

CITY OF HIBBING, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2016

CITY OF HIBBING, MINNESOTA

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December 31, 2016

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CITY OF HIBBING, MINNESOTA

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CITY OF HIBBING, MINNESOTA

ORGANIZATION
December 31, 2016

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
Laura Rusich, CPA

Connor B. Michels, EA
Morgan L. Anderson

Christine A. Towner, CPA
Kimberly A. Jarvis

Victoria C. Arnoldy, CPA
John W. Fort, CPA - Retired

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, 2016, 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 includes 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.

To the City Council

June 30, 2017

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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, 2016, 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 21 to the financial statements, the City restated the beginning net position of the Primary Government's Governmental Activities due to a correction of an error on capitalizing an infrastructure asset and related grant receivable on the 2013 bonded paving project.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information (RSI), as noted in the table of contents, 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

To the City Council

June 30, 2017

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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 June 30, 2017, 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

June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

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, 2016. 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 \$40,303,433. Invested in capital assets, net of related debt represents \$27,482,341 of the total.
- Business-type activities have a total net position of \$24,982,135. Invested in capital assets, net of related debt represents \$25,553,400 of the total.
- The Hibbing Economic Development Authority (EDA) has a total net position of \$3,535,613. Invested in capital assets, net of related debt represents \$290,031 of the total.
- The City of Hibbing's primary government's net position increased by \$153,906 for the year ended December 31, 2016. The Governmental activities' net position decreased by \$752,121 and the business-type activities' net position increased by \$906,027.
- The EDA had an increase in net position of \$263,174 for the year ended December 31, 2016. General revenues, including items such as taxes and grants not restricted to specific programs, accounted for \$360,470 of this, with net program expenses over revenue of \$97,296. Included in the \$360,470 is a transfer of \$56,500 from the primary government of residual funds that were left in a community economic development fund.
- The net cost of governmental activities was \$17,063,171 for the current year. The net cost was funded by general revenues and other items totaling \$16,311,050.
- Governmental funds' fund balances increased by \$471,973.
- 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, and Mining Effects Capital Projects Fund revenues exceeded expenditures by \$1,083,816, \$530,897, and \$219,869 respectively. These increases were offset by expenditures exceeding revenues in the Permanent Improvement Capital Project Fund, 2013A G.O. Bond Debt Service Fund, and Privately Financed Capital Projects Fund by \$748,696, \$207,706, and \$93,095 respectively, along with the net transfers out of \$306,500.

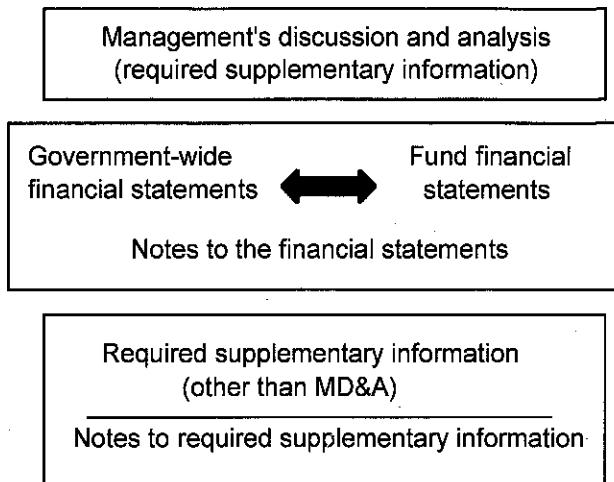
CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

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, 2016

New Accounting Pronouncements

As further described in Note 1 to the financial statements, the City of Hibbing implemented GASB Statement No. 77, Tax Abatement Disclosures for the year ended December, 31, 2016.

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, 2016

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, 2016

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net position increased from \$65,131,662 to \$65,285,568. The net position of governmental activities is restated for 2015 (see page 10 and Note 21 of the financial statements). 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	
	2016	2015 (Restated)	2016	2015	2016	2015 (Restated)
Current and other assets	\$ 35,288,969	\$ 34,842,646	\$ 3,402,634	\$ 2,792,313	\$ 38,691,603	\$ 37,634,959
Capital assets	31,955,624	30,846,055	36,005,163	36,611,502	67,960,787	67,457,557
Total assets	\$ 67,244,593	\$ 65,688,701	\$ 39,407,797	\$ 39,403,815	\$ 106,652,390	\$ 105,092,516
Deferred outflows of resources						
Deferred outflows-pensions	\$ 11,940,700	\$ 1,426,115	\$ 601,907	\$ 133,438	\$ 12,542,607	\$ 1,559,553
Total assets and deferred outflows of resources	\$ 79,185,293	\$ 67,114,816	\$ 40,009,704	\$ 39,537,253	\$ 119,194,997	\$ 106,652,069
Long-term liabilities	\$ 33,963,251	\$ 22,886,495	\$ 14,316,974	\$ 14,640,275	\$ 48,280,225	\$ 37,526,770
Other liabilities	2,578,309	2,153,402	545,813	735,815	3,124,122	2,889,217
Total liabilities	\$ 36,541,560	\$ 25,039,897	\$ 14,862,787	\$ 15,376,090	\$ 51,404,347	\$ 40,415,987
Deferred inflows of resources						
Deferred inflows - pensions	\$ 2,340,300	\$ 1,019,365	\$ 164,782	\$ 85,055	\$ 2,505,082	\$ 1,104,420
Total liabilities and deferred inflows of resources	\$ 38,881,860	\$ 26,059,262	\$ 15,027,569	\$ 15,461,145	\$ 53,909,429	\$ 41,520,407
Net position						
Invested in capital assets						
net of debt	\$ 27,482,341	\$ 25,677,010	\$ 25,553,400	\$ 25,120,093	\$ 53,035,741	\$ 50,797,103
Restricted	4,247,983	5,322,234	-	-	4,247,983	5,322,234
Unrestricted	8,573,109	10,056,310	(571,265)	(1,043,985)	8,001,844	9,012,325
Total net position	\$ 40,303,433	\$ 41,055,554	\$ 24,982,135	\$ 24,076,108	\$ 65,285,568	\$ 65,131,662

Net position of the City's governmental activities decreased by 1.83 percent (\$40,303,433 in 2016 compared to \$41,055,554 in 2015). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other requirements) changed from \$10,056,310 at December 31, 2015, to \$8,573,109 at the end of 2016.

Net position of the City's business-type activities increased 3.76 percent (\$24,982,135 in 2016 compared to \$24,076,108 in 2015). This increase was vastly due to operating income in the Garbage and Refuse Collection Enterprise Fund of \$226,456 and \$473,997 in the Sewer Operating and Maintenance Enterprise Fund.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,617,870	\$ 2,541,016	\$ 6,261,154	\$ 6,143,662	\$ 8,879,024	\$ 8,684,678
Operating grants and contributions	1,076,618	1,338,839	-	-	1,076,618	1,338,839
Capital grants and contributions	1,312,439	1,535,784	141,884	942,076	1,454,323	2,477,860
General revenues:						
Taxes	8,887,917	9,700,911	-	-	8,887,917	9,700,911
Intergovernmental	8,126,935	8,123,311	-	-	8,126,935	8,123,311
Other general revenues (expenses)	18,674	54,756	8,273	7,359	26,947	62,115
Total revenues	<u>22,040,453</u>	<u>23,294,617</u>	<u>6,411,311</u>	<u>7,093,097</u>	<u>28,451,764</u>	<u>30,387,714</u>
Program expenses:						
General government	3,548,547	3,477,508	-	-	3,548,547	3,477,508
Public safety	9,318,758	7,563,291	-	-	9,318,758	7,563,291
Public works	5,517,083	3,576,579	-	-	5,517,083	3,576,579
Culture and recreation	3,203,022	3,076,408	-	-	3,203,022	3,076,408
Other	360,157	349,767	589	590	360,746	350,357
Interest	122,531	128,901	201,664	219,409	324,195	348,310
Garbage and refuse collection	-	-	2,592,818	2,577,850	2,592,818	2,577,850
Sewer operating and maintenance	-	-	2,957,316	2,918,527	2,957,316	2,918,527
Memorial building concessions	-	-	2,897	953	2,897	953
Total program expenses	<u>22,070,098</u>	<u>18,172,454</u>	<u>5,755,284</u>	<u>5,717,329</u>	<u>27,825,382</u>	<u>23,889,783</u>
Transfers						
Transfer to General Fund	(306,500)	(739,791)	250,000	630,000	(56,500)	(109,791)
Donation expense	(415,976)	-	-	-	(415,976)	-
Increase (decrease) in net position	<u>(752,121)</u>	<u>4,382,372</u>	<u>906,027</u>	<u>2,005,768</u>	<u>153,906</u>	<u>6,388,140</u>
Beginning Net Position, as Reported	36,168,914		24,076,108		60,245,022	
Restatement Due to Correction of 2013 City-Wide Paving Project	<u>4,886,640</u>				<u>4,886,640</u>	
Beginning Net Position, as Restated	<u>41,055,554</u>		<u>24,076,108</u>		<u>65,131,662</u>	
Ending Net Position, as Restated	<u>\$ 40,303,433</u>		<u>\$ 24,982,135</u>		<u>\$ 65,285,568</u>	

The City's total revenues decreased by \$1,935,950 or 6.37 percent. The total cost of all programs and services increased by \$3,935,599 or 16.47 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 decreased by \$1,254,164 or 5.38 percent and total expenses increased by \$3,897,644 or 21.45 percent. The difference in the changes in net position for governmental activities was \$5,134,493 for 2016 compared to 2015.

The cost of all governmental activities this year was \$22,070,098. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs, \$2,617,870, or by other governments and organizations that subsidized certain programs with grants and contributions, \$10,515,992. Taxpayers paid \$8,887,917 in taxes in 2016.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

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	
	2016	2015	2016	2015
Public safety	\$ 9,318,758	\$ 7,563,291	\$ 6,960,092	\$ 5,267,403
Public works	5,517,083	3,576,579	4,028,537	1,595,745
General government	3,548,547	3,477,508	3,188,359	3,174,194
Culture and recreation	3,203,022	3,076,408	2,861,290	2,532,191
Other	360,157	349,767	(97,638)	58,381
Interest on long-term debt	122,531	128,901	122,531	128,901
Totals	\$ 22,070,098	\$ 18,172,454	\$ 17,063,171	\$ 12,756,815

Included in the Total Cost of Services above is the net expense of actuarially determined liabilities for the City's pension plan and other post retirement benefit plan. The net expense amount for both years are as follows:

	Total Cost of Services	
	2016	2015
Public safety	1,766,295	161,992
Public works	386,285	298,450
General government	331,732	291,332
Culture and recreation	183,964	127,453
Other	761	162
Interest on long-term debt	2,669,037	879,389

Business-Type Activities

Revenues of the City's business-type activities were \$6,411,311 and expenses were \$5,755,284 (see Table 2). There was an increase in net position of \$906,027 during the year ended December 31, 2016. The factors driving these results include:

Operations produced \$708,123 of income for the year ended December 31, 2016.

