(225,957)	-	(225,957)
Issuance costs paid on long-term debt	-	-	-	-
Capital grants and contributions	-	770,612	-	770,612
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(74,726)</u>	<u>(1,686,029)</u>	<u>-</u>	<u>(1,760,755)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	<u>5,700</u>	<u>1,157</u>	<u>502</u>	<u>7,359</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>436,874</u>	<u>(208,416)</u>	<u>9,391</u>	<u>237,849</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,869,843</u>	<u>358,204</u>	<u>174,046</u>	<u>2,402,093</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 2,306,717</u>	<u>\$ 149,788</u>	<u>\$ 183,437</u>	<u>\$ 2,639,942</u>

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, 2015

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)	\$ 239,245	\$ 398,198	\$ 8,889	\$ 646,332
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	152,599	1,174,084	-	1,326,683
(Increase) decrease in assets/deferred outflows:				
Special assessments receivable	(7,426)	(1,639)	-	(9,065)
Taxes receivable	2,200	-	-	2,200
Accounts receivable	21,465	30	-	21,495
Due from component unit	(15,707)	(356,431)	-	(372,138)
Due from other governments	(505)	-	-	(505)
Inventories	570	-	-	570
Prepaid expenses	-	-	-	-
Deferred pension outflows	(67,430)	(66,008)	-	(133,438)
Increase (decrease) in liabilities/deferred inflows:				
Accounts payable	6,383	16,402	-	22,785
Salaries payable	(18,964)	6,835	-	(12,129)
Other accrued expenses	-	-	-	-
Deferred revenue	-	-	-	-
Compensated absences - current	(16,700)	(10,569)	-	(27,269)
Due to other governments	(2,509)	77	-	(2,432)
OPEB liabilities	128,700	111,339	-	240,039
Net pension liability	475,710	465,677	-	941,387
Deferred pension inflows	42,981	42,074	-	85,055
Change in accounting principle	(437,145)	(427,925)	-	(865,070)
Compensated absences - long-term	2,433	(6,975)	-	(4,542)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 505,900	\$ 1,345,169	\$ 8,889	\$ 1,859,958

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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, 2015

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) *Pensions.* For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employee Retirement Association (PERA) and the City of Hibbing's Volunteer Fire Department Relief Association (HVRA) fiduciary net position have been determined on the same basis as they are reported by PERA and HVRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- 10) 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, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 11) 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.

- 12) Net position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows 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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 hired before January 1, 2007, 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, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Implemented in 2015:

During the year ended December 31, 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. They also improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. See Note 20 for more detail of the effect of this change in accounting principle on the financial statements.

To be implemented after 2015

GASB Statement No. 72 - Fair Value Measurement and Application

In response to stakeholders requesting more clarity regarding Fair Value standards, GASB developed new guidance by issuing Statement No. 72. The new guidance is designed to provide additional information regarding the measurement of Assets and Liabilities and to help financial statement readers make better, more informed decisions. GASB Statement No. 72, *Fair Value Measurement and Application*, defines Fair Value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Currently, state and local governments are required to disclose how the value of an asset or liability is determined or measured. Statement No. 72, however, now requires governments, for periods beginning after June 15, 2015, to categorize Fair Values based on the criteria of Fair Value Hierarchy.

An investment is a security or other asset that a government holds primarily for the purpose of income or profit and has a present service capacity based on its ability to generate cash. GASB 72 requires governments to use a consistent valuation technique based on one of the following three approaches: the market approach, the cost approach, or the income approach. The market approach uses quoted market prices for identical or similar assets and liabilities in most instances, but additional techniques such as the multiples and matrix techniques can also be applied. The cost approach is a technique that considers the dollar amount to replace the asset with a similar asset or substitute. Lastly, the income approach considers the future amounts of revenue or cash flows and converts the amounts to a single value with techniques such as the discounted present value, the option pricing model, and the multi-period excess earnings technique. The Statement specifies that the selected approach should be used consistently, but changes may be appropriate depending on the circumstances.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 72 - Fair Value Measurement and Application (continued)

The Fair Value Hierarchy is categorized into three levels based on reliability. Level 1 inputs, the first and most reliable level, are quoted prices for assets or liabilities in active markets that governments can access at a particular date. Level 2 inputs are those that are directly or indirectly observable but lack quoted prices in active markets. Level 3 inputs are the lowest level of reliability. Level 3 inputs are prices that cannot be observed. It is important to note that if an asset or liability is measured using more than one input, the government must categorize the item at the lowest of the inputs used.

Due to the need for increased transparency in government reporting, GASB Statement No. 72 addresses the issues related to Fair Value reporting and provides guidance for governments on measuring assets and liabilities and the reliability of those measurements. Financial statement readers will now be able to determine how the values of the government's assets and liabilities were measured and how reliable the measurements are.

GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB Statement No. 75 addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. GASB 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statement for the OPEB that they provide. Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability - the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

Governments that participate in cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

GASB 75 requires government in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances - called special funding situations - GASB 75 requires these governments to recognize in their financial statements a share of the other government's net OPEB liability. The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively.

GASB Statement No. 77 - Tax Abatement Disclosures

The objective of this Statement is to require governments that enter into tax abatement agreements to disclose information about a reporting government's own tax abatement agreements and information about those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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, 2015:

Primary Government

Sewer Operating and Maintenance Enterprise

Fund - unrestricted net position (\$2,063,417)

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. This net position deficit was further impacted by the adoption of GASB 68 and the restatement of OPEB expense. For additional explanation, see Note 20.

EDA Component Unit

Storefront Renovation Capital Project Fund

(\$186,783)

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

EDA Component Unit

Tax Increment District XI

(\$1,863)

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

EDA Component Unit

Tax Increment District XII Capital Project Fund

(\$510)

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	\$ 1,670	\$ -	\$ -	\$ 1,670
Deposits	27,059,195	2,639,175	-	29,698,370
Total cash and cash equivalents	27,060,865	2,639,175	-	29,700,040
Temporarily restricted assets				
Cash and cash equivalents	-	46,286	1,290,247	1,336,533
Investments				
Other	4,350,829	-	2,433,890	6,784,719
Total investment	4,350,829	-	2,433,890	6,784,719
Total	\$ 31,411,694	\$ 2,685,461	\$ 3,724,137	\$ 37,821,292

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 \$34,097,155; the bank balance was \$32,274,406. At December 31, 2015, the carrying amount of Hibbing Public Utility Commission's deposits was \$1,290,247 and the bank balance was \$1,204,974. 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 Protector Insurance (SIPC) and excess SIPC coverage. At year end the City had \$4,350,829 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, 2015, 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	-	Not rated
Certificates of Deposit	2,853,800	Not rated
Government Bonds		
FNMA/FHLMC	1,495,800	Moody AAA
Total Fair Value	<u>\$ 4,350,829</u>	

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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, 2015, 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, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Operations Transfer in	Ending Balance
Governmental Activities						
Capital assets, not being depreciated:						
Land and improvements	\$ 1,753,990	\$ 75,470	\$ (1,066)	\$ -	\$ -	\$ 1,828,394
Intangible - easements	25,600	-	-	-	-	25,600
Artwork	1,819,350	-	-	-	-	1,819,350
Gravel roads	2,909,500	1,201,750	-	-	-	4,111,250
Construction in progress	994,326	2,124,104	(3,098,508)	-	-	19,922
Total capital assets, not being depreciated	7,502,766	3,401,324	(3,099,574)	-	-	7,804,516
Capital assets, being depreciated:						
Infrastructure	24,362,909	2,060,001	-	-	-	26,422,910
Buildings and improvements	23,264,660	1,957,773	-	-	-	25,222,433
Equipment, machinery, and furniture	11,789,245	974,574	(347,618)	47,663	-	12,463,864
Total capital assets, being depreciated	59,416,814	4,992,348	(347,618)	47,663	-	64,109,207
Less accumulated depreciation for:						
Infrastructure	(18,184,264)	(524,800)	-	-	-	(18,709,064)
Buildings and improvements	(15,171,132)	(540,667)	-	-	-	(15,711,799)
Equipment, machinery, and furniture	(8,602,710)	(835,290)	342,025	(47,663)	-	(9,143,638)
Total accumulated depreciation	(41,958,106)	(1,900,757)	342,025	(47,663)	-	(43,564,501)
Total capital assets, being depreciated, net	17,458,708	3,091,591	(5,593)	-	-	20,544,706
Governmental activities capital assets, net	\$ 24,961,474	\$ 6,492,915	\$ (3,105,167)	\$ -	\$ -	\$ 28,349,222

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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	7,937,355	1,306,777	-	(7,427,347)	1,816,785
Total Capital assets, not being depreciated	<u>8,361,074</u>	<u>1,306,777</u>	<u>-</u>	<u>(7,427,347)</u>	<u>2,240,504</u>
Capital assets, being depreciated:					
Infrastructure	13,859,398	400,033	-	-	14,259,431
Buildings and improvements	24,838,054	7,220,250	-	-	32,058,304
Equipment, machinery, and furniture	4,425,993	146,660	(124,855)	(47,663)	4,400,135
Total capital assets, being depreciated	<u>43,123,445</u>	<u>7,766,943</u>	<u>(124,855)</u>	<u>(47,663)</u>	<u>50,717,870</u>
Less accumulated depreciation for:					
Infrastructure	(1,313,086)	(345,659)	-	-	(1,658,745)
Buildings and improvements	(10,434,917)	(710,704)	-	-	(11,145,621)
Equipment, machinery, and furniture	(3,441,704)	(270,320)	124,855	47,663	(3,539,506)
Total accumulated depreciation	<u>(15,189,707)</u>	<u>(1,326,683)</u>	<u>124,855</u>	<u>47,663</u>	<u>(16,343,872)</u>
Total capital assets being depreciated, net	<u>27,933,738</u>	<u>6,440,260</u>	<u>-</u>	<u>-</u>	<u>34,373,998</u>
Business-type activities capital assets, net	<u>\$ 36,294,812</u>	<u>\$ 7,747,037</u>	<u>\$ -</u>	<u>\$ (7,427,347)</u>	<u>\$ 36,614,502</u>

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

Governmental activities

General government	\$ 276,133
Public safety	387,687
Public works	901,067
Culture and recreation	300,724
Economic development	-
Transportation	35,146

Total depreciation expense-
governmental activities

\$ 1,900,757

Business-type activities

Garbage and refuse collection	\$ 152,599
Sewer operating and maintenance	1,174,084

Total depreciation expense-
business-type activities

\$ 1,326,683

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 4 CAPITAL ASSETS (Continued)

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2015, 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	\$ 8,792	\$ -	\$ -	\$ 267,392
Construction in progress	6,880	-	-	-	6,880
Total capital assets, not being depreciated	265,480	8,792	-	-	274,272
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	(2,626)	(657)	-	-	(3,283)
Total accumulated depreciation	(2,626)	(657)	-	-	(3,283)
Total capital assets, being depreciated, net	17,073	(657)	-	-	16,416
Hibbing Economic Development Authority capital assets, net	\$ 282,553	\$ 8,135	\$ -	\$ -	\$ 290,688

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	\$ 622,301	\$ 1,619,192	\$ -	\$ -	\$ 2,241,493
Total capital assets, not being depreciated	622,301	1,619,192	-	-	2,241,493
Capital assets, being depreciated:					
Buildings and grounds	10,909,841	-	(1,644,102)	-	9,265,739
Transmission and distribution system	49,099,672	41,841	(1,352,454)	-	47,789,059
Equipment, machinery, and furniture	54,026,737	1,174,713	(9,115,673)	-	46,085,777
Total capital assets, being depreciated	114,036,250	1,216,554	(12,112,229)	-	103,140,575
Less total accumulated depreciation	(76,949,420)	(2,917,118)	11,672,365	-	(68,194,173)
Total Capital assets, being depreciated, net	37,086,830	(1,700,564)	(439,864)	-	34,946,402
Hibbing Public Utilities Commission capital assets, net	\$ 37,709,131	\$ (81,372)	\$ (439,864)	\$ -	\$ 37,187,895

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 public works grader equipment and various office related equipment. Total cost for these leases was \$200,906 for the year ended December 31, 2015. The future payments for these leases are as follows:

Year Ending December 31,	Amount
2016	\$ 183,443
2017	89,535
2018	25,278
2019 - 2028	97,546
	<u>\$ 395,802</u>

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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, 2016. As of December 31, 2015, 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, 2015, the City had advanced \$4,448,895 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, 2015 was \$319,009.

The other EDA bonds payable at December 31, 2015 with principal outstanding of \$75,000, \$20,000 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 funded a one year reserve account for principal and interest and was used by the Public Utilities Commission to make upgrades to the Public Utilities systems. Advances were made on this loan as the Public Utilities Commission submitted draw requests to Dougherty Funding LLC to pay project costs. The balance of the loan at December 31, 2015 was \$3,339,537. 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. As of December 31, 2015, the City has not recorded any amounts in their financial statements in regards to this contingent liability and the note payable balance of \$3,339,537 is included in the financial statements of the Public Utilities Commission.

CITY OF HIBBING MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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, 2015, the Public Utilities Commission's notes payable balance on this loan was \$445,000. 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, 2015, the City has not recorded any amounts in their financial statements in regards to this contingent liability and the note payable balance of \$445,000 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, 2015, the Public Utilities Commission's notes payable balance on this loan was \$466,000. 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, 2015, the City has not recorded any amounts in their financial statements in regards to this contingent liability and the note payable balance of \$466,000 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	\$ 40,000
Series 2009B	5/1/2009	0.75-3.50%	\$ 1,370,000	2/1/2019	300,000
Series 2012A	2/1/2012	0.40-1.70%	\$ 1,890,000	2/1/2017	1,120,000
Series 2013A	11/1/2013	2.00-3.50%	\$ 3,585,000	2/1/2029	3,330,000
Plus: Unamortized Bond Premium					28,036
Total General obligation bonds					4,818,036
Certificates of indebtedness					
Series 2006A	11/1/2006	4.21%	\$ 455,000	11/1/2016	32,000
Total Certificates of indebtedness					32,000
Lease purchase obligations	2/1/2009	1.75-4.40%	\$ 462,500	2/1/2024	319,009
Compensated absences payable					256,819
Net pension liability					6,935,169
OPEB liability					10,525,462
Governmental Activities Long-term Liabilities					\$ 22,886,495

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 7 LONG-TERM DEBT (Continued)

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Business-Type Activity					
General obligation revenue					
2003 Sewer Notes	1/29/2003	1.74%	\$ 9,847,450	8/20/2022	\$ 4,051,000
2007A Sewer Revenue Bonds	12/1/2007	4.00-4.10%	\$ 2,365,000	2/1/2028	1,740,000
2010 Sewer Revenue Note	11/30/2010	1.34%	\$ 1,726,575	8/20/2025	1,056,000
2012A General Obligation Bond	2/1/2012	0.40-2.85%	\$ 1,010,000	2/1/2032	890,000
Less: Unamortized bond discount					(5,656)
2012 Sewer Revenue Note	10/23/2012	1.00%	\$ 4,912,830	8/20/2031	3,763,065
Compensated absences payable					80,126
OPEB liability					2,124,353
Net pension liability					941,387
Business-Type Activities Long-term Liabilities					14,640,275
Total Primary Government Long-Term Liabilities					37,526,770
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	75,000
1999A General Obligation Tax Increment Bonds	10/1/1999	7.49%	\$ 165,000	2/1/2016	20,000
2009A Public Project Revenue Bonds	5/7/2009	1.75-4.50%	\$ 462,500	2/1/2024	319,009
2014A General Obligation Tax Increment Bonds	2/1/2014	4.00-5.25%	\$ 830,000	2/1/2036	830,000
Less: Unamortized Bond Discount					(9,215)
Net pension liability					7,489
Total EDA-Component Unit Long-Term Liabilities					1,242,283
PUC					
Bonds, notes, and real estate mortgage payable					9,129,740
Compensated absences payable					1,004,954
OPEB liability					16,388,469
Net pension liability					4,866,386
Total PUC-Component Unit Long-Term Liabilities					31,389,549
Total Reporting Entity					\$ 70,158,602

Long-term liability activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Primary Government					
Governmental Activities					
General obligation bonds payable	\$ 5,395,000	\$ -	\$ (605,000)	\$ 4,790,000	\$ 635,000
Unamortized bond premiums	29,037	-	(1,001)	28,036	-
Certificates of indebtedness	93,000	-	(61,000)	32,000	32,000
Lease purchase obligation	345,199	-	(26,190)	319,009	27,761
Compensated absences payable	275,339	26,128	(44,648)	256,819	-
OPEB liability	9,892,646	1,858,513	(1,225,697)	10,525,462	-
Net pension liability	6,342,200	1,407,305	(814,336)	6,935,169	-
Governmental Activities-Long-Term Liabilities	\$ 22,372,421	\$ 3,291,946	\$ (2,777,872)	\$ 22,886,495	\$ 694,761

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 7 LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities					
GO revenue notes payable	\$ 9,748,166	\$ 2,072	\$ (880,173)	\$ 8,870,065	\$ 893,000
GO revenue bonds payable	2,770,000	-	(140,000)	2,630,000	150,000
Unamortized bond discounts	(6,010)	-	354	(5,656)	-
Compensated absences payable	84,668	3,808	(8,350)	80,126	-
OPEB liability	1,884,314	354,003	(113,964)	2,124,353	-
Net pension liability	863,061	163,053	(84,727)	941,387	-
Business-Type Activities- Long-term Liabilities	<u>15,344,199</u>	<u>522,936</u>	<u>(1,226,860)</u>	<u>14,640,275</u>	<u>1,043,000</u>
Total Primary Government	<u>\$ 37,716,620</u>	<u>\$ 3,814,882</u>	<u>\$ (4,004,732)</u>	<u>\$ 37,526,770</u>	<u>\$ 1,737,761</u>
Discretely Presented Component Units					
EDA					
Bonds payable	\$ 1,315,199	\$ -	\$ (71,190)	\$ 1,244,009	\$ 82,761
Unamortized bond discount	(9,434)	-	219	(9,215)	-
Net pension liability	6,866	1,297	(674)	7,489	-
EDA-Component Unit Long-term Liabilities	<u>\$ 1,312,631</u>	<u>\$ 1,297</u>	<u>\$ (71,645)</u>	<u>\$ 1,242,283</u>	<u>\$ 82,761</u>
PUC					
Bonds, notes, and real estate mortgage payable	\$ 6,524,596	\$ 3,426,000	\$ (820,856)	\$ 9,129,740	\$ 1,342,622
Compensated absences payable	976,182	28,772	-	1,004,954	-
OPEB liability	15,389,154	1,852,586	(853,271)	16,388,469	-
Net pension liability	4,834,424	541,809	(509,847)	4,866,386	-
PUC-Component Unit Long-term Liabilities	<u>\$ 27,724,356</u>	<u>\$ 5,849,167</u>	<u>\$ (2,183,974)</u>	<u>\$ 31,389,549</u>	<u>\$ 1,342,622</u>
Total	<u>\$ 66,753,607</u>	<u>\$ 9,665,346</u>	<u>\$ (6,260,351)</u>	<u>\$ 70,158,602</u>	<u>\$ 3,163,144</u>

Note: The beginning defined benefit plan net pension liability is part of the City's restatement of beginning net position (see Note 20). Also the OPEB liability amounts have been restated, see Note 20.

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

Year Ending December 31	Primary Government					
	Government Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
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	365,047	73,705	1,113,000	137,814	1,478,047	211,519
2021-2025	1,472,518	241,264	3,997,000	414,187	5,469,518	655,451
2026-2030	895,000	61,019	2,156,000	123,899	3,051,000	184,918
2031-2035	-	-	414,000	6,545	414,000	6,545
Total	<u>\$ 5,141,009</u>	<u>\$ 778,679</u>	<u>\$ 11,964,000</u>	<u>\$ 1,423,160</u>	<u>\$ 17,105,009</u>	<u>\$ 2,201,839</u>
Year Ending December 31	Component Units					
	EDA		PUC			
	Principal	Interest	Principal	Interest		
2016	\$ 82,761	\$ 57,142	\$ 1,342,622	\$ 194,757		
2017	69,427	52,613	1,377,960	160,697		
2018	51,192	49,613	1,064,678	127,702		
2019	53,064	47,575	914,784	108,064		
2020	60,047	45,295	916,248	91,922		
2021-2025	337,518	182,989	3,113,166	241,617		
2026-2030	235,000	121,573	414,108	6,238		
2031-2035	290,000	56,668	-	-		
2036	65,000	1,706	-	-		
Total	<u>\$ 1,244,009</u>	<u>\$ 615,174</u>	<u>\$ 9,143,566</u>	<u>\$ 930,997</u>		

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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 the 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, 2015, is \$12,181,442. Records for revenue bonds or notes issued prior to 1995 are not available.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2015, 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	\$ 1,200,000	\$ -	\$ -	\$ -
Enterprise Funds	-	-	-	-
Garbage and Refuse	-	216,636	-	-
Sewer Operating and Maintenance	-	607,500	1,200,000	-
Total Primary Government	<u>\$ 1,200,000</u>	<u>\$ 824,136</u>	<u>\$ 1,200,000</u>	<u>\$ -</u>
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 EDA	<u>214,664</u>	<u>-</u>	<u>214,664</u>	<u>-</u>
Hibbing Public Utilities Commission	-	-	-	824,136
Total Component Units	<u>\$ 214,664</u>	<u>\$ -</u>	<u>\$ 214,664</u>	<u>\$ 824,136</u>

The amounts due from the Hibbing Public Utilities Commission relates to monthly garbage and sewer charges collected for the primary government. In 2015, this amount includes \$317,413 related to a joint construction project.