The City recognized capital grants totaling \$141,884 for the year.

The City had non-operating interest expense totaling \$201,664 for the year.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

EDA Component Unit Activity

The EDA had an increase in net position of \$263,174 for the year ended December 31, 2016. General revenues, including items such as taxes and grants not restricted to specific programs, accounted for \$360,470 of this, with net program expenses over revenue of \$97,296. Included in the \$360,470 is a transfer of \$56,500 from the primary government of residual funds that were left in a community economic development fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$30,063,132 which is greater than last year's total of \$29,591,159. The general fund had an increase of \$1,024,459 primarily due to actual expenditures coming in below budgeted by \$873,726. The Library Fund had a \$11,948 decrease in fund balance primarily due to actual expenditures exceeding the budgeted amount by \$23,324. The largest increase in other governmental funds was for \$530,897 in the Other Post Employment Benefits Debt Service Fund which was due to current year funding. The next largest increase was \$18,373 in the Memorial Building Capital Projects Fund which was mainly due to current year charges for services exceeding expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$873,726 below the final budget amounts. The most significant positive variances occurred in the City's public safety by \$449,009; public works by \$197,723 and miscellaneous by \$303,836. The reasons these actual expenditures came in below budgeted amounts were due to employee turnover and difficulty replacing police officers and firefighters. Additional reasons for the below budgeted amounts were attributed to actual fuel costs being lower than budgeted and lower insurance premiums related to retirees, workers compensation and property and liability insurance. The most significant and only negative variance of \$415,976 occurred in the City's miscellaneous capital outlay expenditures. This negative variance was created by cost overruns incurred on the US Highway 169 utility extension project. This amount relates to the Public Utilities Commission's portion in excess of the amount originally estimated for the Public Utility Commission's portion. It is the City's intention to donate this excess infrastructure amount to the Public Utilities Commission (see Note 12). Resources available for appropriation were above the final budgeted amounts by \$145,744. This positive variance was primarily attributable to the City receiving \$118,279 more in intergovernmental revenues than expected.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the City had \$67,960,787 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 \$500,230 over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015 (Restated)	2016	2015	2016	2015 (Restated)
Land, improvements, intangibles, artwork, gravel roads	\$ 7,817,567	\$ 7,784,594	\$ 423,719	\$ 423,719	\$ 8,241,286	\$ 8,208,313
Buildings and improvements	9,180,220	9,510,634	20,174,185	20,912,683	29,354,405	30,423,317
Infrastructure	10,487,627	10,210,679	12,544,266	12,600,686	23,031,893	22,811,365
Equipment, machinery and furniture	3,432,416	3,320,226	1,088,818	860,629	4,521,234	4,180,855
Construction in progress	1,037,794	19,922	1,774,175	1,816,785	2,811,969	1,836,707
Totals	\$ 31,955,624	\$ 30,846,055	\$ 36,005,163	\$ 36,614,502	\$ 67,960,787	\$ 67,460,557

This year's major additions included:

N & S Salmi roads	\$ 10,673
CPR device	10,854
Bryan Lake Park skating shack	11,653
200 95-gallon carts	11,750
Broadcast floor system	13,243
Rotator, weld-on, & SAE pivot	13,649
Rafferty Concept Study	13,833
Compressor overhaul	15,200
Lighting, bocce ball and horseshoe court	15,414
Raceway ramp	18,815
Toro Workman HDX	20,606
Cabinet washer	20,884
Library doors and windows	22,104
IV pumps, batteries, & licenses	24,600
Force main connecting to north lift station on Bunker Road	25,243
2016 Dodge Charger	30,600
2016 Dodge Charger	30,600
Trench roller	30,950
2016 Ford F250	32,563
Land, Maple Hill Park	32,973
Rental space renovation	36,854
Bennett Park Restroom Project	52,657
Groundmaster	61,517
Rover Robotic camera system	74,888
Roof replacement	77,387
Armer portable radios	79,939
41st Avenue East	81,052
31st Street	91,069
9th Avenue East	92,212

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

This year's major additions included (continued):

2016 Ford Bus	105,711
2016 ford Bus	105,711
Packer chassis	110,109
Bar/filter screen, self clean	126,481
Lifeline superliner	192,412
Ambulance	194,978
Sanitary sewer lining	268,972
Rainey Road	290,033
North Dublin Road	428,186
Total additions	<u>\$ 2,876,375</u>

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 \$49,443,949 in long-term debt outstanding versus \$38,769,053 last year (see Table 5 below).

Table 5
Outstanding Debt at Year-end

	Governmental Activities		Business-type Activities		EDA Component Unit	
	2016	2015	2016	2015	2016	2015
General obligation bonds (backed by the City)	\$ 4,182,035	\$ 4,818,036	\$ -	\$ -	\$ 1,152,252	\$ 1,234,794
Certificates of indebtedness	-	32,000	-	-	-	-
Capital leases	291,248	319,009	-	-	-	-
Police and Fire indebtedness	-	-	-	-	-	-
General obligation revenue notes	-	-	7,977,065	8,870,065	-	-
General obligation revenue bonds	-	-	2,474,698	2,624,344	-	-
Compensated absences	291,653	256,819	79,772	80,126	-	-
Net pension liability	18,078,871	6,935,169	1,431,575	941,387	11,471	7,489
OPEB liability	11,119,444	10,525,462	2,353,864	2,124,353	-	-
Total	\$ 33,963,251	\$ 22,886,495	\$ 14,316,974	\$ 14,640,275	\$ 1,163,723	\$ 1,242,283

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 \$4,182,035 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 \$356,000 as compared to the actual costs during the current year of \$328,000, which included 40 culverts, 6.5 road lifts and 9 spot road repairs.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2017 budget, tax rates, and fees that will be charged for the business-type activities.

The General Fund expenditures and transfers for 2017 are budgeted to be \$17,371,367, which is a \$141,926 increase from the 2016 final budget of \$17,229,441. This is a \$78,282, or 0.45% decrease from the 2016 original General Fund budgeted expenditures of \$17,449,649.

Property tax levies increased 5.49 percent for 2017.

Consistent with the national and global economy, rising health care 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 2017 LGA is \$3,193 greater than the \$8,098,794 received in 2016.

The City relies heavily on State LGA and taconite aids to fund its budget. LGA payments are anticipated to supply 47% of General Fund revenues, with taconite aids expected to furnish 11% 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 has reduced the amount of taconite aids received in 2016 and is expected to negatively impact amounts to be received through 2018.

The City's 2017 capital budget calls for it to spend another \$2,201,726 for capital projects, principally for the following:

Ambulance	\$ 18,000
Cemetery	25,000
General government	170,000
Library	25,000
Parks, recreation and arena	749,000
Public safety	253,500
Public works	460,800
Other	<u>500,426</u>
Total	<u>\$ 2,201,726</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, 2016

	Primary government			Component Units	
	Governmental Activities	Business - Type Activities	Total	EDA	PUC
ASSETS					
Cash and cash equivalents	\$ 24,478,817	\$ 3,096,460	\$ 27,575,277	\$ 3,157,795	\$ 151,232
Investments	6,269,702	-	6,269,702	-	-
Taxes receivable	476,238	-	476,238	128,536	-
Special assessments receivable	166,994	69,445	236,439	-	-
Accounts receivable	212,696	4,189	216,885	994	4,675,013
Interest receivable	14,456	-	14,456	-	-
Unbilled revenues	-	-	-	-	1,231,938
Internal balances	1,000,000	(1,000,000)	-	-	-
Due from other governments	2,488,753	226,302	2,715,055	-	-
Due from component units	13,895	1,004,412	1,018,307	-	-
Due from primary government	-	-	-	291,248	-
Loans receivable	-	-	-	816,958	-
Inventories	531	1,371	1,902	-	867,623
Prepaid expenses	46,775	455	47,230	-	209,417
Equity in joint venture	-	-	-	-	17,565,609
Net pension asset	120,112	-	120,112	-	-
Temporarily restricted assets	-	-	-	-	-
Cash and cash equivalents	-	-	-	46,286	1,617,312
Investments held with fiscal agents	-	-	-	-	673,286
Capital assets not being depreciated	-	-	-	-	-
Land, improvements, artwork, gravel roads, intangibles and construction in progress	8,855,361	2,197,894	11,053,255	274,272	894,983
Capital assets net of accumulated depreciation	-	-	-	-	-
Infrastructure	30,208,435	14,553,646	44,762,081	19,699	-
Buildings and improvements	25,420,432	32,063,812	57,484,244	-	9,310,103
Transmissions and distribution system	-	-	-	-	48,110,937
Equipment, machinery and furniture	13,042,670	4,828,610	17,871,280	-	49,842,030
Less: accumulated depreciation	(45,571,274)	(17,638,799)	(63,210,073)	(3,940)	(71,186,191)
TOTAL ASSETS	\$ 67,244,593	\$ 39,407,797	\$ 106,652,390	\$ 4,731,848	\$ 63,963,292
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - Pension	11,940,700	601,907	12,542,607	4,868	3,059,332
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 79,185,293	\$ 40,009,704	\$ 119,194,997	\$ 4,736,716	\$ 67,022,624

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

CITY OF HIBBING, MINNESOTA
STATEMENT OF NET POSITION (continued)
December 31, 2016

	Primary government			Component Units		
	Business -		Total	EDA		PUC
	Governmental Activities	Type Activities				
LIABILITIES						
Accounts payable	\$ 241,837	\$ 53,061	\$ 294,898	\$ 11,185	\$ 3,160,746	
Salaries payable	1,200,161	22,187	1,222,348	-	-	
Notes payable						
Due to other governments	221,307	127,743	349,050	2,108		1,018,307
Due to primary government						
Contracts payable	92,337	96,165	188,502	-	358,232	
Customer deposits						
Other accrued liabilities	105,606	-	105,606	-	106,277	
Donations payable - component unit	415,976	-	415,976	-	-	
Unearned revenue	248,503	-	248,503	-	48,797	
Accrued interest payable	52,582	74,497	127,079	22,762	6,202	
Compensated absences		172,160	172,160	-	400,560	
Long-term liabilities						
Due to component unit	291,248	-	291,248	-	-	
Net pension liability	18,078,871	1,431,575	19,510,446	11,471	7,364,392	
Compensated absences	291,653	79,772	371,425	-	988,115	
OPEB liability	11,119,444	2,353,864	13,473,308	-	17,316,985	
Due within one year	645,000	1,062,000	1,707,000	69,427	1,048,675	
Due in more than one year	3,537,035	9,389,763	12,926,798	1,082,825	4,615,183	
TOTAL LIABILITIES	\$ 36,541,560	\$ 14,862,787	\$ 51,404,347	\$ 1,199,778	\$ 36,432,471	
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - Pension	2,340,300	164,782	2,505,082	1,325	941,937	
NET POSITION						
Invested in capital assets, net of related debt	27,482,341	25,553,400	53,035,741	290,031	31,289,371	
Restricted for						
Capital projects	2,649,995	-	2,649,995	88,160	-	
Debt service	1,522,951	-	1,522,951	346,536	1,210,283	
Other purposes	75,037	-	75,037	-	-	
Unrestricted	8,573,109	(571,265)	8,001,844	2,810,886	(2,851,438)	
TOTAL NET POSITION	40,303,433	24,982,135	65,285,568	3,535,613	29,648,216	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION						
	\$ 79,185,293	\$ 40,009,704	\$ 119,194,997	\$ 4,736,716	\$ 67,022,624	