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, 2015

NOTE 8 INTERFUND BALANCES AND ACTIVITY (continued)

Interfund transfers for the year ended December 31, 2015, 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	\$ -	\$ (316,048)
Library	7,200	(227,057)
Capital Projects Funds		
Permanent Improvement	68,000	(230,000)
Privately Financed	75,000	-
Capital Equipment and Improvement	227,057	(75,000)
Mining Effects	131,057	(400,000)
Debt Service Funds		
Other Postemployment Benefits	-	-
Enterprise Funds		
Sewer Operating & Maintenance	630,000	-
Total Primary Government	\$ 1,138,314	\$ (1,248,105)
Component Units		
Hibbing Economic Development Authority EDA		
General Fund	\$ 109,791	\$ -
Tax Increment XI	-	-
Tax Increment XII Debt Service Fund	39,062	-
Tax Increment XII Capital Projects Fund	-	(39,062)
Central Range Public Works	-	-
Total Hibbing Economic Development Authority EDA - Component Unit	\$ 148,853	\$ (39,062)
Total Transfers	\$ 1,287,167	\$ (1,287,167)

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, 2015

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	\$ 22,027
Contracted professional services	12,415
Capital equipment	177,412
Debt service	1,706,862
Capital projects	3,375,027
Police forfeiture fund	28,491
Total Restricted Net Position	<u>\$ 5,322,234</u>

At December 31, 2015, 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	\$ 12,415	\$ 6,784	\$ 177,412	\$ 196,611
Total nonspendable	<u>\$ 12,415</u>	<u>\$ 6,784</u>	<u>\$ 177,412</u>	<u>\$ 196,611</u>
Restricted for:				
Debt service	\$ -	\$ -	\$ 1,706,862	\$ 1,706,862
Capital equipment and improvements	-	-	3,375,027	3,375,027
Library operations	-	15,243	-	15,243
Gambling 10% contribution fund	-	-	-	-
Police forfeiture fund	28,491	-	-	28,491
Total restricted	<u>\$ 28,491</u>	<u>\$ 15,243</u>	<u>\$ 5,081,889</u>	<u>\$ 5,125,623</u>
Committed to:				
Housing incentive	\$ -	\$ -	\$ 48,707	\$ 48,707
Small Cities development	-	-	24,996	24,996
Economic development	-	-	84,810	84,810
OPEB obligation	-	-	6,213,640	6,213,640
Memorial Building	-	-	225,004	225,004
Capital equipment and improvements	-	-	1,372,160	1,372,160
Total committed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,969,317</u>	<u>\$ 7,969,317</u>
Assigned to:				
2015 budget	\$ 8,630,645	\$ -	\$ -	\$ 8,630,645
Future capital projects funded from sale of assets	514,853	-	-	514,853
Workers' compensation premium adjustments	372,750	-	-	372,750
Other improvement projects	-	-	1,296,227	1,296,227
Total assigned	<u>\$ 9,518,248</u>	<u>\$ -</u>	<u>\$ 1,296,227</u>	<u>\$ 10,814,475</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 2015, 2014 and 2013.

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 2015, 2014 and 2013.

NOTE 11 TAX INCREMENT FINANCING DISTRICTS

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

<u>Tax Increment Financing District</u>	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:	\$ 3,904	\$ 472	\$ 525	\$ 1,405
Current net tax capacity:	\$ 50,678	\$ 8,377	\$ 16,324	\$ 2,811
Fiscal disparity deduction:	\$ -	\$ -	\$ 3,832	\$ -
Captured net tax capacity retained by Authority:	\$ 46,774	\$ 7,905	\$ 11,967	\$ 1,406
Total bonds issued				
Tax increment bonds	\$ 320,000	\$ -	\$ 165,000	\$ 830,000
Tax increment note	-	-	-	-
Amount redeemed	(245,000)	-	(145,000)	-
Outstanding bonds at December 31, 2015	\$ 75,000	\$ -	\$ 20,000	\$ 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, 2015

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, 2015, 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 ten outstanding construction projects as of December 31, 2015. The projects are evidenced by contractual commitments with contractors and engineers and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Capital Projects Funds		
Permanent Improvement		
Rainy Road Bridge	\$ 11,715	\$ -
Koivu Road Bridge	3,819	-
Dixon Bridge	4,388	-
3rd Avenue	109,110	5,143
13th Avenue	115,522	5,396
South Leighton	188,494	8,955
41st Street	95,824	4,467
Total Capital Fund Project	\$ 517,157	\$ 23,961

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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	1,489,847	361,328
Total Sewer Operating and Maintenance Fund	\$ 80,632	\$ 361,328
Total All Funds	\$ 597,789	\$ 385,289

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 2015, 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.

During 2015, there were no related party transactions between the City and the Housing and Redevelopment Authority of Hibbing.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

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 were 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/or eligible dependents, may continue to participate in the City's plan for medical and life insurance coverage. The bargaining unit contract provisions were modified to exclude any employees hired after January 1, 2007 to participate in the City's medical and life insurance plan upon retirement. For those eligible employees and/or eligible dependents, 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 2015, 2014, and 2013, there were 229, 218, and 222, retirees and eligible dependents, respectively, that received postemployment benefits. The City provided required contributions of \$1,339,660, \$1,294,187 and \$1,172,130 for 2015, 2014 and 2013, respectively, toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$294,607, \$283,861 and \$265,684 for 2015, 2014 and 2013, respectively. Required contributions are based on projected pay-as-you-go financing.

Restatement Due to Correction of OPEB Expense Allocation

During 2015, the City identified that payments for retiree health insurance premiums under the OPEB plan and the additional portion of OPEB expense related to the actuarial calculation of current OPEB expense was all recorded to the governmental funds based on a ratio of governmental activities' salary by function as a percentage of total governmental activities' salaries for the year. To more accurately reflect the cost of the OPEB plan to each of the respective funds for 2015, the City recorded the payments of retiree and/or spouse and family health care premiums to the fund based on where the retiree had been paid when they were an active employee. The additional portion of OPEB expense related to the actuarial calculation of current OPEB expense was allocated based on the number of active OPEB participant employees by fund as a ratio of all active OPEB participants. This same ratio was used to allocate the beginning OPEB liability by fund. This restatement does not impact the total amount of OPEB expense that has been recognized by the City since the adoption of GASB 45, but presents a better allocation of such cost to the Business-Type activities.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2015, 2014 and 2013, respectively:

	2015	2014	2013
Normal cost (service cost for one year)	\$ 514,260	\$ 609,443	\$ 591,692
Amortization of unfunded actuarial accrued liability	2,014,514	1,775,522	1,774,989
Annual required contribution	2,528,774	2,384,965	2,366,681
Interest on net OPEB obligation	412,194	329,592	301,522
Adjustment to annual required contribution	(728,452)	(629,825)	(560,380)
Annual OPEB cost (expense)	2,212,516	2,084,732	2,107,823
Contribution toward the OPEB cost	(1,339,660)	(1,294,187)	(1,172,130)
Increase in net OPEB obligation	872,856	790,545	935,693
Net OPEB Obligation, Beginning of Year	11,776,959	10,986,414	10,050,721
Net OPEB Obligation, End of Year	<u>\$ 12,649,815</u>	<u>\$ 11,776,959</u>	<u>\$ 10,986,414</u>
Percentage of annual OPEB cost contributed	<u>60.5%</u>	<u>62.1%</u>	<u>57.9%</u>

Funding Status and Funding Progress

As of December 31, 2015, 2014 and 2013, respectively, the actuarial accrued liability for benefits was \$31,186,332, \$30,818,886 and \$30,761,648, and the actuarial value of assets was zero for all three years. The covered payroll (annual payroll of active participating employees) was \$4,792,545, \$4,501,484 and \$4,315,060 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 650.7, 684.6 and 712.9 percent for 2015, 2014 and 2013, respectively.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2013, and the latest actuarial valuation was as of January 1, 2015. Both valuations used the projected unit credit cost actuarial cost method to estimate both the unfunded actuarial liability as of December 31, 2015, 2014 and 2013, and to estimate the City's 2015, 2014 and 2013 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, 2015 actuarial assumptions include a 3.5 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, 2015, actuarial assumptions include an annual healthcare cost trend rate of 6.8% for 2015, 6.6% for 2016, 7.6% for 2017 and ranging from 6.8% to 4.4% for years 2018 to 2090 and later. The unfunded actuarial accrued liability is being amortized using the level dollar method. The remaining amortization period at December 31, 2015, is 23 years.

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 year ended December 31, 2015, the Commission expended \$853,271 for benefits for approximately 53 retirees in 2015.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Component Unit - Hibbing Public Utilities Commission (continued)

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:

	2015	2014	2013
Annual required contribution	\$ 2,256,395	\$ 2,233,463	\$ 3,348,639
Interest on net OPEB obligation	500,148	465,021	396,977
Adjustment to annual required contribution	<u>(903,957)</u>	<u>(818,165)</u>	<u>(680,944)</u>
Annual OPEB cost	1,852,586	1,880,319	3,064,672
Contribution during the year	<u>(853,271)</u>	<u>(799,512)</u>	<u>(971,014)</u>
Increase in net OPEB obligation	999,315	1,080,807	2,093,658
Net OPEB Obligation, Beginning of Year	<u>15,389,154</u>	<u>14,308,347</u>	<u>12,214,689</u>
Net OPEB Obligation, End of Year	<u><u>\$ 16,388,469</u></u>	<u><u>\$ 15,389,154</u></u>	<u><u>\$ 14,308,347</u></u>

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
December 31, 2015	\$ 1,852,586	\$ 853,271	46.1%	\$ 16,388,469
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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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 \$5,800,121. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 446.17 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 to 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, 2015

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, 2015 the Commission has reported on its balance sheet an investment of \$14,638,633 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:

	2015
Current assets	\$ 5,400,673
Non-current restricted assets	11,289,040
Other assets	1,458,277
Capital assets	50,495,223
Total assets	68,643,213
Current liabilities	11,840,107
Non-current liabilities	27,793,214
Total liabilities	39,633,321
Net position	29,009,892
Total operating revenues	38,020,259
Operating expenses	32,176,040
Non-operating expenses	1,937,695
Capital contributions	-
Change in net position	\$ 3,906,524

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 17 DEFINED BENEFIT PENSION - MULTIEMPLOYER PLANS

A. Plan Description

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

1. General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the City are covered by the General Employees Retirement Fund (GERF). 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)

The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to local relief associations that elected to merge with and transfer assets and administration to PERA. As noted at Note 18, the City's Volunteer Fire Department Relief Association continues to maintain a separate plan for its members.

Benefits Provided

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

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

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 17 DEFINED BENEFIT PENSION PLANS (continued)

1. GERS Benefits

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

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014 vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

B. Contributions

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

1. GERS Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2015. The City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2015. The City's contributions to the GERS for the year ended December 31, 2015, were \$341,433. The City's contributions were equal to the required contributions as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2015. The City was required to contribute 16.2% of pay for PEPFF members in calendar year 2015. The City's contributions to the PEPFF for the year ended December 31, 2015, were \$558,305. The City's contributions were equal to the required contributions as set by state statute.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 17 DEFINED BENEFIT PENSION PLANS (continued)

C. Pension Costs

1. GERP Pension Costs

At December 31, 2015, the City reported a liability of \$3,793,603 for its proportionate share of the GERP's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportionate share was 0.0732% which was a decrease of 0.0043% from its proportionate share measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$454,003 for its proportionate share of the GERP's pension expense.

There were no provision changes during the measurement period.

At December 31, 2015, the City reported its proportionate share of the GERP's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 191,262
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	359,123	-
Changes in proportion	-	151,495
Contributions paid to PERA subsequent to the measurement date	178,607	-
Total	\$ 537,730	\$ 342,757

The \$178,607 reported as deferred outflows of resources related to pensions resulted from City contributions subsequent to the measurement date and they will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount
2016	\$ (24,471)
2017	\$ (24,471)
2018	\$ (24,471)
2019	\$ 89,779
2020	\$ -
Thereafter	\$ -

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 17 **DEFINED BENEFIT PENSION PLANS (continued)****2. PEPFF Pension Costs.**

At December 31, 2015, the City reported a liability of \$4,090,442 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the City's proportion was 0.36% which was a decrease of 0.011% of its proportion measured as of June 30, 2014.

There were no provision changes during the measurement period.

For the year ended December 31, 2015, the City recognized pension expense of \$684,241 for its proportionate share of the PEPFF's pension expense. The City also recognized \$32,400 for the year ended December 31, 2015, as grant revenue for its proportionate share of the State of Minnesota's on-behalf contributions to the PEPFF. Legislation passed in 2013 required the State of Minnesota to begin contributing \$9 million to the PEPFF each year, starting in 2014.

At December 31, 2015, the City reported its proportionate share of PEPFF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 663,336
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	712,692	-
Changes in proportion	-	99,004
Contributions paid to PERA subsequent to the measurement date	288,442	-
Total	<u>\$ 1,001,134</u>	<u>\$ 762,340</u>

The \$288,442 reported as deferred outflows of resources related to pensions resulted from City contributions subsequent to the measurement date and they will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount
2016	\$ 25,705
2017	\$ 25,705
2018	\$ 25,705
2019	\$ 25,705
2020	\$ (152,468)
Thereafter	\$ -

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 17 DEFINED BENEFIT PENSION PLANS (continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP-2000 tables for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1st until 2034, then 2.5% for GERF and PEPFF.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2009.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stock	45%	5.50%
International Stock	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

E. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 17 **DEFINED BENEFIT PENSION PLANS (continued)**

F. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
City proportionate share of the GERP net pension liability:	\$ 5,964,894	\$ 3,793,603	\$ 2,000,452
City's proportionate share of the PEPFF net pension liability:	\$ 7,972,315	\$ 4,090,442	\$ 883,339

G. Pension Plan Fiduciary Net Position

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 18 DEFINED BENEFIT PENSION - SINGLE EMPLOYER PLAN

Plan Description:

The City of Hibbing's Volunteer Fire Department Relief Association defined benefit plan (HVRA), provides pensions for Hibbing's active duty volunteer fire department members, pro-rated monthly for fractional years of service (service does not need to be continuous). The HVRA is a single-employer defined benefit pension plan administered by the Hibbing Fire Relief Association. The plan is administered pursuant to a special law that was passed in conjunction with the annexation of the Township of Stuntz 1980 CH 607 Sec. 13. and the Association's by-laws.

Benefits provided: HVRA members are 40% vested upon completion of 5 years of service. The vesting percentage increases by 4% for each complete year of service above 5 years until the member is 100% vested with 20 years of service. The members receive a lump sum of \$1,200 per year of service and are eligible for the normal retirement benefit upon attainment of age 50 and completion of 20 years of service. They must also be a member of the Association for at least five consecutive years immediately prior to retirement. For the deferred vested benefit, the member on termination (after completion of at least 5 years of service) will receive a lump sum of \$1,200 per year of service, subject to the vesting schedule, payable at age 50. Benefit increases 5% per year, compounded annually, during the time that a member is deferred. Additionally, there are provisions for a \$1,200 lump sum amount for years of service in the event of death-in-service or disability without regard to minimum eligibility or vesting requirements.

Employees covered by benefit terms

At December 31, 2015, the following employees were covered by the benefit terms.

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	4
Active employees	17
Total	21

Contributions

The City of Hibbing contributes 15.25% of all state fire aid that Hibbing receives pursuant to Minn. Stat §69.021 to 69.031 and any required municipal contribution per Minnesota Statute 424A.02.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Investment rate of return	5.0 percent, net of pension plan investment expense

Mortality rates were based on the RP-2000 Health Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 18 DEFINED BENEFIT PENSION - SINGLE EMPLOYER PLAN (continued)

Actuarial assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equities	53%	7.60%
International equities	17%	5.20%
Fixed income	25%	1.15%
Cash equivalents	5%	0.25%
Total	100%	

Discount rate

The discount rate used to measure the total pension liability was 5.0 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at the current contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (b) - (a)
Balances at 12/31/14	\$ 126,626	\$ 330,586	\$ 203,960
Changes for the year:			
Service cost	10,552	-	(10,552)
Interest	6,433	-	(6,433)
Differences between expected and actual experience	-	-	-
Contributions - City of Hibbing	-	12,484	12,484
Net investment income (loss)	-	(10,853)	(10,853)
Benefit payments	(15,729)	(15,729)	-
Administrative expense	-	(2,946)	(2,946)
Net changes	1,256	(17,044)	(18,300)
Balances at 12/31/15	\$ 127,882	\$ 313,542	\$ 185,660

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 18 **DEFINED BENEFIT PENSION - SINGLE EMPLOYER PLAN (continued)***Sensitivity of the net pension liability to changes in discount rate*

The following presents the net pension liability of the City, calculated using the discount rate of 5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4 percent) or 1-percentage-point higher (6 percent) than the current rate:

	1% Decrease (4%)	Current Discount (5%)	1% Increase (6%)
Total Pension Liability	\$ 133,354	\$ 127,882	\$ 122,791
Net Position Restricted for Pensions	\$ 313,542	\$ 313,542	\$ 313,542
Net Pension Asset	\$ (180,188)	\$ (185,660)	\$ (190,751)

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately filed Financial and Investment Reporting Entry filed with the Minnesota Office of the State Auditor.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the City recognized pension expenses of \$36,222. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	21,751	-
Total	\$ 21,751	\$ -

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 18 DEFINED BENEFIT PENSION - SINGLE EMPLOYER PLAN (continued)

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

Year ended December 31:

2016	\$	5,438
2017		5,438
2018		5,438
2019		5,437
2020		-
Thereafter		-
Total	\$	21,751

Payable to the Pension Plan

At December 31, 2015, the City expects to receive \$3,782 from the State of Minnesota which will be payable to the plan upon receipt.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 19 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 2015 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employee	Employer	
\$ 866	\$ 866	5.00%	5.00%	5.00%

NOTE 20 RESTATEMENTS

CHANGE IN ACCOUNTING PRINCIPLE

During 2015, the City implemented several new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), including Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These standards required a retroactive implementation which resulted in the restatement of beginning balances of net position from those reported in the December 31, 2014 financial statements. Changes related to these standards are reflected in the table below and related disclosures are included in Notes 17 and 18.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 20 RESTATEMENTS (continued)

CORRECTION OF OPEB EXPENSE ALLOCATION

During 2015, the City identified that payments for retiree health insurance premiums under the OPEB plan and the additional portion of OPEB expense related to the actuarial calculation of current OPEB expense was all recorded to the governmental funds based on a ratio of governmental activities' salary by function as a percentage of total governmental activities' salaries for the year. To more accurately reflect the cost of the OPEB plan to each of the respective funds for 2015, the City recorded the payments of retiree and/or spouse and family health care premiums to the fund based on where the retiree had been paid when they were an active employee. The additional portion of OPEB expense related to the actuarial calculation of current OPEB expense was allocated based on the number of active OPEB participant employees by fund as a ratio of all active OPEB participants (active participant ratio). This same active participant ratio was used to allocate the beginning OPEB liability by fund. This restatement does not impact the total amount of OPEB expense that has been recognized by the City since the adoption of GASB 45, but presents a better allocation of such cost to the respective Governmental functions/programs and to the Business-Type activities. The effect of this correction is presented in the table below.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported December 31, 2014 balances to the December 31, 2015 financial statements

Fund	December 31, 2015			
	Net Position January 1, 2015 as Previously Reported	Pensions Prior Period Restatement (1)	OPEB Prior Period Restatement (2)	Net Position January 1, 2015 as Restated
Governmental activities	<u>\$ 36,043,301</u>	<u>\$ (6,141,072)</u>	<u>\$ 1,884,313</u>	<u>\$ 31,786,542</u>
Business-type activities				
Garbage and refuse collection	\$ 2,770,492	\$ (437,145)	\$ (942,157)	\$ 1,391,190
Sewer operating and maintenance	21,875,186	(427,926)	(942,156)	20,505,104
Memorial building concessions	<u>174,046</u>	<u>-</u>	<u>-</u>	<u>174,046</u>
Total business-type activities	<u>\$ 24,819,724</u>	<u>\$ (865,071)</u>	<u>\$ (1,884,313)</u>	<u>\$ 22,070,340</u>
EDA - component unit	<u>\$ 3,012,752</u>	<u>\$ (6,882)</u>	<u>\$ -</u>	<u>\$ 3,005,870</u>
PUC - component unit	<u>\$ 33,242,219</u>	<u>\$ (4,637,922)</u>	<u>\$ -</u>	<u>\$ 28,604,297</u>

- 1) To record beginning net pension liability, deferred inflows of resources and deferred outflows of resources at December 31, 2014.
- 2) To record reallocation of beginning OPEB liability between Governmental Activities and the Business-Type Activities.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 21 SUBSEQUENT EVENTS

Consideration of Subsequent Events

The City has evaluated subsequent events through August 2, 2016, 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, 2015