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

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	\$ 3,548,547	\$ 330,655	\$ 29,533	\$ -	\$ -
Public safety	9,318,758	1,880,091	456,961	21,614	-
Public works	5,517,083	53,528	330,583	1,104,435	-
Culture and recreation	3,203,022	299,441	22,782	19,509	-
Economic development	15,271	-	-	-	-
Transportation	344,886	54,155	236,759	166,881	-
Interest on long-term debt	122,531	-	-	-	-
Total Governmental Activities	22,070,098	2,617,870	1,076,618	1,312,439	-
Business-Type Activities					
Garbage and refuse collection	2,592,818	2,819,274	-	12,011	-
Sewer operating and maintenance	3,159,569	3,431,313	-	129,873	-
Memorial building concessions	2,897	10,567	-	-	-
Total Business-Type Activities	5,755,284	6,261,154	-	141,884	-
Total Primary Government	\$ 27,825,382	\$ 8,879,024	\$ 1,076,618	\$ 1,454,323	\$ -
Component Units					
EDA	\$ 140,313	\$ -	\$ -	\$ -	\$ 43,017
PUC	24,964,748	24,981,775	-	2,461,223	-
Total Component Units	\$ 25,105,061	\$ 24,981,775	\$ -	\$ 2,461,223	\$ 43,017

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 - Donation expense

Transfers

Total General Revenues, and Transfers

Change in Net Position

NET POSITION - JANUARY 1

Restatement Due To Correction of 2013 City Wide Paving Project - See Note 21

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
(3,188,359)	\$ -	\$ (3,188,359)		
(6,960,092)	-	(6,960,092)		
(4,028,537)	-	(4,028,537)		
(2,861,290)	-	(2,861,290)		
(15,271)	-	(15,271)		
112,909	-	112,909		
(122,531)	-	(122,531)		
(17,063,171)	-	(17,063,171)		
-	238,467	238,467		
-	401,617	401,617		
-	7,670	7,670		
-	647,754	647,754		
(17,063,171)	647,754	(16,415,417)		
		\$ (97,296)	\$ -	
			2,478,250	
		\$ (97,296)	\$ 2,478,250	
6,040,375	-	6,040,375	-	-
2,712,738	-	2,712,738	163,073	-
134,804	-	134,804	-	-
-	-	-	137,313	-
8,126,935	-	8,126,935	104	-
48,629	8,273	56,902	3,480	4,284
(29,955)	-	(29,955)	-	-
(415,976)	-	(415,976)	-	-
(306,500)	250,000	(56,500)	56,500	-
16,311,050	258,273	16,569,323	360,470	4,284
(752,121)	906,027	153,906	263,174	2,482,534
36,168,914	24,076,108	60,245,022	3,272,439	27,165,682
4,886,640	-	4,886,640	-	-
41,055,554	24,076,108	65,131,662	3,272,439	27,165,682
\$ 40,303,433	\$ 24,982,135	\$ 65,285,568	\$ 3,535,613	\$ 29,648,216

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

CITY OF HIBBING, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS**
December 31, 2016

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,036,309	\$ 71,929	\$ 14,370,579	\$ 24,478,817
Investments	6,269,702	-	-	6,269,702
Taxes receivable	434,091	6,762	35,385	476,238
Special assessments receivable	-	-	166,994	166,994
Accounts receivable	202,685	93	9,918	212,696
Interest receivable	14,456	-	-	14,456
Due from other funds	1,000,000	-	-	1,000,000
Due from component unit	13,895	-	-	13,895
Due from other governments	157,784	-	111,162	268,946
Loans receivable	-	-	46,131	46,131
Prepaid items and other assets	40,442	6,864	-	47,306
TOTAL ASSETS	\$ 18,169,364	\$ 85,648	\$ 14,740,169	\$ 32,995,181
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 223,679	\$ 17,161	\$ 996	\$ 241,836
Salaries payable	1,163,763	36,398	-	1,200,161
Due to other funds	-	-	-	-
Due to other governments	200,006	4,819	16,482	221,307
Contracts payable	-	-	92,336	92,336
Unearned revenue	3,696	17,191	227,617	248,504
Other accrued liabilities	105,606	-	205,306	310,912
TOTAL LIABILITIES	1,696,750	75,569	542,737	2,315,056
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Property taxes	403,868	-	-	403,868
Special assessments	-	-	166,994	166,994
Loans receivable	-	-	46,131	46,131
TOTAL DEFERRED INFLOWS OF RESOURCES	403,868	-	213,125	616,993
FUND BALANCES				
Nonspendable	39,911	6,864	-	46,775
Restricted	25,047	3,215	4,172,946	4,201,208
Committed	-	-	8,471,445	8,471,445
Assigned	9,622,446	-	1,339,916	10,962,362
Unassigned	6,381,342	-	-	6,381,342
TOTAL FUND BALANCES	16,068,746	10,079	13,984,307	30,063,132
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 18,169,364	\$ 85,648	\$ 14,740,169	\$ 32,995,181

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, 2016

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS		\$ 30,063,132
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		31,955,624
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	403,868	
Deferred and delinquent special assessments	166,994	
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements.		(17,275)
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	120,112	
Net pension liability	(18,078,871)	
Deferred inflows of resources - pensions	(2,340,301)	
Deferred outflows of resources - pensions	11,940,699	
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds.		(15,884,380)
Liability for accrued debt service payments recorded for modified accrual accounting but not applicable for government-wide reporting		170,000
Due from the State of Minnesota for grant funding provided in 2013 on city-wide bonded paving project (see note 21)		2,219,807
Donations payable - City contributions toward PUC infrastructure costs of Highway 169 extension project (see note 12)		(415,976)
NET POSITION OF GOVERNMENTAL ACTIVITIES		\$ 40,303,433

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, 2016

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 5,950,010	\$ 585,671	\$ 2,346,611	\$ 8,882,292
Special assessments	-	-	62,112	62,112
Licenses and permits	101,993	-	-	101,993
Intergovernmental	8,947,123	372	1,622,401	10,569,896
Charges for services	2,158,726	11,966	29,866	2,200,558
Fines	106,059	-	-	106,059
Gifts and contributions	1,830	19,532	25,057	46,419
Investment income (loss)	14,864	-	33,765	48,629
Miscellaneous	156,054	-	10,500	166,554
TOTAL REVENUES	17,436,659	617,541	4,130,312	22,184,512
EXPENDITURES				
Current				
General government	1,763,226	-	-	1,763,226
Public safety	6,367,287	-	-	6,367,287
Public works	2,961,879	-	-	2,961,879
Culture and recreation	1,977,023	632,469	10,776	2,620,268
Economic development	15,271	-	-	15,271
Transportation	297,642	-	-	297,642
Miscellaneous	2,302,804	-	-	2,302,804
Debt Service				
Principal	27,761	-	837,000	864,761
Interest and other charges	12,552	-	145,507	158,059
Capital Outlay				
General government	-	-	96,534	96,534
Public safety	-	-	513,936	513,936
Public works	-	-	2,506,805	2,506,805
Culture and recreation	-	-	328,100	328,100
Transportation	211,422	-	-	211,422
Miscellaneous	415,976	-	8,175	424,151
TOTAL EXPENDITURES	16,352,843	632,469	4,446,833	21,432,145
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	1,083,816	(14,928)	(316,521)	752,367
OTHER FINANCING SOURCES (USES)				
Transfers in	-	2,980	75,000	77,980
Transfers out	(59,480)	-	(325,000)	(384,480)
Debt issuance	-	-	-	-
Sale of capital assets	123	-	25,983	26,106
TOTAL OTHER FINANCING SOURCES (USES)	(59,357)	2,980	(224,017)	(280,394)
NET CHANGE IN FUND BALANCES	1,024,459	(11,948)	(540,538)	471,973
FUND BALANCES - JANUARY 1	15,044,287	22,027	14,524,845	29,591,159
FUND BALANCES - DECEMBER 31	\$ 16,068,746	\$ 10,079	\$ 13,984,307	\$ 30,063,132

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, 2016

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 471,973

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	3,203,965
Less current year depreciation	(2,038,337)
	<hr/>

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and disposals) is to decrease net assets (56,059).

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

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	694,761	
Bond premium	1,001	
		695,762

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	34,527
Change in long-term compensated absences	(34,834)
Change in long-term other postemployment benefits	<u>(593,982)</u>

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.

Expenditures recorded for modified accrual accounting in a debt service fund that has provided financial resources and liability matured early in 2017 but not applicable for government-wide reporting 170,000

Change in due from the State of Minnesota for grant funding provided in 2013 on city-wide bonded paving project (see note 21) (170,000)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

December 31, 2016

Business-Type Activities - Enterprise Funds					
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 2,607,495	\$ 302,676	\$ 186,289	\$ 3,096,460	
Special assessments receivable	28,789	40,656	-	69,445	
Accounts receivable	650	3,539	-	4,189	
Due from other funds	-	-	-	-	
Due from other governments	12,515	213,787	-	226,302	
Due from component units	446,309	558,103	-	1,004,412	
Inventories	1,371	-	-	1,371	
Prepaid expenses	-	-	455	455	
TOTAL CURRENT ASSETS	3,097,129	1,118,761	186,744	4,402,634	
NONCURRENT ASSETS					
OTHER ASSETS					
Capital assets					
Land and improvements	297,689	126,030	-	423,719	
Construction in progress	-	1,774,175	-	1,774,175	
Infrastructure	-	14,553,646	-	14,553,646	
Buildings and improvements	121,085	31,942,727	-	32,063,812	
Equipment, machinery and furniture	3,093,590	1,705,423	29,597	4,828,610	
Less accumulated depreciation	(2,690,749)	(14,923,515)	(24,535)	(17,638,799)	
TOTAL NONCURRENT ASSETS	821,615	35,178,486	5,062	36,005,163	
TOTAL ASSETS	3,918,744	36,297,247	191,806	40,407,797	
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - Pensions	302,897	299,010	-	601,907	
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	4,221,641	36,596,257	191,806	41,009,704	
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	42,350	10,584	127	53,061	
Salaries payable	11,561	10,626	-	22,187	
Accrued interest payable	-	74,497	-	74,497	
Due to other funds	-	1,000,000	-	1,000,000	
Due to other governments	118,753	8,990	-	127,743	
Other accrued expenses	-	-	-	-	
Unearned revenue	-	-	-	-	
Compensated absences	108,004	64,156	-	172,160	
Contracts payable	-	96,165	-	96,165	
OPEB liability	1,208,162	1,145,702	-	2,353,864	
Bonds, notes and leases payable-current	-	1,062,000	-	1,062,000	
TOTAL CURRENT LIABILITIES	1,488,830	3,472,720	127	4,961,677	
NONCURRENT LIABILITIES					
Net pension liability	722,094	709,481	-	1,431,575	
Compensated absences	45,360	34,412	-	79,772	
Bonds, notes and leases payable	-	9,389,763	-	9,389,763	
TOTAL NONCURRENT LIABILITIES	767,454	10,133,656	-	10,901,110	
TOTAL LIABILITIES	2,256,284	13,606,376	127	15,862,787	
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - Pensions	83,054	81,728	-	164,782	
NET POSITION					
Invested in Capital assets, net of related debt	821,615	24,726,723	5,062	25,553,400	
Unrestricted	1,060,688	(1,818,570)	186,617	(571,265)	
TOTAL NET POSITION	1,882,303	22,908,153	191,679	24,982,135	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,221,641	\$ 36,596,257	\$ 191,806	\$ 41,009,704	