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,871,274	\$ 5,654,874	\$ 5,728,169	\$ 73,295
Licenses and permits	122,265	122,265	91,925	(30,340)
Intergovernmental	8,605,495	8,605,495	8,787,991	182,496
Charges for services	2,362,950	2,362,950	2,154,756	(208,194)
Fines	83,000	83,000	103,853	20,853
Gifts and contributions	200	200	668	468
Investment income (loss)	10,000	10,000	36,544	26,544
Miscellaneous	61,050	61,050	108,867	47,817
TOTAL REVENUES	<u>17,116,234</u>	<u>16,899,834</u>	<u>17,012,773</u>	<u>112,939</u>
EXPENDITURES				
Current				
General government	1,861,152	1,861,152	1,756,127	105,025
Public safety	6,704,107	6,704,107	6,195,626	508,481
Public works	3,164,830	3,164,830	2,973,614	191,216
Culture and recreation	1,903,324	1,903,324	1,912,891	(9,567)
Economic development	125,500	125,500	15,678	109,822
Transportation	329,495	329,495	290,047	39,448
Miscellaneous	2,762,659	2,632,659	2,268,085	364,574
Debt Service				
Principal	26,190	26,190	26,190	-
Interest and other charges	13,396	13,396	13,396	-
TOTAL EXPENDITURES	<u>16,890,653</u>	<u>16,760,653</u>	<u>15,451,654</u>	<u>1,308,999</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>225,581</u>	<u>139,181</u>	<u>1,561,119</u>	<u>1,421,938</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(223,601)	(138,257)	(316,048)	(177,791)
Sale of capital assets	-	-	2,028	2,028
TOTAL OTHER FINANCING SOURCES (USES)	<u>(223,601)</u>	<u>(138,257)</u>	<u>(314,020)</u>	<u>(175,763)</u>
NET CHANGE IN FUND BALANCES	<u>1,980</u>	<u>924</u>	<u>1,247,099</u>	<u>1,246,175</u>
FUND BALANCES - JANUARY 1	<u>12,844,786</u>	<u>12,844,786</u>	<u>13,797,188</u>	<u>-</u>
FUND BALANCES - DECEMBER 31	<u>\$ 12,846,766</u>	<u>\$ 12,845,710</u>	<u>\$ 15,044,287</u>	<u>\$ 1,246,175</u>

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended December 31, 2015

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUE				
Taxes	\$ 586,043	\$ 586,043	\$ 585,667	\$ (376)
Intergovernmental	-	-	376	376
Charges for services	18,300	18,300	11,874	(6,426)
Gifts and contributions	7,423	7,423	10,690	3,267
Investment income (loss)	-	-	329	329
Miscellaneous	-	-	-	-
TOTAL REVENUE	<u>611,766</u>	<u>611,766</u>	<u>608,936</u>	<u>(2,830)</u>
EXPENDITURES				
Current				
Culture and recreation	<u>622,884</u>	<u>622,884</u>	<u>622,916</u>	<u>(32)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(11,118)</u>	<u>(11,118)</u>	<u>(13,980)</u>	<u>(2,862)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	7,200	7,200	7,200	-
Transfers out	-	-	(227,057)	(227,057)
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,200</u>	<u>7,200</u>	<u>(219,857)</u>	<u>(227,057)</u>
NET CHANGE IN FUND BALANCES	<u>(3,918)</u>	<u>(3,918)</u>	<u>(233,837)</u>	<u>(229,919)</u>
Fund Balances - January 1	<u>218,105</u>	<u>218,105</u>	<u>255,864</u>	<u>-</u>
Fund Balances - December 31	<u>\$ 214,187</u>	<u>\$ 214,187</u>	<u>\$ 22,027</u>	<u>\$ (229,919)</u>

CITY OF HIBBING, MINNESOTA

NOTES TO RSI - BUDGET AND ACTUAL INFORMATION

December 31, 2015

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

General Fund expenditures did not exceed appropriations however, the Library Special Revenue Fund did exceed appropriations by \$32 for the year ended December 31, 2015.

CITY OF HIBBING, MINNESOTA
INFRASTRUCTURE CONDITION DATA
Year ended December 31, 2015

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 summer 2014. 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, 2015

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, 2015, the City's gravel roads all rated at a Level 3.

The City expended \$305,000 on gravel road maintenance for the year ended December 31, 2015. This amount in 2015, included 21 culvert changes, 3 road lifts, and 10 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 2017 is a minimum of \$942,000 (\$314,000 projected budget each year for the years ending December 31, 2015, 2016, and 2017).

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, 2014, and 2015 is presented below:

<u>Year</u>	<u>Estimated Annual Expenditures</u>	<u>Actual Expenditures</u>	<u>Funded by General Fund</u>
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
2015	\$ 317,445	\$ 305,000	\$ 305,000

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS
 Year ended December 31, 2015

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)
12/31/2015	1/1/2015	\$ -	\$ 31,186,332	\$ 31,186,332	0.0%	\$ 4,792,545	650.7%
12/31/2014	1/1/2013	\$ -	\$ 30,818,896	\$ 30,818,896	0.0%	\$ 4,501,484	684.6%
12/31/2013	1/1/2013	\$ -	\$ 30,761,648	\$ 30,761,648	0.0%	\$ 4,315,060	712.9%
12/31/2012	1/1/2011	\$ -	\$ 34,926,227	\$ 34,926,227	0.0%	\$ 4,133,463	845.0%
12/31/2011	1/1/2011	\$ -	\$ 34,267,574	\$ 34,267,574	0.0%	\$ 4,026,197	851.1%
12/31/2010	1/1/2009	\$ -	\$ 39,707,119	\$ 39,707,119	0.0%	\$ 3,920,954	1,012.7%
12/31/2009	1/1/2009	\$ -	\$ 40,368,826	\$ 40,368,826	0.0%	\$ 3,924,426	1,028.7%
12/31/2008	1/1/2007	\$ -	\$ 42,567,876	\$ 42,567,876	0.0%	\$ 3,802,909	1,119.4%

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)
12/31/2015	1/1/2014	\$ -	\$ 25,878,606	\$ 25,878,606	0.0%	\$ 5,800,121	446.2%
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

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY - MN PERA PLANS

December 31, 2015

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share Amount of the Net Pension Liability (Asset) (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
GERF					
June 30, 2015	0.0732%	\$ 3,793,604	\$ 4,336,769	87.48%	78.19%
PEPFF					
June 30, 2015	0.36%	\$ 4,090,442	\$ 3,292,226	124.25%	86.61%

CITY OF HIBBING, MINNESOTA
SCHEDULE OF CONTRIBUTIONS - MN PERA PLANS
December 31, 2015

<u>Fiscal Year Ending</u>	<u>Statutorily Required Contribution (a)</u>	<u>Contributions in Relation to the Statutorily Required Contributions (b)</u>	<u>Contribution Deficiency (Excess) (a-b)</u>	<u>Covered Employee Payroll (d)</u>	<u>Contributions as a Percentage of Covered-Employee Payroll (b/d)</u>
GERF					
Dec. 31, 2015	\$ 341,433	\$ 341,433	\$ -	\$ 4,552,432	7.5%
PEDFF					
Dec. 31, 2015	\$ 558,305	\$ 558,305	\$ -	\$ 3,446,325	16.2%
DCP					
Dec. 31, 2015	\$ 866	\$ 866	\$ -	\$ 17,314	5.0%

CITY OF HIBBING, MINNESOTA

HIBBING VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION PLAN
SCHEDULE OF CHANGES OF NET PENSION LIABILITY AND RELATED RATIOS - SINGLE EMPLOYER PLAN

December 31, 2015

	2015
Total pension liability	
Service cost	\$ 10,552
Interest	6,433
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(15,729)
Net change in total pension liability	1,256
Total pension liability - beginning	126,626
Total pension liability - ending (a)	\$ 127,882
Plan fiduciary net position	
Contributions - City of Hibbing	\$ 12,484
Net investment income (loss)	(10,853)
Benefit payments	(15,729)
Administrative expense	(2,946)
Other	-
Net change in plan fiduciary net position	(17,044)
Plan fiduciary net position - beginning	330,586
Plan fiduciary net position - ending (b)	\$ 313,542
City's net pension asset - ending (a) - (b)	\$ (185,660)
Plan fiduciary net position as a percentage of the total pension liability	254.1%
Covered employee payroll	N/A
City's net pension liability as a percentage of covered employee payroll	N/A

CITY OF HIBBING, MINNESOTA

**HIBBING VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION PLAN
SCHEDULE OF CONTRIBUTIONS AND RELATED NOTES - SINGLE EMPLOYER PLAN**

December 31, 2015

<u>Fiscal Year Ending</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions in Relation to the Actuarially Determined Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered-Employee Payroll</u>	<u>Contributions as a Percentage of the Covered- Employee Payroll</u>
HVRA Dec. 31, 2015	*	\$ 12,484	N/A	N/A	N/A

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates are calculated by the Relief Association according to the requirements in MN Statutes 424A.092 as of January 1, and apply to the following calendar year.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar, Open
Remaining Amortization Period	10 years
Asset Valuation Method	Market Value
Inflation	No explicit price inflation assumption is used in this valuation.
Expenses	Prior year expenses increased by 3.5% and are included in the actuarially determined contribution rate.
Salary Increases	N/A
Investment Rate of Return	5%
Retirement Age	Active firefighters are assumed to retire at 20 years of service.
Mortality	No explicit mortality assumption is used in the contribution determination.

* Calculated by the Relief Association in accordance with Minnesota Statutes 424A.092.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HIBBING, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

December 31, 2015

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, 2015

	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	\$ 48,707	\$ 24,996	\$ 84,810	\$ 6,205,910
Taxes receivable	-	-	-	7,730
Special assessments receivable	-	-	-	-
Accounts receivable	-	-	-	-
Due from other governments	-	-	-	-
Loans receivable	-	46,131	-	-
Prepaid items and other assets	-	-	-	-
TOTAL ASSETS	<u>\$ 48,707</u>	<u>\$ 71,127</u>	<u>\$ 84,810</u>	<u>\$ 6,213,640</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-
Contracts payable	-	-	-	-
Unearned revenue	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Special assessments	-	-	-	-
Loans receivable	-	46,131	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>46,131</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	48,707	24,996	84,810	6,213,640
Assigned	-	-	-	-
TOTAL FUND BALANCES	<u>48,707</u>	<u>24,996</u>	<u>84,810</u>	<u>6,213,640</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 48,707</u>	<u>\$ 71,127</u>	<u>\$ 84,810</u>	<u>\$ 6,213,640</u>

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	\$ 474,797	\$ 1,517,673	\$ 35,445	\$ 223,254	\$ 2,674,159
-	2,188	3,018	3,232	-	21,026
-	-	-	175,853	-	-
-	-	7,358	-	1,750	66
-	-	1,119,710	-	-	-
-	-	-	-	-	-
-	-	-	-	-	177,412
<u>\$ 357,631</u>	<u>\$ 476,985</u>	<u>\$ 2,647,759</u>	<u>\$ 214,530</u>	<u>\$ 225,004</u>	<u>\$ 2,872,663</u>
\$ -	\$ 300	\$ -	\$ -	\$ -	\$ 19,690
-	-	1,004	13,036	-	-
-	-	75,001	5,365	-	76,180
-	-	-	-	-	-
-	300	76,005	18,401	-	95,870
-	-	-	175,853	-	-
-	-	-	-	-	57,776
-	-	-	175,853	-	57,776
-	-	-	-	-	177,412
357,631	476,685	2,571,754	20,276	-	876,599
-	-	-	-	225,004	1,372,160
-	-	-	-	-	292,846
<u>357,631</u>	<u>476,685</u>	<u>2,571,754</u>	<u>20,276</u>	<u>225,004</u>	<u>2,719,017</u>
<u>\$ 357,631</u>	<u>\$ 476,985</u>	<u>\$ 2,647,759</u>	<u>\$ 214,530</u>	<u>\$ 225,004</u>	<u>\$ 2,872,663</u>