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, 2016

Business-Type Activities - Enterprise Funds				
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals
OPERATING REVENUES				
Charges for services	\$ 2,790,341	\$ 3,419,026	\$ 10,567	\$ 6,219,934
Sewer connect fees		7,859		7,859
Miscellaneous	28,933	4,428		33,361
TOTAL OPERATING REVENUES	2,819,274	3,431,313	10,567	6,261,154
OPERATING EXPENSES				
Personal services	908,491	850,783		1,759,274
OPEB expense of retiree health insurance premiums	37,919	83,018		120,937
OPEB expense - actuarial impact	137,305	92,206		229,511
Pension expense - actuarial impact	50,989	50,455		101,444
Contractual services	1,045,908	110,823		1,156,731
Administration				
Utilities	76,582	281,835		358,417
Repairs and maintenance	9,060	73,838	1,212	84,110
Other supplies and expenses	118,968	183,615	1,055	303,638
Insurance claims and expenses	71,722	47,505		119,227
Depreciation	131,721	1,163,032	175	1,294,928
Miscellaneous	4,153	20,206	455	24,814
OTHER OPERATING EXPENSES	2,592,818	2,957,316	2,897	5,553,031
OPERATING INCOME	226,456	473,997	7,670	708,123
NONOPERATING REVENUES (EXPENSES)				
Interest income	7,701		572	8,273
Miscellaneous revenue (expense)		(589)		(589)
Impairment loss on capital assets	-	-	-	-
Sale of capital assets	-	-	-	-
Operating grants	-	-	-	-
Interest expense	-	(201,664)		(201,664)
Transfer from primary government	-	250,000		250,000
TOTAL NONOPERATING REVENUES (EXPENSES)	7,701	47,747	572	56,020
INCOME BEFORE CAPITAL GRANTS	234,157	521,744	8,242	764,143
CAPITAL GRANTS	12,011	129,873	-	141,884
CHANGE IN NET POSITION	246,168	651,617	8,242	906,027
TOTAL NET POSITION - JANUARY 1	1,636,135	22,256,536	183,437	24,076,108
TOTAL NET POSITION - DECEMBER 31	\$ 1,882,303	\$ 22,908,153	\$ 191,679	\$ 24,982,135

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, 2016

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	\$ 2,688,939	\$ 3,713,029	\$ 10,567	\$ 6,412,535
Cash paid to suppliers	(1,640,264)	(1,004,446)	(3,050)	(2,647,760)
Cash paid to employees	(576,494)	(606,010)	-	(1,182,504)
Cash paid for retiree health insurance premiums	(37,919)	(83,018)	-	(120,937)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	434,262	2,019,555	7,517	2,461,334
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Miscellaneous (payment) collection	-	(589)	-	(589)
Interfund financing payments	-	(200,000)	-	(200,000)
Transfer from primary government	-	250,000	-	250,000
Prior year cash deficit advances	-	-	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	-	49,411	-	49,411
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase or construction of capital assets	(153,196)	(801,641)	(5,237)	(960,074)
Proceeds from sale of capital assets	-	-	-	-
Advances on notes payable	-	-	-	-
Principal paid on long-term debt	-	(1,042,646)	-	(1,042,646)
Interest paid on long-term debt	-	(201,664)	-	(201,664)
Issuance costs paid on long-term debt	-	-	-	-
Capital grants and contributions	12,011	129,873	-	141,884
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(141,185)	(1,916,078)	(5,237)	(2,062,500)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	7,701	-	572	8,273
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	300,778	152,888	2,852	456,518
CASH AND CASH EQUIVALENTS, JANUARY 1	2,306,717	149,788	183,437	2,639,942
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ 2,607,495	\$ 302,676	\$ 186,289	\$ 3,096,460

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, 2016

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) \$ 226,456 \$ 473,997 \$ 7,670 \$ 708,123				
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation	131,721	1,163,032	175	1,294,928
(Increase) decrease in assets/deferred outflows:				
Special assessments receivable	3,708	24,337	-	28,045
Taxes receivable	-	-	-	-
Accounts receivable	(650)	(2,026)	-	(2,676)
Due from component unit	(229,673)	49,531	-	(180,142)
Due from other governments	(12,010)	209,564	-	197,554
Inventories	870	-	-	870
Prepaid expenses	-	-	(455)	(455)
Deferred pension outflows	(235,467)	(233,002)	-	(468,469)
Increase (decrease) in liabilities/deferred inflows:				
Accounts payable	(14,480)	(18,111)	127	(32,464)
Salaries payable	3,055	(21,902)	-	(18,847)
Other accrued expenses	-	(6,757)	-	(6,757)
Deferred revenue	-	-	-	-
Compensated absences - current	31,204	2,748	-	33,952
Due to other governments	108,290	310	-	108,600
OPEB liabilities	137,305	92,206	-	229,511
Net pension liability	246,384	243,804	-	490,188
Deferred pension inflows	40,073	39,654	-	79,727
Compensated absences - long-term	(2,524)	2,170	-	(354)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 434,262	\$ 2,019,555	\$ 7,517	\$ 2,461,334

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, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Hibbing (the City) was incorporated on August 15, 1893. The City has operated 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.

In December 2016, the City council adopted a resolution approving special legislation that allows for moving from a Standard Plan of government to an Optional Plan A form of government and modification of the ward system from five wards to four. This change will be effective the earlier of December 31, 2018, or the termination of the clerk's term prior to such date.

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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 governments.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Governmental accounting standards implemented in 2016 and Standards to be implemented after 2016:

Implemented in 2016:

During the year ended December 31, 2016, the City adopted 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.

To be implemented after 2016:

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 plan administered through a trust that meets specified criteria will report a net OPEB liability. This net OPEB liability is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

Governments that participate in a 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 GASB 75 are effective for fiscal years beginning after June 15, 2017.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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, 2016:

Primary Government	
Sewer Operating and Maintenance Enterprise	
Fund - unrestricted net position	(\$1,818,570)

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

EDA Component Unit	
Storefront Renovation Capital Project Fund	(\$95,359)

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

EDA Component Unit	
Tax Increment District XI	(\$2,191)

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

EDA Component Unit	
Tax Increment District XII Debt Service	(\$1,109)

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	\$ 1,630	\$ -	\$ -	\$ 1,630
Cash in bank accounts	-	1,994,765	151,232	2,145,997
Money market funds	27,573,647	1,163,030	-	28,736,677
Total cash and cash equivalents	27,575,277	3,157,795	151,232	30,884,304
Temporarily restricted assets				
Cash and cash equivalents	-	46,286	1,617,312	1,663,598
Investments				
Other	6,269,702	-	673,286	6,942,988
Total investment	6,269,702	-	673,286	6,942,988
Total	\$ 33,844,979	\$ 3,204,081	\$ 2,441,830	\$ 39,490,890

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 \$2,042,681; the bank balance was \$2,508,044. At December 31, 2016, the carrying amount of Hibbing Public Utility Commission's deposits was \$1,768,544 and the bank balance was \$1,617,133. At year end, the City's bank balances were entirely insured, or collateralized with securities held by the pledging financial institution's agent in the City's name as required by Minnesota Statute §118A.03. At year end, the Hibbing Public Utility Commission's bank balances were fully covered by depository insurance or by collateral held in the Commission's name by the pledging financial institution's correspondent bank.

Investments

Custodial Credit Risk - Investments

For the investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's formal investment policy requires brokers to have Securities Investor Protection Insurance (SIPC) and excess SIPC coverage. At year end the City had \$6,269,702 in investments 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, 2016, the City had the following investments:

	Fair Value	Rating
Primary Government		
Certificates of Deposit	2,609,527	Not rated
Government Bonds		
FNMA/FHLMC	3,660,175	Moody AAA
Total Fair Value	\$ 6,269,702	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016, 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, 2016, was as follows:

	Beginning Restated Balance	Increases	Decreases	Reclass- ification	Operations Transfer in	Ending Balance
Governmental Activities						
Capital assets, not being depreciated:						
Land and improvements	\$ 1,828,394	\$ 32,973	\$ -	\$ -	\$ -	\$ 1,861,367
Intangible - easements	25,600	-	-	-	-	25,600
Artwork	1,819,350	-	-	-	-	1,819,350
Gravel roads	4,111,250	-	-	-	-	4,111,250
Construction in progress	19,922	1,017,872	-	-	-	1,037,794
Total capital assets, not being depreciated	7,804,516	1,050,845	-	-	-	8,855,361
Capital assets, being depreciated:						
Infrastructure	29,197,169	1,011,266	-	-	-	30,208,435
Buildings and improvements	25,222,433	197,999	-	-	-	25,420,432
Equipment, machinery, and furniture	12,463,864	943,855	(365,049)	-	-	13,042,670
Total capital assets, being depreciated	66,883,466	2,153,120	(365,049)	-	-	68,671,537
Less accumulated depreciation for:						
Infrastructure	(18,986,490)	(734,318)	-	-	-	(19,720,808)
Buildings and improvements	(15,711,799)	(528,413)	-	-	-	(16,240,212)
Equipment, machinery, and furniture	(9,143,638)	(775,606)	308,990	-	-	(9,610,254)
Total accumulated depreciation	(43,841,927)	(2,038,337)	308,990	-	-	(45,571,274)
Total capital assets, being depreciated, net	23,041,539	114,783	(56,059)	-	-	23,100,263
Governmental activities capital assets, net	\$ 30,846,055	\$ 1,165,628	\$ (56,059)	\$ -	\$ -	\$ 31,955,624

Capital assets - Infrastructure beginning balance has been restated to adjust for the 2013 City-wide paving project (see note 21).