CITY OF HIBBING, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (continued)
December 31, 2015

	Mining Effects Capital Projects Fund	Raceway Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,749,055	\$ 257,789	\$ 21,037	\$ 13,675,263
Taxes receivable	-	-	-	37,194
Special assessments receivable	-	-	-	175,853
Accounts receivable	-	-	-	9,174
Due from other governments	-	-	-	1,119,710
Loans receivable	-	-	-	46,131
Prepaid items and other assets	-	-	-	177,412
TOTAL ASSETS	<u>\$ 1,749,055</u>	<u>\$ 257,789</u>	<u>\$ 21,037</u>	<u>\$ 15,240,737</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 19,990
Due to other governments	-	930	-	14,970
Contracts payable	-	-	-	156,546
Unearned revenue	-	244,626	-	244,626
TOTAL LIABILITIES	<u>-</u>	<u>245,556</u>	<u>-</u>	<u>436,132</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Special assessments	-	-	-	175,853
Loans receivable	-	-	-	103,907
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>279,760</u>
FUND BALANCES				
Nonspendable	-	-	-	177,412
Restricted	778,944	-	-	5,081,889
Committed	-	-	-	7,969,317
Assigned	970,111	12,233	21,037	1,296,227
TOTAL FUND BALANCES	<u>1,749,055</u>	<u>12,233</u>	<u>21,037</u>	<u>14,524,845</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,749,055</u>	<u>\$ 257,789</u>	<u>\$ 21,037</u>	<u>\$ 15,240,737</u>

CITY OF HIBBING, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2015

	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	\$ -	\$ -	\$ -	\$ 511,970
Special assessments	-	-	-	-
Intergovernmental	-	-	-	329
Charges for services	-	-	-	-
Gifts and contributions	-	-	-	-
Interest	135	70	4	-
Miscellaneous	-	-	-	-
TOTAL REVENUES	<u>\$ 135</u>	<u>\$ 70</u>	<u>\$ 4</u>	<u>\$ 512,299</u>
EXPENDITURES				
Current				
Economic development	\$ -	\$ -	\$ -	\$ -
Principal	-	-	-	-
Interest and other charges	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>135</u>	<u>70</u>	<u>4</u>	<u>512,299</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change In Fund Balances	<u>135</u>	<u>70</u>	<u>4</u>	<u>512,299</u>
FUND BALANCE - JANUARY 1	<u>48,572</u>	<u>24,926</u>	<u>84,806</u>	<u>5,701,341</u>
FUND BALANCE - DECEMBER 31	<u>\$ 48,707</u>	<u>\$ 24,996</u>	<u>\$ 84,810</u>	<u>\$ 6,213,640</u>

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
\$ -	\$ 144,907	\$ 199,872	\$ -	\$ -	\$ 2,292,569
-	-	-	26,980	-	-
-	244,106	1,686,803	-	-	177,368
-	-	-	-	15,866	-
-	-	-	-	-	35,586
-	-	6,774	12	608	8,618
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 389,013</u>	<u>\$ 1,893,449</u>	<u>\$ 26,992</u>	<u>\$ 16,474</u>	<u>\$ 2,514,141</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	145,000	-	-	-	521,000
-	76,162	-	-	-	45,512
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,622,989	113,278	725	2,782,007
-	221,162	1,622,989	113,278	725	3,348,519
-	167,851	270,460	(86,286)	15,749	(834,378)
-	-	-	-	-	-
-	-	68,000	75,000	-	227,057
-	-	(230,000)	-	-	(75,000)
-	-	-	-	-	-
-	-	-	-	-	5,533
-	-	(162,000)	75,000	-	157,590
-	167,851	108,460	(11,286)	15,749	(676,788)
357,631	308,834	2,463,294	31,562	209,255	3,395,805
<u>\$ 357,631</u>	<u>\$ 476,685</u>	<u>\$ 2,571,754</u>	<u>\$ 20,276</u>	<u>\$ 225,004</u>	<u>\$ 2,719,017</u>

CITY OF HIBBING, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (continued)
Year Ended December 31, 2015

	Mining Effects Capital Projects Fund	Raceway Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 219,709	\$ -	\$ -	\$ 3,369,027
Special assessments	-	-	-	26,980
Intergovernmental	-	1,673	-	2,110,279
Charges for services	-	12,000	-	27,866
Gifts and contributions	-	-	-	35,586
Interest	-	702	58	16,981
Miscellaneous	-	-	-	-
TOTAL REVENUES	\$ 219,709	\$ 14,375	\$ 58	\$ 5,586,719
EXPENDITURES				
Current				
Economic development	\$ -	\$ -	\$ -	\$ -
Principal	-	-	-	666,000
Interest and other charges	-	-	-	121,674
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
Capital Outlay	-	14,375	-	4,533,374
TOTAL EXPENDITURES	-	14,375	-	5,321,048
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	219,709	-	58	265,671
OTHER FINANCING SOURCES (USES)				
Transfers in	131,057	-	-	501,114
Transfers out	(400,000)	-	-	(705,000)
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	5,533
TOTAL OTHER FINANCING SOURCES (USES)	(268,943)	-	-	(198,353)
Net Change In Fund Balances	(49,234)	-	58	67,318
FUND BALANCE - JANUARY 1	1,798,289	12,233	20,979	14,457,527
FUND BALANCE - DECEMBER 31	\$ 1,749,055	\$ 12,233	\$ 21,037	\$ 14,524,845

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Year Ended December 31, 2015

REVENUES**Taxes**

General property	\$ 2,375,039
Taconite	
Production	455,835
Homestead credit	441,305
Municipal aid	1,580,769
School replacement aid	131,057
Franchise	141,173
Other	602,991

Total Taxes	<u>5,728,169</u>
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Licenses and Permits	<u>91,925</u>
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Intergovernmental

Federal grants	
Federal Transportation grant	113,234
Bulletproof Vest grant	5,815
Rural Access to Emergency Devices	800
Fire SAFER grant	-
State grants	
Market value credit	2,171
Local government aid	8,095,281
Police aid	206,037
Police disability benefit	16,854
Firemen's aid	76,736
State transportation grant	114,573
PERA rate increase aid	24,366
Petro tank reimbursement	8,326
IRRRB	60,340
Other	29,629
County grants	
Ambulance	-
Local grants	
Police liaison grant	33,829
Total Intergovernmental	<u>8,787,991</u>

Charges for Services

General government	
Bus transportation	58,291
Miscellaneous	12,756
Public safety	
Ambulance calls	1,713,350
Fire protection contracts	3,150
Other	5,000
Highways and streets	
Miscellaneous	480
Culture and recreation	
Rent	141,324
Other	142,136
Cemetery	78,269
Total Charges for Services	<u>2,154,756</u>

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2015

REVENUES (continued)**Fines**

Court fines	\$ 98,721
Police forfeitures	5,482
Administrative fines	(350)
Total Fines	<u>103,853</u>

Gifts and Contributions

668

Investment Income (Loss)

Interest on investments	34,757
Increase (decrease) in fair value of investments	1,787
Total Investment Income (Loss)	<u>36,544</u>

Miscellaneous

Insurance recoveries	50
Insurance dividends	91,872
Other	16,945
Total Miscellaneous	<u>108,867</u>

TOTAL REVENUES17,012,773**EXPENDITURES****Current****General Government**

Mayor and council	259,253
Elections	4,744
City administration	166,043
City clerk	482,299
City hall	84,676
Accounting	49,020
Data processing	74,930
Legal	110,149
Personnel administration	149,372
Zoning and housing	310,299
Assessor	65,342
Total General Government	<u>1,756,127</u>

Public Safety

Police	2,992,467
Animal Shelter	103,828
Fire	1,804,657
Paid on-call fire	143,310
Ambulance	1,137,451
Civil defense	13,913
Total Public Safety	<u>6,195,626</u>

Public Works

Highways and streets	
Streets and alleys	2,056,888
Engineering	286,490
Garage	578,954
Street lighting	51,282
Total Public Works	<u>2,973,614</u>

CITY OF HIBBING, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended December 31, 2015

EXPENDITURES (continued)**Current****Culture and Recreation**

Recreation	\$ 47,327
Memorial building	346,242
Municipal golf course	49,699
Parks	110,313
City Services	1,359,310

Total Culture and Recreation	1,912,891
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Economic Development

Administration	15,678
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Total Economic Development	15,678
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Transportation

Bus	290,047
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Total Transportation	290,047
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Miscellaneous

Cemetery	213,338
Public access	126,173
Insurance	1,842,344
Donations and contributions	19,780
Other	66,450

Total Miscellaneous	2,268,085
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Debt Service

Principal	26,190
Interest and agent fees	13,396

Total Debt Service	39,586
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TOTAL EXPENDITURES	15,451,654
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**EXCESS (DEFICIENCY) OF REVENUES
OVER EXPENDITURES**

1,561,119

OTHER FINANCING SOURCES (USES)

Transfers out	(316,048)
Sale of capital assets	2,028

TOTAL OTHER FINANCING SOURCES (USES)	(314,020)
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NET CHANGE IN FUND BALANCE	1,247,099
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FUND BALANCE - JANUARY 1	13,797,188
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FUND BALANCE - DECEMBER 31	\$ 15,044,287
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CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2015

REVENUES**Taxes**

General property	\$ 416,839
Taconite homestead credit	76,501
Other	92,327

Total Taxes	585,667
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Intergovernmental

State grants	
Market value credit	376

Charges for Services	11,874
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Gifts and Contributions	10,690
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Interest	329
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Miscellaneous	-
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TOTAL REVENUES	608,936
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EXPENDITURES**Current****Culture and Recreation****Library**

Personal services	395,041
Supplies	83,486
Other services and charges	79,480
Retiree health insurance premiums	63,892
Other	1,017

TOTAL EXPENDITURES	622,916
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EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,980)
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OTHER FINANCING SOURCES (USES)

Transfer in	7,200
Transfer out	(227,057)

TOTAL OTHER FINANCING SOURCES (USES)	(219,857)
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NET CHANGE IN FUND BALANCES	(233,837)
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FUND BALANCE - JANUARY 1	255,864
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FUND BALANCE - DECEMBER 31	\$ 22,027
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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, 2015**

REVENUES

Interest	\$	135
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EXPENDITURES

-

NET CHANGE IN FUND BALANCE

135

FUND BALANCE - JANUARY 1

48,572

FUND BALANCE - DECEMBER 31

\$ 48,707

CITY OF HIBBING, MINNESOTA

**SMALL CITIES DEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2015**

REVENUES

Interest	\$	70
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EXPENDITURES

-

NET CHANGE IN FUND BALANCE

70

FUND BALANCE - JANUARY 1

24,926

FUND BALANCE - DECEMBER 31

\$ 24,996

CITY OF HIBBING, MINNESOTA

MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2015

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		<u>-</u>
NET CHANGE IN FUND BALANCE		4
FUND BALANCE - JANUARY 1		<u>84,806</u>
FUND BALANCE - DECEMBER 31	\$	<u><u>84,810</u></u>