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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	1,816,785	-	(42,610)	-	1,774,175
Total Capital assets, not being depreciated	2,240,504	-	(42,610)	-	2,197,894
Capital assets, being depreciated:					
Infrastructure	14,259,431	294,215	-	-	14,553,646
Buildings and improvements	32,058,304	5,508	-	-	32,063,812
Equipment, machinery, and furniture	4,400,135	428,475	-	-	4,828,610
Total capital assets, being depreciated	50,717,870	728,198	-	-	51,446,068
Less accumulated depreciation for:					
Infrastructure	(1,658,745)	(350,635)	-	-	(2,009,380)
Buildings and improvements	(11,145,621)	(744,006)	-	-	(11,889,627)
Equipment, machinery, and furniture	(3,539,506)	(200,286)	-	-	(3,739,792)
Total accumulated depreciation	(16,343,872)	(1,294,927)	-	-	(17,638,799)
Total capital assets being depreciated, net	34,373,998	(566,729)	-	-	33,807,269
Business-type activities capital assets, net	\$ 36,614,502	\$ (566,729)	\$ (42,610)	\$ -	\$ 36,005,163

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

Governmental activities	
General government	\$ 216,411
Public safety	330,731
Public works	1,081,459
Culture and recreation	363,254
Economic development	-
Transportation	46,482
Total depreciation expense-governmental activities	\$ 2,038,337
Business-type activities	
Garbage and refuse collection	\$ 131,721
Sewer operating and maintenance	1,163,032
Memorial Building concessions	175
Total depreciation expense-business-type activities	\$ 1,294,928

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 4 CAPITAL ASSETS (continued)

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2016, was as follows:

Discretely presented component units	Beginning Balance	Increases	Decreases	Reclassification	Ending Balance
Capital assets, not being depreciated:					
Land and improvements	\$ 267,392	\$ -	\$ -	\$ -	\$ 267,392
Construction in progress	6,880	-	-	-	6,880
Total capital assets, not being depreciated	274,272	-	-	-	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	(3,283)	(657)	-	-	(3,940)
Total accumulated depreciation	(3,283)	(657)	-	-	(3,940)
Total capital assets, being depreciated, net	16,416	(657)	-	-	15,759
Hibbing Economic Development Authority capital assets, net	\$ 290,688	\$ (657)	\$ -	\$ -	\$ 290,031

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Reclassification	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	\$ 2,241,493	\$ (1,346,510)	\$ -	\$ -	\$ 894,983
Total capital assets, not being depreciated	2,241,493	(1,346,510)	-	-	894,983
Capital assets, being depreciated:					
Buildings and grounds	9,265,739	44,364	-	-	9,310,103
Transmission and distribution system	47,789,059	652,982	(331,104)	-	48,110,937
Equipment, machinery, and furniture	46,085,777	3,771,848	(15,595)	-	49,842,030
Total capital assets, being depreciated	103,140,575	4,469,194	(346,699)	-	107,263,070
Less total accumulated depreciation	(68,194,173)	(3,046,842)	54,824	-	(71,186,191)
Total Capital assets, being depreciated, net	34,946,402	1,422,352	(291,875)	-	36,076,879
Hibbing Public Utilities Commission capital assets, net	\$ 37,187,895	\$ 75,842	\$ (291,875)	\$ -	\$ 36,971,862

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 \$183,693 for the year ended December 31, 2016. The future payments for these leases are as follows:

Year Ending December 31,	Amount
2017	90,135
2018	25,878
2019	19,388
2020	9,608
2021	8,600
2022 - 2028	60,300
	\$ 213,909

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 September 14, 2017. As of December 31, 2016, 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 the 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, 2016, the City had advanced \$4,448,895 against the approved loan of \$4,912,830. During 2013 to 2016, the City made principal payments totaling \$930,830. The entire loan amount of \$4,912,830 less the \$930,830 in 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, 2016 was \$291,248.

The other EDA bonds payable at December 31, 2016 with principal outstanding of \$40,000 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, 2016 was \$3,075,689. 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, 2016, the City has not recorded any amounts in their financial statements in regards to this contingent liability and the note payable balance of \$3,075,689 is included in the financial statements of the Public Utilities Commission.

CITY OF HIBBING MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016, the Public Utilities Commission's notes payable balance on this loan was \$358,000. 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, 2016, the City has not recorded any amounts in their financial statements in regards to this contingent liability and the note payable balance of \$358,000 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, 2016, the Public Utilities Commission's notes payable balance on this loan was \$378,000. 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, 2016, the City has not recorded any amounts in their financial statements in regards to this contingent liability and the note payable balance of \$378,000 is included in the financial statements of the Public Utilities Commission.

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Primary Government Governmental Activities					
General obligation bonds					
2007 A Equipment	12/1/2007	4.00%	\$ 440,000	2/1/2017	\$ 20,000
Series 2009B	5/1/2009	0.75-3.50%	\$ 1,370,000	2/1/2019	230,000
Series 2012A	2/1/2012	0.40-1.70%	\$ 1,890,000	2/1/2017	860,000
Series 2013A	11/1/2013	2.00-3.50%	\$ 3,585,000	2/1/2029	3,045,000
Plus: Unamortized Bond Premium					27,035
Total General obligation bonds					4,182,035
Lease purchase obligations	2/1/2009	1.75-4.40%	\$ 462,500	2/1/2024	291,248
Compensated absences payable					291,653
Net pension liability					18,078,871
OPEB liability					11,119,444
Governmental Activities Long-Term Liabilities					
					\$ 33,963,251

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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	\$ 3,502,000
2007A Sewer Revenue Bonds	12/1/2007	4.00-4.10%	\$ 2,365,000	2/1/2028	1,635,000
2010 Sewer Revenue Note	11/30/2010	1.34%	\$ 1,726,575	8/20/2025	957,000
2012A General Obligation Bond	2/1/2012	0.40-2.85%	\$ 1,010,000	2/1/2032	845,000
Less: Unamortized bond discount					(5,302)
2012 Sewer Revenue Note	10/23/2012	1.00%	\$ 4,912,830	8/20/2031	3,518,065
Compensated absences payable					79,772
Net pension liability					1,431,575
OPEB liability					2,353,864
Business-Type Activities Long-Term Liabilities					
Total Primary Government Long-Term Liabilities					14,316,974
					48,280,225
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	40,000
1999A General Obligation					
Tax Increment Bonds	10/1/1999	7.49%	\$ 165,000	2/1/2016	-
2009A Public Project					
Revenue Bonds	5/7/2009	1.75-4.50%	\$ 462,500	2/1/2024	291,248
2014A General Obligation					
Tax Increment Bonds	2/1/2014	4.00-5.25%	\$ 830,000	2/1/2036	830,000
Less: Unamortized Bond					
Discount					(8,996)
Net pension liability					11,471
Total EDA-Component Unit Long-Term Liabilities					1,163,723
PUC					
Bonds, notes, and real estate mortgage payable					5,663,858
Compensated absences payable					988,115
Net pension liability					7,364,392
OPEB liability					17,316,985
Total PUC-Component Unit Long-Term Liabilities					31,333,350
Total Reporting Entity					\$ 80,777,298

Long-Term liability activity for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Primary Government					
Governmental Activities					
General obligation bonds payable	\$ 4,790,000	\$ -	\$ (635,000)	\$ 4,155,000	\$ 645,000
Unamortized bond premiums	28,036	-	\$ (1,001)	27,035	-
Certificates of indebtedness	32,000	-	\$ (32,000)	-	-
Lease purchase obligation	319,009	-	\$ (27,761)	291,248	-
Compensated absences payable	256,819	72,909	\$ (38,075)	291,653	-
OPEB liability	10,525,462	1,839,853	\$ (1,245,871)	11,119,444	-
Net pension liability	6,935,169	11,948,270	\$ (804,568)	18,078,871	-
Governmental Activities-Long-Term Liabilities	\$ 22,886,495	\$ 13,861,032	\$ (2,784,276)	\$ 33,963,251	\$ 645,000

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 7 LONG-TERM DEBT (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-Type Activities					
GO revenue notes payable	\$ 8,870,065	\$ -	\$ (893,000)	\$ 7,977,065	\$ 907,000
GO revenue bonds payable	2,630,000	-	(150,000)	2,480,000	155,000
Unamortized bond discounts	(5,656)	-	354	(5,302)	-
Compensated absences payable	80,126	2,170	(2,524)	79,772	-
OPEB liability	2,124,353	350,448	(120,937)	2,353,864	-
Net pension liability	941,387	574,379	(84,191)	1,431,575	-
Business-Type Activities- Long-Term Liabilities					
	<u>14,640,275</u>	<u>926,997</u>	<u>(1,250,298)</u>	<u>14,316,974</u>	<u>1,062,000</u>
Total Primary Government	<u>\$ 37,526,770</u>	<u>\$ 14,788,029</u>	<u>\$ (4,034,574)</u>	<u>\$ 48,280,225</u>	<u>\$ 1,707,000</u>
Discretely Presented Component Units					
EDA					
Bonds payable	\$ 1,244,009	\$ -	\$ (82,761)	\$ 1,161,248	\$ 69,427
Unamortized bond discount	(9,215)	-	219	(8,996)	-
Net pension liability	7,489	4,666	(684)	11,471	-
EDA-Component Unit Long-Term Liabilities					
	<u>\$ 1,242,283</u>	<u>\$ 4,666</u>	<u>\$ (83,226)</u>	<u>\$ 1,163,723</u>	<u>\$ 69,427</u>
PUC					
Bonds, notes, and real estate mortgage payable	\$ 9,129,740	\$ -	\$ (3,465,882)	\$ 5,663,858	\$ 1,048,675
Compensated absences payable	1,004,954	-	(16,839)	988,115	-
OPEB liability	16,388,469	1,822,158	(893,642)	17,316,985	-
Net pension liability	4,866,386	2,913,648	(415,642)	7,364,392	-
PUC-Component Unit Long-Term Liabilities					
	<u>\$ 31,389,549</u>	<u>\$ 4,735,806</u>	<u>\$ (4,792,005)</u>	<u>\$ 31,333,350</u>	<u>\$ 1,048,675</u>
Total	<u>\$ 70,158,602</u>	<u>\$ 19,528,501</u>	<u>\$ (8,909,805)</u>	<u>\$ 80,777,298</u>	<u>\$ 2,825,102</u>

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
2017	\$ 674,427	\$ 105,924	\$ 1,062,000	\$ 215,851	\$ 1,736,427	\$ 321,775
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	372,150	65,631	1,132,000	118,062	1,504,150	183,693
2022-2026	1,315,368	201,546	3,346,000	339,790	4,661,368	541,336
2027-2031	680,000	35,106	2,024,000	85,853	2,704,000	120,959
2032-2036	-	-	65,000	926	65,000	926
Total	<u>\$ 4,446,248</u>	<u>\$ 659,402</u>	<u>\$ 10,921,000</u>	<u>\$ 1,231,627</u>	<u>\$ 15,367,248</u>	<u>\$ 1,891,029</u>
Component Units						
Year Ending December 31	EDA		PUC			
	Principal	Interest	Principal	Interest		
2017	\$ 69,427	\$ 52,613	\$ 1,048,675	\$ 161,608		
2018	51,192	49,613	734,945	129,061		
2019	53,064	47,575	640,061	108,463		
2020	60,047	45,295	598,671	91,922		
2021	67,150	42,679	420,234	75,392		
2022-2026	315,368	168,928	2,149,948	172,149		
2027-2031	240,000	110,103	83,755	314		
2032-2036	305,000	41,226	-	-		
Total	<u>\$ 1,161,248</u>	<u>\$ 558,032</u>	<u>\$ 5,676,289</u>	<u>\$ 738,909</u>		

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 7 LONG-TERM DEBT (continued)

PUC - Debt Cancellation

The terms of the \$4,000,000 promissory note to the State of Minnesota were amended in 2014. The Commission agreed to construct improvements to its plant to meet increased environmental requirements. If the improvements were completed by December 31, 2016 and the costs of the improvements equaled or exceeded \$2.5 million, the State of Minnesota considered the note satisfied in its entirety and the note would be cancelled. In 2016 the terms of the amendment were met. Accordingly, the note was cancelled and reported as a capital grant in the PUC financial statements.