CITY OF HIBBING, MINNESOTA

DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2015

REVENUES	Other Postemploy- ment Benefits	2002 G.O. Refunding Bonds	2013A G.O. Bonds	Totals
Taxes				
General property	\$ 364,387	\$ -	\$ 103,135	\$ 467,522
Taconite homestead credit	66,874	-	18,928	85,802
Other	80,709	-	22,844	103,553
Total Taxes	511,970	-	144,907	656,877
Intergovernmental				
State grants				
Market value credit	329	-	93	422
MSA maintenance	-	-	74,013	74,013
MSA construction	-	-	170,000	170,000
Total Intergovernmental	-	-	244,106	244,435
TOTAL REVENUES	512,299	-	389,013	901,312
EXPENDITURES				
Debt Service				
Principal	-	-	145,000	145,000
Interest	-	-	75,463	75,463
Other charges	-	-	699	699
TOTAL EXPENDITURES	-	-	221,162	221,162
EXCESS OF REVENUES OVER EXPENDITURES	512,299	-	167,851	680,150
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGE IN FUND BALANCES	512,299	-	167,851	680,150
FUND BALANCE - JANUARY 1	5,701,341	357,631	308,834	6,367,806
FUND BALANCE - DECEMBER 31	\$ 6,213,640	\$ 357,631	\$ 476,685	\$ 7,047,956

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2015

REVENUES	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement
Taxes				
General property	\$ 142,256	\$ -	\$ -	\$ 1,891,134
Taconite homestead credit	26,107	-	-	181,902
Taconite production	-	-	-	-
Other	31,509	-	-	219,533
Total Taxes	199,872	-	-	2,292,569
Special Assessments				
Principal	-	26,254	-	-
Interest and penalties	-	726	-	-
Total Special Assessments	-	26,980	-	-
Intergovernmental				
Federal grants				
Public Safety Interoperable Communications	-	-	-	-
Other	519,609	-	-	-
State grants				
Market value credit	128	-	-	895
MSA maintenance municipal	364,621	-	-	-
MSA construction municipal	755,585	-	-	-
IRRRB	-	-	-	-
Other	46,860	-	-	176,473
County grants	-	-	-	-
Total Intergovernmental	1,686,803	-	-	177,368
Charges for Services				
Rent and advertising	-	-	15,866	-
Gifts and Contributions	-	-	-	35,586
Interest	6,774	12	608	8,618
Miscellaneous				
Other	-	-	-	-
TOTAL REVENUES	\$ 1,893,449	\$ 26,992	\$ 16,474	\$ 2,514,141

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2015

REVENUES	Mining Effects	Raceway	MDI Maintenance	Total
Taxes				
General property	\$ -	\$ -	\$ -	\$ 2,033,390
Taconite homestead credit	-	-	-	208,009
Taconite production	219,709	-	-	219,709
Other	-	-	-	251,042
Total Taxes	219,709	-	-	2,712,150
Special Assessments				
Principal	-	-	-	26,254
Interest and penalties	-	-	-	726
Total Special Assessments	-	-	-	26,980
Intergovernmental				
Federal grants				
Public Safety Interoperable Communications	-	-	-	-
Other	-	-	-	519,609
State grants				
Market value credit	-	-	-	1,023
MSA maintenance municipal	-	-	-	364,821
MSA construction municipal	-	-	-	755,585
IRRRB	-	-	-	-
Other	-	-	-	223,333
County grants	-	1,673	-	1,673
Total Intergovernmental	-	1,673	-	1,865,844
Charges for Services				
Rent and advertising	-	12,000	-	27,866
Gifts and Contributions	-	-	-	35,586
Interest	-	702	58	16,772
Miscellaneous				
Other	-	-	-	-
TOTAL REVENUES	\$ 219,709	\$ 14,375	\$ 58	\$ 4,685,198

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2015

	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement
EXPENDITURES				
Debt Service				
Principal	\$ -	\$ -	\$ -	\$ 521,000
Interest and other charges	-	-	-	45,512
Total Debt Service	-	-	-	566,512
Capital Outlay				
General government				
Mayor and council	-	-	-	-
Elections	-	-	-	-
City clerk	-	-	-	-
City hall	-	-	-	-
Data processing	-	-	-	1,995
Personnel administration	-	-	-	-
Public safety				
Police	-	-	-	73,670
Fire	-	-	-	7,800
Paid on-call fire	-	-	-	31,424
Ambulance	-	-	-	55,627
Civil defense	-	-	-	-
Animal shelter	-	-	-	-
Public works				
Streets and alleys	1,622,989	113,278	-	645,303
Engineering	-	-	-	-
Garage	-	-	-	5,600
Culture and recreation				
Memorial building	-	-	725	949,866
Municipal golf course	-	-	-	-
Parks	-	-	-	727,612
Library	-	-	-	227,057
Racetrack	-	-	-	-
Miscellaneous				
Cemetery	-	-	-	56,053
Other	-	-	-	-
Total Capital Outlay	1,622,989	113,278	725	2,782,007
TOTAL EXPENDITURES	1,622,989	113,278	725	3,348,519
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	270,460	(86,286)	15,749	(834,378)
OTHER FINANCING SOURCES (USES)				
Transfers in	68,000	75,000	-	227,057
Transfers out	(230,000)	-	-	(75,000)
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	5,533
TOTAL OTHER FINANCING SOURCES (USES)	(162,000)	75,000	-	157,590
NET CHANGE IN FUND BALANCES	108,460	(11,286)	15,749	(676,788)
FUND BALANCES - JANUARY 1	2,463,294	31,562	209,255	3,395,805
FUND BALANCES - DECEMBER 31	\$ 2,571,754	\$ 20,276	\$ 225,004	\$ 2,719,017

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
 Year Ended December 31, 2015

	<u>Mining Effects</u>	<u>Raceway</u>	<u>MDI Maintenance</u>	<u>Total</u>
EXPENDITURES				
Debt Service				
Principal	\$ -	\$ -	\$ -	\$ 521,000
Interest and other charges	-	-	-	45,512
Total Debt Service	-	-	-	566,512
Capital Outlay				
General government				
Mayor and council	-	-	-	-
Elections	-	-	-	-
City clerk	-	-	-	-
City hall	-	-	-	-
Data processing	-	-	-	1,995
Personnel administration	-	-	-	-
Public safety				
Police	-	-	-	73,670
Fire	-	-	-	7,800
Paid on-call fire	-	-	-	31,424
Ambulance	-	-	-	55,627
Civil defense	-	-	-	-
Animal shelter	-	-	-	-
Public works				
Streets and alleys	-	-	-	2,381,570
Engineering	-	-	-	-
Garage	-	-	-	5,600
Culture and recreation				
Memorial building	-	-	-	950,591
Municipal golf course	-	-	-	-
Parks	-	-	-	727,612
Library	-	-	-	227,057
Racetrack	-	14,375	-	14,375
Miscellaneous				
Cemetery	-	-	-	56,053
Other	-	-	-	-
Total Capital Outlay	-	14,375	-	4,533,374
TOTAL EXPENDITURES	-	14,375	-	5,099,886
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	219,709	-	58	(414,688)
OTHER FINANCING SOURCES (USES)				
Transfers in	131,057	-	-	501,114
Transfers out	(400,000)	-	-	(705,000)
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	5,533
TOTAL OTHER FINANCING SOURCES (USES)	(268,943)	-	-	(198,353)
NET CHANGE IN FUND BALANCES	(49,234)	-	58	(613,041)
FUND BALANCES - JANUARY 1	1,798,289	12,233	20,979	7,931,417
FUND BALANCES - DECEMBER 31	<u>\$ 1,749,055</u>	<u>\$ 12,233</u>	<u>\$ 21,037</u>	<u>\$ 7,318,376</u>

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	General Fund	Economic Development Special Revenue Fund	Tax Increment VII	Tax Increment XI	Debt Service Funds Tax Increment XII	Animal Shelter
ASSETS						
Cash and cash equivalents	\$ 707,020	\$ 926,827	\$ 159,420	\$ 328	\$ 500	\$ 115,926
Cash - restricted	-	-	-	-	-	46,286
Investments - restricted	-	-	-	-	-	-
Taxes receivable						
Unapportioned	1,587	-	274	-	-	-
Delinquent	-	-	110,421	15,964	-	-
Accounts receivable	649	129,655	-	-	-	-
Due from other funds	1,664	213,000	-	-	-	-
Due from other governments	-	-	-	-	-	-
Loans receivable	-	417,429	-	-	-	-
Prepaid items and other assets	250	-	-	-	-	-
TOTAL ASSETS	\$ 711,170	\$ 1,686,911	\$ 270,115	\$ 16,292	\$ 500	\$ 162,212
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 781	\$ 129,655	\$ -	\$ -	\$ 300	\$ -
Salaries payable	-	-	-	-	-	-
Due to other funds	-	-	-	1,664	-	-
Due to other governments	-	-	527	527	-	-
Contracts payable	1,700	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-
TOTAL LIABILITIES	2,481	129,655	527	2,191	300	-
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue:						
Property taxes	-	-	110,421	15,964	-	-
Loans receivable	-	417,554	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	417,554	110,421	15,964	-	-
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	159,167	-	200	162,212
Committed	708,689	1,139,702	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	(1,863)	-	-
TOTAL FUND BALANCES	708,689	1,139,702	159,167	(1,863)	200	162,212
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 711,170	\$ 1,686,911	\$ 270,115	\$ 16,292	\$ 500	\$ 162,212

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
December 31, 2015

	Capital Projects Funds				Totals
	Storefront Renovation Project	District VIII Tax Increment	District XII Tax Increment	Tax Abatement	
ASSETS					
Cash and cash equivalents	\$ 26,217	\$ 77,153	\$ 17	\$ 45,590	\$ 2,058,998
Cash - restricted	-	-	-	-	46,286
Investments	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Unapportioned	-	-	-	226	2,087
Delinquent	-	268	-	-	126,653
Accounts receivable	-	-	-	-	130,304
Due from other funds	-	-	-	-	214,664
Due from other governments	-	-	-	-	-
Loans receivable	334,841	461,924	-	-	1,214,194
Prepaid items	-	-	-	-	250
TOTAL ASSETS	<u>\$ 361,058</u>	<u>\$ 539,345</u>	<u>\$ 17</u>	<u>\$ 45,816</u>	<u>\$ 3,793,436</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ 7,257	\$ 137,993
Salaries payable	-	-	-	-	-
Due to other funds	213,000	-	-	-	214,664
Due to other governments	-	527	527	-	2,108
Contracts payable	-	-	-	-	1,700
Unearned revenue	-	-	-	-	-
TOTAL LIABILITIES	<u>213,000</u>	<u>527</u>	<u>527</u>	<u>7,257</u>	<u>356,465</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue:					
Property taxes	-	268	-	-	126,653
Loans receivable	334,841	461,924	-	-	1,214,319
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>334,841</u>	<u>462,192</u>	<u>-</u>	<u>-</u>	<u>1,340,972</u>
FUND BALANCES					
Nonspendable	-	-	-	-	-
Restricted	-	76,626	-	-	398,205
Committed	-	-	-	-	1,848,391
Assigned	-	-	-	38,559	38,559
Unassigned	(186,783)	-	(510)	-	(189,156)
TOTAL FUND BALANCES	<u>(186,783)</u>	<u>76,626</u>	<u>(510)</u>	<u>38,559</u>	<u>2,095,999</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 361,058</u>	<u>\$ 539,345</u>	<u>\$ 17</u>	<u>\$ 45,816</u>	<u>\$ 3,793,436</u>