Conduit Debt

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

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

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

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

Since 1995, there are three issues outstanding. The aggregate amount payable at December 31, 2016, is \$11,461,843. Records for revenue bonds or notes issued prior to 1995 are not available.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 8 INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2016, 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	\$ 1,000,000	\$ 13,895	\$ -	\$ -
Enterprise Funds	-	446,309	-	-
Garbage and Refuse	-	558,103	1,000,000	-
Sewer Operating and Maintenance	-	-	-	-
Total Primary Government	\$ 1,000,000	\$ 1,018,307	\$ 1,000,000	\$ -
Component Units				
Hibbing Economic Development Authority EDA				
General Fund	\$ 1,947	\$ -	\$ -	\$ -
Tax Increment XI	-	-	1,664	-
Tax Increment XII	-	-	283	-
Economic Development Special				
Revenue Fund	103,000	-	-	-
Storefront Renovation Capital				
Projects Funds	-	-	103,000	-
Subtotal EDA	104,947	-	104,947	-
Hibbing Public Utilities Commission				
-	-	-	-	1,018,307
Total Component Units	\$ 104,947	\$ -	\$ 104,947	\$ 1,018,307

The amounts due from the Hibbing Public Utilities Commission relates to monthly garbage and sewer charges collected for the primary government. During 2016, the City modified its practice with the Public Utilities Commission to remit these collections in 60 days versus within 30 days, effective until the later of December 31, 2018 or until the City Council takes action to revert to the 30 day remittance practice.

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, 2016

NOTE 8 INTERFUND BALANCES AND ACTIVITY (continued)

Interfund transfers for the year ended December 31, 2016, 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	\$ -	\$ (59,480)
Library	2,980	-
Capital Projects Funds		
Privately Financed	75,000	-
Capital Equipment and Improvement	-	(75,000)
Mining Effects	-	(250,000)
Enterprise Funds		
Sewer Operating and Maintenance	250,000	-
Total Primary Government	<u>\$ 327,980</u>	<u>\$ (384,480)</u>
Component Units		
Hibbing Economic Development Authority EDA		
General Fund	\$ 56,500	\$ (3,003)
Tax Increment XI	3,003	-
Tax Increment XII Debt Service Fund	-	(228)
Tax Increment XII Capital Project Fund	228	-
Central Range Public Works	-	-
Total Hibbing Economic Development Authority EDA - Component Unit	<u>\$ 59,731</u>	<u>\$ (3,231)</u>
Total Transfers	<u><u>\$ 387,711</u></u>	<u><u>\$ (387,711)</u></u>

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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	\$ 10,079
Contracted professional services	13,911
Equipment lease	26,000
Debt service	1,522,951
Capital projects	2,649,995
Police forfeiture fund	25,047
Total Restricted Net Position	\$ 4,247,983

At December 31, 2016, 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	\$ 39,911	\$ 6,864	\$ -	\$ 46,775
Total nonspendable	\$ 39,911	\$ 6,864	\$ -	\$ 46,775
Restricted for:				
Debt service	\$ -	\$ -	\$ 1,522,951	\$ 1,522,951
Capital equipment and improvements	-	-	2,649,995	2,649,995
Library operations	-	3,215	-	3,215
Gambling 10% contribution fund	-	-	-	-
Police forfeiture fund	25,047	-	-	25,047
Total restricted	\$ 25,047	\$ 3,215	\$ 4,172,946	\$ 4,201,208
Committed to:				
Housing incentive	\$ -	\$ -	\$ 48,854	\$ 48,854
Small Cities development	-	-	25,071	25,071
Economic development	-	-	84,814	84,814
OPEB obligation	-	-	6,744,537	6,744,537
Memorial Building	-	-	243,377	243,377
Capital equipment and improvements	-	-	1,324,792	1,324,792
Total committed	\$ -	\$ -	\$ 8,471,445	\$ 8,471,445
Assigned to:				
2016 budget	\$ 8,734,843	\$ -	\$ -	\$ 8,734,843
Future capital projects funded from sale of assets	514,853	-	-	514,853
Workers' compensation premium adjustments	372,750	-	-	372,750
Other improvement projects	-	-	1,339,916	1,339,916
Total assigned	\$ 9,622,446	\$ -	\$ 1,339,916	\$ 10,962,362

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 2016, 2015 and 2014.

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 2016, 2015 and 2014.

NOTE 11 TAX INCREMENT FINANCING DISTRICTS

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

Tax Increment Financing District	No. VII	No. VIII	No. XI	No. XII
Redevelopment project district established in:	1993	-	1999	2012
Economic development district established in:	-	-	-	-
Qualified housing district established in:	-	1993	-	-
Anticipated last tax increment year:	2019	2020	2025	2038
Original net tax capacity:	\$ 3,904	\$ 472	\$ 525	\$ 14,338
Current net tax capacity:	\$ 49,369	\$ 8,491	\$ 16,324	\$ 42,120
Fiscal disparity deduction:	\$ -	\$ -	\$ 3,652	\$ -
Captured net tax capacity retained by Authority:	\$ 45,465	\$ 8,019	\$ 12,147	\$ 27,782
Total bonds issued				
Tax increment bonds	\$ 320,000	\$ -	\$ 165,000	\$ 830,000
Tax increment note	-	-	-	-
Amount redeemed	(280,000)	-	(165,000)	-
Outstanding bonds at December 31, 2016	\$ 40,000	\$ -	\$ -	\$ 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 also contains renewal provisions for two additional terms of two years each. The agreement may be terminated upon specific events of default.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, which is April 2018, 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, 2016, 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 twenty-two outstanding construction projects as of December 31, 2016. The projects are evidenced by contractual commitments with contractors and engineers and include:

Project	Spent to Date	Commitments Remaining
General Fund		
Highway 169 West Utility Project - PUC portion	\$ 415,976	\$ -
Capital Projects Funds		
Permanent Improvement		
11th Avenue East	-	3,427
31st Street	-	4,136
9th Avenue	-	19,657
ARI Curling Roof Study	1,765	-
Bennett Park Restroom	52,657	-
City Clerk's Office Software	63	-
City Paving Contract	-	38,328
City Sidewalk Project	-	7,544
Dixon Road Bridge	4,388	-
Highway 169 West Utility Project	504,273	-
Koivu Road Bridge	3,819	-
Library Children's Room	8,685	-
North Dublin	-	19,657
Paid On Call Fire Station Upgrades	1,806	-
Raceway Ramp	18,815	-
Rafferty Concert Study, Memorial Building	13,833	333
Rainey Road	-	13,542
Rainey Road Bridge	11,715	-
Total Capital Fund Project	\$ 621,819	\$ 106,624

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES (continued)

Enterprise Fund

Sewer Operating and Maintenance Fund		
Effluent Aeration System	\$ 29,655	\$ 601
Highway 169 West Utility Project	1,417,582	82,115
Phase 6 Sewer Improvements	246,306	-
S94 Brooklyn Sewer Improvements	80,632	-
SS Lining Project		13,449
Total Sewer Operating and Maintenance Fund	\$ 1,774,175	\$ 96,165
Total All Funds	\$ 2,811,970	\$ 202,789

Highway 169 - Public Utilities Commission

During 2016, the City completed portions of a utility and infrastructure project along US Highway 169, west of Hibbing. The sources of funding for the project included grants from the State of Minnesota and matching funds from the City and the Public Utilities Commission (PUC). The total PUC infrastructure amounts exceeded original estimates by \$415,976. At December 31, 2016, the City has the \$415,976 excess amount recorded as miscellaneous capital outlay in the City's general fund. In the government-wide financial statements, the City has the \$415,976 recorded as donation expense and a donation payable to the PUC component unit. During 2017, the City plans to complete legal agreements regarding their donation toward the PUC's \$415,976 of additional costs.

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 2016, 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 2016, 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, 2016

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 2016, 2015 and 2014, there were 239, 229 and 218, retirees and eligible dependents, respectively, that received postemployment benefits. The City provided required contributions of \$1,366,808, \$1,339,660 and \$1,294,187 for 2016, 2015 and 2014, respectively, toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$236,553, \$294,607 and \$283,861 for 2016, 2015 and 2014, respectively. Required contributions are based on projected pay-as-you-go financing.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016, 2015 and 2014, respectively:

	2016	2015	2014
Normal cost (service cost for one year)	\$ 532,259	\$ 514,260	\$ 609,443
Amortization of unfunded actuarial accrued liability	2,015,144	2,014,514	1,775,522
Annual required contribution	2,547,403	2,528,774	2,384,965
Interest on net OPEB obligation	435,454	412,194	329,592
Adjustment to annual required contribution	(792,556)	(728,452)	(629,825)
Annual OPEB cost (expense)	2,190,301	2,212,516	2,084,732
Contribution toward the OPEB cost	(1,366,808)	(1,339,660)	(1,294,187)
Increase in net OPEB obligation	823,493	872,856	790,545
Net OPEB Obligation, Beginning of Year	12,649,815	11,776,959	10,986,414
Net OPEB Obligation, End of Year	<u>\$ 13,473,308</u>	<u>\$ 12,649,815</u>	<u>\$ 11,776,959</u>
Percentage of annual OPEB cost contributed	<u>62.4%</u>	<u>60.5%</u>	<u>62.1%</u>

Funding Status and Funding Progress

As of December 31, 2016, 2015 and 2014, respectively, the actuarial accrued liability for benefits was \$31,235,092, \$31,186,332 and \$30,818,886, and the actuarial value of assets was zero for all three years. The covered payroll (annual payroll of active participating employees) was \$4,666,361, \$4,792,545 and \$4,501,484 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 669.4, 650.7 and 684.6 percent for 2016, 2015 and 2014, respectively.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016, 2015 and 2014, and to estimate the City's 2016, 2015 and 2014 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, 2016, is 22 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, 2016, the Commission expended approximately \$893,642 for benefits for approximately 54 retirees in 2016.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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:

	2016	2015	2014
Annual required contribution	\$ 2,280,072	\$ 2,256,395	\$ 2,233,463
Interest on net OPEB obligation	532,625	500,148	465,021
Adjustment to annual required contribution	<u>(990,539)</u>	<u>(903,957)</u>	<u>(818,165)</u>
Annual OPEB cost	1,822,158	1,852,586	1,880,319
Contribution during the year	<u>(893,642)</u>	<u>(853,271)</u>	<u>(799,512)</u>
Increase in net OPEB obligation	928,516	999,315	1,080,807
Net OPEB Obligation, Beginning of Year	<u>16,388,469</u>	<u>15,389,154</u>	<u>14,308,347</u>
Net OPEB Obligation, End of Year	<u>\$ 17,316,985</u>	<u>\$ 16,388,469</u>	<u>\$ 15,389,154</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
			Cost Contributed	Net OPEB Obligation	
December 31, 2016	\$ 1,822,158	\$ 893,642	49.0%	\$ 17,316,985	
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	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 15 OTHER POSTEMPLOYMENT BENEFITS (continued)

Component Unit - Hibbing Public Utilities Commission (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 \$5,771,466. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 448.4 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 Chapter 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, 2016

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, 2016, the Commission has reported on its balance sheet an investment of \$17,565,609 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:

	2016
Current assets	\$ 6,128,176
Non-current restricted assets	11,034,791
Other assets	1,312,449
Capital assets	48,969,214
Total assets	67,444,630
Current liabilities	9,698,749
Non-current liabilities	22,882,037
Total liabilities	32,580,786
Net position	34,863,844
Total operating revenues	38,636,888
Operating expenses	31,159,794
Non-operating expenses	1,963,058
Change in net position	\$ 5,853,952

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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). GERP 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, 2016

NOTE 17 DEFINED BENEFIT PENSION PLANS (continued)

1. GERF 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. GERF 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 2016. The City was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2016. The City's contributions to the GERF for the year ended December 31, 2016, were \$337,181. 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 2016. The City was required to contribute 16.2% of pay for PEPFF members in calendar year 2016. The City's contributions to the PEPFF for the year ended December 31, 2016, were \$552,264. 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, 2016

NOTE 17 DEFINED BENEFIT PENSION PLANS (continued)

C. Pension Costs

1. GERF Pension Costs

At December 31, 2016, the City reported a liability of \$5,756,730 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportionate share was 0.0709% which was a decrease of 0.0023% from its proportionate share measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$406,270 for its proportionate share of the GERF's pension expense.

There were no provision changes during the measurement period.

At December 31, 2016, the City reported its proportionate share of the GERF'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	\$ -	\$ 471,655
Changes in actuarial assumptions	1,127,172	-
Net difference between projected and actual earnings on pension plan investments	1,101,115	-
Changes in proportion (note differences between contributions and proportionate share of contributions expensed, not deferred)	-	190,394
Contributions subsequent to the measurement date (July 1, 2016 through December 31, 2016)	185,592	-
Total	\$ 2,413,879	\$ 662,049

The \$185,592 reported as deferred outflows of resources related to pensions resulted from City contributions to the General Employees Fund subsequent to the measurement date and they will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount
2017	\$ 414,681
2018	\$ 414,681
2019	\$ 528,933
2020	\$ 207,943
2021	\$ -
Thereafter	\$ -
	\$ 1,566,238

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 17 DEFINED BENEFIT PENSION PLANS (continued)

2. PEPFF Pension Costs.

At December 31, 2016, the City reported a liability of \$13,765,187 for its proportionate share of the PEPFF's net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.343% which was a decrease of 0.017% of its proportion measured as of June 30, 2015.

There were no provision changes during the measurement period.

For the year ended December 31, 2016, the City recognized pension expense of \$1,781,800 for its proportionate share of the PEPFF's pension expense. The City also recognized \$30,870 for the year ended December 31, 2016, 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.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 1,604,188
Changes in actuarial assumptions	7,575,584	-
Net difference between projected and actual investment earnings on pension plan investments	2,125,905	-
Changes in proportion (note differences between contributions and proportionate share of contributions expensed, not deferred)	-	240,169
City contributions subsequent to the measurement date (July 1, 2016 through December 31, 2016)	305,477	-
Total	\$ 10,006,966	\$ 1,844,357

A total of \$305,477 reported as deferred outflows of resources related to pensions resulting from City contributions to the Police and Fire Pension Fund subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

Year ended December 31	Pension Expense Amount
2017	\$ 1,691,772
2018	\$ 1,691,772
2019	\$ 1,691,772
2020	\$ 1,513,600
2021	\$ 1,268,217
Thereafter	\$ -
	\$ 7,857,133

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 17 DEFINED BENEFIT PENSION PLANS (continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilities were based on RP-2014 tables for the General Employees Plan and RP-2000 for the Police and Fire Plan for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan and Police and Fire Plan. Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009.

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

Police and Fire Fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate changed from 7.9% to 5.6%.
- The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stock	45%	5.50%
International Stock	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
	100%	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE 17 DEFINED BENEFIT PENSION PLANS (continued)

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates set in Minnesota Statutes. Based on these assumptions, fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In the Police and Fire Fund, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal years ended June 30, 2057 for the Police and Fire Fund, when projected benefit payments exceed the funds' projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.6% for the Police and Fire Fund was determined that produced approximately the same present value of projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.5% applied to all years of projected benefits through the point of asset depletion and 2.85% after.

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:

	General Employees Fund		Police and Fire Fund	
1% Higher	6.50%	\$ 8,176,260	4.60%	\$ 19,269,435
Current Discount Rate	7.50%	\$ 5,756,730	5.60%	\$ 13,765,187
1% Lower	8.50%	\$ 3,763,692	6.60%	\$ 9,267,798

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, 2016

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, 2016, 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, 2016, 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, 2016 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, 2016

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 12/31/15	\$ 127,882	\$ 313,542	\$ 185,660
Changes for the year:			
Service cost	11,079	-	(11,079)
Interest	6,418	-	(6,418)
Differences between expected and actual experience	116,400		(116,400)
Contributions - State of Minnesota	-	28,587	28,587
Net investment income (loss)	-	5,008	5,008
Benefit payments	(135,968)	(135,968)	-
Administrative expense	-	(4,015)	(4,015)
Other	-	38,769	38,769
Net changes	(2,071)	(67,619)	(65,548)
Balances at 12/31/16	\$ 125,811	\$ 245,923	\$ 120,112

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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	\$ 131,333	\$ 125,811	\$ 120,669
Net Position Restricted for Pensions	\$ 245,923	\$ 245,923	\$ 245,923
Net Pension Liability / Asset	\$ (114,590)	\$ (120,112)	\$ (125,254)

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, 2016, the City recognized net pension expenses of (\$10,744). At December 31, 2016, 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	\$ 103,467	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	23,163	-
Total	\$ 126,630	\$ -

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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:

2017	\$ 20,083
2018	20,083
2019	20,082
2020	14,647
2021	12,933
Thereafter	<u>38,802</u>
Total	<u>\$ 126,630</u>

Payable to the Pension Plan

At December 31, 2016, the City expected to receive \$24,587 from the State of Minnesota which was received and then paid to the plan in March 2017. Additionally, the City has \$39,114 as a payable to the plan which was paid in January of 2017. The remaining \$7,437 is supplemental benefits that the plan expects to receive from the City after the State of Minnesota remits these funds to the City.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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 2016 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employee	Employer	
\$ 838	\$ 838	5.00%	5.00%	5.00%

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 20 TAX ABATEMENTS

The City may enter into tax abatement agreements as authorized by Minnesota Abatement Laws under State Statutes Sections 469.1812, 469.1813 and 469.1815. Any parcel of property in the City qualifies for tax abatement. The City negotiates tax abatement agreements on an individual basis generally with the purpose of adding employment and or increasing the tax capacity of the parcel.

The City has tax abatement agreements with three entities as of December 31, 2016:

Purpose	Percentage of City Taxes Abated during 2016	Amount of Taxes Abated during 2016	
		\$	\$
Joint economic development authority to fund efforts of the EDA'S future job creation efforts	100%	\$	28,356
Provide incentive for real estate development company to complete residential development project	100%	\$	9,243
Provide incentive for real estate development company to complete residential development project	100%	\$	8,013
		\$	45,612

NOTE 21 RESTATEMENTS - ACCOUNTING FOR THE STATE OF MINNESOTA GRANT FUNDING AND ASSET ON 2013 BONDED PAVING PROJECTS

In 2013, the City was awarded \$2,704,807 in grant funding through the State of Minnesota's Department of Transportation aid program to utilize current and future state construction aid allocations to provide debt service on a City-wide paving project that was contracted and completed in 2013. For modified accrual accounting in the City's governmental funds, the grant revenue was recognized as the debt principal and interest expenditures were made and the same accounting had been recorded in the City's Government-Wide financial statements. Under United States generally accepted accounting principles, all of the grant revenue and related receivable from the State of Minnesota should have been recorded in 2013 when the related asset was constructed. To correct for this difference, a Due from Other Governments - State of Minnesota was recorded for \$2,389,807 and a corresponding increase to Governmental Net Position on January 1, 2016 for the same amount.

The City also identified in 2016 that the capital outlay expenditures for this 2013 city-wide paving project were not appropriately capitalized in the 2013 government-wide financial statements as an infrastructure asset. To correct this overstatement of expenses and understatement of assets in the government-wide financial statements; in 2016 the City recorded a restatement to beginning net position of \$2,496,833. This is the net book value of the gross infrastructure asset of \$2,774,259 less accumulated depreciation of \$277,426 as the paving improvements are being depreciated over their estimated useful life of twenty years.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 22 SUBSEQUENT EVENTS

City Subsequent Events

The City has evaluated subsequent events through June 30, 2017, the date which the financial statements were available to be issued.

PUC Subsequent Events

The Minnesota State Legislature passed legislation in 2017 that could affect the future operations of the Commission's joint venture (LEA). Prior legislation required Xcel Energy to generate or purchase a stated quantity of electricity through the use of biomass. The 2017 legislation dropped the biomass provision and allows Xcel to buy out the existing contract with LEA assuming that all parties are mutually agreeable to the buyout. The buyout provision does provide for a cash settlement to be paid out by Xcel. PUC management is currently analyzing the potential buyout but no decision has yet been made as of the date of this report.