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, 2015

	General Fund	Economic Development Special Revenue Fund	Tax Increment VII	Tax Increment XI	Tax Increment XII	Animal Shelter
REVENUES						
Taxes						
General	\$ 74,809	\$ -	\$ 69,679	\$ 17,847	\$ 2,025	\$ -
Taconite homestead credit	13,730	-	-	-	-	-
Other	16,570	-	-	-	-	-
Intergovernmental						
State grants						
Market value credit	68	-	-	-	-	-
IRRRB grant	-	-	-	-	-	-
Interest in Capital Lease	-	-	-	-	-	39,586
Gifts and contributions	-	-	-	-	-	-
Interest	1,533	411	410	8	-	23
Miscellaneous						
Principal on loan repayments	-	273,951	-	-	-	-
Interest on loan repayments	-	16,923	-	-	-	-
TOTAL REVENUES	106,710	291,285	70,089	17,855	2,025	39,609
EXPENDITURES						
Current						
Economic development	-	-	-	-	-	-
Community development	-	-	-	-	-	-
Administration	27,421	2,454	3,938	-	65	-
Professional services	6,906	-	592	592	-	-
Loans	-	30,437	-	-	-	-
Tax increment projects	-	-	-	-	-	-
Debt Service						
Principal	-	-	30,000	15,000	-	26,190
Interest	-	-	6,750	2,060	39,527	13,396
Other charges	-	-	-	-	300	-
Fiscal charges	-	-	450	-	495	-
Capital Outlay						
Community development	8,792	-	-	-	-	-
TOTAL EXPENDITURES	43,119	32,891	41,730	17,652	40,387	39,586
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	63,591	258,394	28,359	203	(38,362)	23
OTHER FINANCING SOURCES (USES)						
Debt Issuance	-	-	-	-	-	-
Transfers in	109,791	-	-	-	39,062	-
Transfers out	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	109,791	-	-	-	39,062	-
NET CHANGE IN FUND BALANCES	173,382	258,394	28,359	203	700	23
FUND BALANCES - JANUARY 1	535,307	881,308	130,808	(2,066)	(500)	162,189
FUND BALANCES - DECEMBER 31	\$ 708,689	\$ 1,139,702	\$ 159,167	\$ (1,863)	\$ 200	\$ 162,212

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, 2015

	Capital Projects Funds				
	Storefront Renovation Project	District VIII Tax Increment	District XII Tax Increment	Tax Abatement	Totals
REVENUES					
Taxes					
General	\$ -	\$ 11,790	\$ -	\$ 10,669	\$ 186,819
Taconite homestead credit	-	-	-	1,958	15,688
Other	-	-	-	2,363	18,933
Intergovernmental					
State grants					
Market value credit	-	-	-	10	78
IRRRB grant	-	-	-	-	-
Interest in Capital Lease	-	-	-	-	39,586
Gifts and contributions	-	-	-	-	-
Interest	-	190	120	118	2,813
Miscellaneous					
Principal on loan repayments	74,130	-	-	-	348,081
Interest on loan repayments	13,616	-	-	-	30,539
TOTAL REVENUES	87,746	11,980	120	15,118	642,537
EXPENDITURES					
Current					
Economic development	-	-	-	12,624	12,624
Community development	-	-	-	-	33,878
Administration	-	592	6,931	-	15,613
Professional services	-	-	-	-	139,094
Loans	104,000	-	-	4,657	-
Tax increment projects	-	-	-	-	-
Debt Service					
Principal	-	-	-	-	71,190
Interest	-	-	-	-	61,733
Other charges	-	-	-	-	300
Fiscal charges	-	-	-	-	945
Capital Outlay					
Community development	-	-	-	-	8,792
TOTAL EXPENDITURES	104,000	592	6,931	17,281	344,169
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,254)	11,388	(6,811)	(2,163)	298,368
OTHER FINANCING SOURCES (USES)					
Debt issuance	-	-	-	-	-
Transfers in	-	-	-	-	148,853
Transfers out	-	-	(39,062)	-	(39,062)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(39,062)	-	109,791
NET CHANGE IN FUND BALANCES	(16,254)	11,388	(45,873)	(2,163)	408,159
FUND BALANCES - JANUARY 1	(170,529)	65,238	45,363	40,722	1,687,840
FUND BALANCES - DECEMBER 31	\$ (186,783)	\$ 76,626	\$ (510)	\$ 38,559	\$ 2,095,999

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
STATEMENT OF NET POSITION
ENTERPRISE FUND
December 31, 2015

	<u>Family Center</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 580,177
Due from other governments	-
Loans receivable	<u>374,397</u>
TOTAL ASSETS	<u><u>\$ 954,574</u></u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ -
Deferred revenue	-
Due to other funds	<u>-</u>
TOTAL LIABILITIES	<u>-</u>
NET POSITION	
Unrestricted	<u>954,574</u>
TOTAL NET POSITION	<u><u>\$ 954,574</u></u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 ENTERPRISE FUND
 December 31, 2015

	<u>Family Center</u>
OPERATING REVENUES	
Charges for services	\$ -
Miscellaneous	-
TOTAL OPERATING REVENUES	<u>-</u>
OPERATING EXPENSES	
Personal services	-
Supplies	-
Maintenance and repairs	-
Contracted services	-
Utilities	-
Depreciation	-
Miscellaneous	-
TOTAL OPERATING EXPENSES	<u>-</u>
OPERATING INCOME	<u>-</u>
NONOPERATING REVENUES	
Interest income	-
Interest on notes	22,018
Interest expense	-
Amortization	-
Gain on disposal of student housing facility	-
TOTAL NONOPERATING REVENUES	<u>22,018</u>
INCOME BEFORE TRANSFERS	<u>22,018</u>
Transfers in	-
Transfers out	-
CHANGE IN NET POSITION	<u>22,018</u>
TOTAL NET POSITION - JANUARY 1	<u>932,556</u>
TOTAL NET POSITION - DECEMBER 31	<u><u>\$ 954,574</u></u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 STATEMENT OF CASH FLOWS
 ENTERPRISE FUND
 December 31, 2015

	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	<u>-</u>
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	47,469
Interest received on note	22,018
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	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>69,487</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>510,690</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u><u>\$ 580,177</u></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	<u><u>\$ -</u></u>

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, 2015

	<u>Tax Increment District VII</u>	
District type	Redevelopment	
Authorized under Minn. Statute, ch#	469	
Established in	1993	
Planned completion in	2019	
Original net tax capacity	\$	3,904
Current net tax capacity		50,678
Fiscal disparity deduction		-
Captured Net Tax Capacity Retained by the City	\$	<u>46,774</u>
	<u>Accounted</u>	<u>Current</u>
	<u>for in</u>	<u>Year</u>
	<u>Prior Years</u>	
SOURCES OF FUNDS		
Bond proceeds	\$ 320,000	\$ -
Note proceeds	-	-
Tax increments received	928,635	69,679
General property taxes received	-	-
Interest on invested funds	11,575	410
Grants	299,999	-
Local contributions	8,251	-
Miscellaneous	19,619	-
TOTAL SOURCES OF FUNDS	<u>1,588,079</u>	<u>70,089</u>
USES OF FUNDS		
Building acquisition	-	-
Other public improvements	721,672	-
Bond payments		
Principal	215,000	30,000
Interest and fiscal charges	332,373	7,200
Professional services	32,784	592
Administrative costs	140,277	3,938
TOTAL USES OF FUNDS	<u>1,442,106</u>	<u>41,730</u>
EXCESS (DEFICIENCY) OF SOURCES OVER		
USES OF FUNDS BEFORE TRANSFERS	<u>145,973</u>	<u>28,359</u>
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	<u>(15,165)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF SOURCES OVER		
USES OF FUNDS AND TRANSFERS	<u>\$ 130,808</u>	<u>28,359</u>
DISTRICT BALANCE - JANUARY 1		<u>130,808</u>
DISTRICT BALANCE - DECEMBER 31		<u>\$ 159,167</u>

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		\$ 14,338
	8,377		16,324		2,752
	-		3,832		-
	<u>\$ 7,905</u>		<u>\$ 11,967</u>		<u>\$ (11,586)</u>
Accounted for in	Current	Accounted for in	Current	Accounted for in	Current
Prior Years	Year	Prior Years	Year	Prior Years	Year
\$ -	\$ -	\$ 165,000	\$ -	\$ 830,000	\$ -
-	-	-	-	-	-
228,204	11,790	157,232	17,847	-	2,025
-	-	-	-	-	-
5,654	190	1,877	8	243	120
385,000	-	-	-	-	-
-	-	67,786	-	-	-
18,670	-	2,786	-	-	-
<u>637,528</u>	<u>11,980</u>	<u>394,681</u>	<u>17,855</u>	<u>830,243</u>	<u>2,145</u>
555,095	-	-	-	-	-
67,392	-	253,248	-	700,000	-
-	-	130,000	15,000	-	-
-	-	133,508	2,060	61,532	40,322
10,995	592	32,645	592	23,848	6,931
30,205	-	45	-	-	65
<u>663,687</u>	<u>592</u>	<u>549,446</u>	<u>17,652</u>	<u>785,380</u>	<u>47,318</u>
(26,159)	11,388	(154,765)	203	44,863	(45,173)
-	-	-	-	-	-
-	-	-	-	-	-
(4,926)	-	-	-	-	-
-	-	35,055	-	-	-
96,323	-	117,644	-	-	-
<u>91,397</u>	<u>-</u>	<u>152,699</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 65,238</u>	<u>11,388</u>	<u>\$ (2,066)</u>	<u>203</u>	<u>\$ 44,863</u>	<u>(45,173)</u>
	65,238		(2,066)		44,863
<u>\$ 76,626</u>		<u>\$ (1,863)</u>		<u>\$ (310)</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

Christine A. Towner, CPA
Kimberly A. Jarvis

INDEPENDENT AUDITORS' 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, 2015, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated August 2, 2016. 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 of the financial statements, we considered the City of Hibbing, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2015-1 and 2015-2 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 or other matters 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.

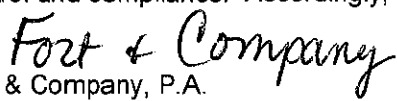
The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, 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 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 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 and compliance. Accordingly, this communication is not suitable for any other purpose.


Fort & Company, P.A.
August 2, 2016

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2015

SIGNIFICANT DEFICIENCIES

2015-1. 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, 2015

**2015-2. 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, 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.