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, 2016

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,917,719	\$ 5,902,720	\$ 5,950,010	\$ 47,290
Licenses and permits	113,895	98,895	101,993	3,098
Intergovernmental	8,828,844	8,828,844	8,947,123	118,279
Charges for services	2,205,232	2,205,232	2,158,726	(46,506)
Fines	101,000	101,000	106,059	5,059
Gifts and contributions	200	200	1,830	1,630
Investment income (loss)	10,000	10,000	14,864	4,864
Miscellaneous	64,024	144,024	156,054	12,030
TOTAL REVENUES	<u>17,240,914</u>	<u>17,290,915</u>	<u>17,436,659</u>	<u>145,744</u>
EXPENDITURES				
Current				
General government	1,997,517	1,957,517	1,763,226	194,291
Public safety	6,884,296	6,816,296	6,367,287	449,009
Public works	3,219,602	3,159,602	2,961,879	197,723
Culture and recreation	1,980,980	1,978,880	1,977,023	1,857
Economic development	71,800	71,800	15,271	56,529
Transportation	327,521	327,521	297,642	29,879
Miscellaneous	2,656,640	2,606,640	2,302,804	303,836
Debt Service				
Principal	27,761	27,761	27,761	-
Interest and other charges	12,552	12,552	12,552	-
Capital Outlay				
Transportation	268,000	268,000	211,422	56,578
Miscellaneous	-	-	415,976	(415,976)
TOTAL EXPENDITURES	<u>17,446,669</u>	<u>17,226,569</u>	<u>16,352,843</u>	<u>873,726</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(205,755)</u>	<u>64,346</u>	<u>1,083,816</u>	<u>1,019,470</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(2,980)	(2,980)	(59,480)	(56,500)
Sale of capital assets	-	-	123	123
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,980)</u>	<u>(2,980)</u>	<u>(59,357)</u>	<u>(56,377)</u>
NET CHANGE IN FUND BALANCES	<u>(208,735)</u>	<u>61,366</u>	<u>1,024,459</u>	<u>963,093</u>
FUND BALANCES - JANUARY 1	<u>15,044,287</u>	<u>15,044,287</u>	<u>15,044,287</u>	<u>-</u>
FUND BALANCES - DECEMBER 31	<u>\$ 14,835,552</u>	<u>\$ 15,105,653</u>	<u>\$ 16,068,746</u>	<u>\$ 963,093</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, 2016

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUE				
Taxes	\$ 586,043	\$ 586,043	\$ 585,671	\$ (372)
Intergovernmental	-	-	372	372
Charges for services	13,000	13,000	11,966	(1,034)
Gifts and contributions	7,123	7,123	19,532	12,409
Investment income (loss)	-	-	-	-
Miscellaneous	-	-	-	-
TOTAL REVENUE	606,166	606,166	617,541	11,375
EXPENDITURES				
Current				
Culture and recreation	609,145	609,145	632,469	(23,324)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,979)	(2,979)	(14,928)	(11,949)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,980	(2,980)
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	2,980	2,980
NET CHANGE IN FUND BALANCES	(2,979)	(2,979)	(11,948)	(8,969)
Fund Balances - January 1	22,027	22,027	22,027	-
Fund Balances - December 31	\$ 19,048	\$ 19,048	\$ 10,079	\$ (8,969)

CITY OF HIBBING, MINNESOTA

NOTES TO RSI - BUDGET AND ACTUAL INFORMATION
December 31, 2016

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 miscellaneous capital outlay expenditures did exceed budget by \$415,976 related to the City's donation towards excess costs incurred on construction of PUC infrastructure on the Highway 169 project (see note 12). Otherwise, General Fund expenditures did not exceed appropriations. The Library Special Revenue Fund did exceed appropriations by \$8,969 for the year ended December 31, 2016.

CITY OF HIBBING, MINNESOTA

INFRASTRUCTURE CONDITION DATA
Year ended December 31, 2016

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 impassable.	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, 2016

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, 2016, the City's gravel roads all rated at a Level 3.

The City expended \$328,000 on gravel road maintenance for the year ended December 31, 2016. This amount in 2016, included 40 culvert changes, 6.5 road lifts, and 9 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 2018 is a minimum of \$737,000 (\$368,500 projected budget each year for the years ending December 31, 2017 and 2018).

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, 2015, and 2016 is presented below:

Year	Estimated Annual Expenditures	Actual Expenditures	Funded by General Fund
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
2016	\$ 356,000	\$ 328,000	\$ 328,000

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS

Year ended December 31, 2016

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)
12/31/2016	1/1/2015	\$ -	\$ 31,235,092	\$ 31,235,092	0.0%	\$ 4,666,361	669.4%
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)
12/31/2016	1/1/2014	\$ -	\$ 25,878,606	\$ 25,878,606	0.0%	\$ 5,771,466	448.4%
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	661.5%
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%

CITY OF HIBBING, MINNESOTA

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

December 31, 2016

Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share Amount of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the City/PUC	Total	Employer's Covered-Employee Payroll (b)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Primary Government							
GERF							
June 30, 2016	0.0709%	\$ 5,756,730	\$ 75,263	\$ 5,831,993	\$ 4,409,847	130.54%	68.91%
June 30, 2015	0.0732%	\$ 3,793,604	\$ -	\$ 3,793,604	\$ 4,336,769	87.48%	78.19%
PEPFF							
June 30, 2016	0.343%	\$ 13,765,187	\$ -	\$ -	\$ 3,303,882	416.64%	63.88%
June 30, 2015	0.36%	\$ 4,090,442	\$ -	\$ -	\$ 3,292,226	124.25%	86.61%
Component Unit - Hibbing Public Utilities Commission							
GERF							
June 30, 2016	0.0939%	\$ 7,364,392	\$ 96,093	\$ 7,460,485	\$ 5,425,759	136%	68.91%
June 30, 2015	0.0939%	\$ 4,866,386	\$ -	\$ 4,866,386	\$ 5,519,343	88%	78.19%

CITY OF HIBBING, MINNESOTA

SCHEDULE OF CONTRIBUTIONS - MN PERA PLANS

December 31, 2016

<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>
Primary Government					
GERF					
Dec. 31, 2016	\$ 337,181	\$ 337,181	\$ -	\$ 4,495,896	7.5%
Dec. 31, 2015	\$ 341,433	\$ 341,433	\$ -	\$ 4,552,432	7.5%
PEPFF					
Dec. 31, 2016	\$ 552,264	\$ 552,264	\$ -	\$ 3,409,030	16.2%
Dec. 31, 2015	\$ 558,305	\$ 558,305	\$ -	\$ 3,446,325	16.2%
DCP					
Dec. 31 2016	\$ 838	\$ 838	\$ -	\$ 16,761	5.0%
Dec. 31, 2015	\$ 866	\$ 866	\$ -	\$ 17,314	5.0%
Component Unit - Hibbing Public Utilities Commission					
GERF					
June 30, 2016	\$ 415,642	\$ 415,642	\$ -	\$ 5,541,887	7.5%
June 30, 2015	\$ 420,637	\$ 420,637	\$ -	\$ 5,608,485	7.5%

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, 2016

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 11,079	\$ 10,552
Interest	6,418	6,433
Changes of benefit terms	-	-
Differences between expected and actual experience	116,400	-
Changes of assumptions	-	-
Benefit payments	<u>(135,968)</u>	<u>(15,729)</u>
Net change in total pension liability	(2,071)	1,256
Total pension liability - beginning	127,882	126,626
Total pension liability - ending (a)	<u>\$ 125,811</u>	<u>\$ 127,882</u>
Plan fiduciary net position		
Contributions - City of Hibbing	\$ 28,587	\$ 12,484
Net investment income (loss)	5,008	(10,853)
Benefit payments	<u>(135,968)</u>	<u>(15,729)</u>
Administrative expense	(4,015)	(2,946)
Other	38,769	-
Net change in plan fiduciary net position	(67,619)	(17,044)
Plan fiduciary net position - beginning	313,542	330,586
Plan fiduciary net position - ending (b)	<u>\$ 245,923</u>	<u>\$ 313,542</u>
City's net pension asset - ending (a) - (b)	<u>\$ (120,112)</u>	<u>\$ (185,660)</u>
Plan fiduciary net position as a percentage of the total pension liability	195.47%	254.18%
Covered employee payroll	N/A	N/A
City's net pension liability as a percentage of covered employee payroll	N/A	N/A

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

December 31, 2016

Fiscal Year Ending	Contributions in Relation to the			Contributions as a Percentage of the Covered-Employee Payroll	
	Actuarially Determined Contribution	Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Covered-Employee Payroll
HVRA					
Dec. 31, 2015	*	\$ 12,484	N/A	N/A	N/A
Dec. 31, 2016	*	\$ 28,587	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, 2016

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, 2016

	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	\$ 48,854	\$ 25,071	\$ 84,814	\$ 6,738,626
Taxes receivable	-	-	-	5,911
Special assessments receivable	-	-	-	-
Accounts receivable	-	-	-	-
Due from other governments	-	-	-	-
Loans receivable	-	46,131	-	-
Prepaid items and other assets	-	-	-	-
TOTAL ASSETS	\$ 48,854	\$ 71,202	\$ 84,814	\$ 6,744,537
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-
Contracts payable	-	-	-	-
Unearned revenue	-	-	-	-
Accrued debt service	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Special assessments	-	-	-	-
Loans receivable	-	46,131	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	46,131	-	-
FUND BALANCES				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	48,854	25,071	84,814	6,744,537
Assigned	-	-	-	-
TOTAL FUND BALANCES	48,854	25,071	84,814	6,744,537
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 48,854	\$ 71,202	\$ 84,814	\$ 6,744,537

						Capital Equipment and Improvement Capital Projects Fund
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		
\$ 357,631	\$ 474,585	\$ 1,815,427	\$ 14,709	\$ 238,977	\$ 2,592,010	
		2,308	11,498			15,668
			166,994			
					4,400	5,518
						22,557
		88,605				
\$ 357,631	\$ 474,585	\$ 1,906,340	\$ 193,201	\$ 243,377	\$ 2,635,753	

\$	\$	300	\$		\$		\$		\$	696		
-	-	-	-		16,482		-	-	-	-		
-	-	83,282			7,544		-	-	-	1,510		
-	-	-			-		-	-	-	-		
-	205,306				-		-	-	-	-		
<u>-</u>	<u>205,606</u>		<u>83,282</u>		<u>24,026</u>					<u>2,206</u>		
-	-	-	-		166,994		-	-	-	-		
-	-	-	-		-		-	-	-	-		
-	-	-	-		166,994		-	-	-	-		
357,631	268,979		1,823,058		2,181		-	-	-	972,284		
-	-		-		-		243,377			1,324,792		
-	-		-		-		-			336,471		
<u>357,631</u>	<u>268,979</u>		<u>1,823,058</u>		<u>2,181</u>		<u>243,377</u>			<u>2,633,547</u>		
\$	\$	357,631	\$	474,585	\$	1,906,340	\$	193,201	\$	243,377	\$	2,635,753

CITY OF HIBBING, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (continued)
December 31, 2016

	Mining Effects Capital Projects Fund	Raceway Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,718,924	\$ 239,850	\$ 21,101	\$ 14,370,579
Taxes receivable	-	-	-	35,385
Special assessments receivable	-	-	-	166,994
Accounts receivable	-	-	-	9,918
Due from other governments	-	-	-	111,162
Loans receivable	-	-	-	46,131
Prepaid items and other assets	-	-	-	
TOTAL ASSETS	\$ 1,718,924	\$ 239,850	\$ 21,101	\$ 14,740,169
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 996
Due to other governments	-	-	-	16,482
Contracts payable	-	-	-	92,336
Unearned revenue	-	227,617	-	227,617
Accrued debt service	-	-	-	205,306
TOTAL LIABILITIES	-	227,617	-	542,737
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue:				
Special assessments	-	-	-	166,994
Loans receivable	-	-	-	46,131
TOTAL DEFERRED INFLOWS OF RESOURCES	-	-	-	213,125
FUND BALANCES				
Nonspendable	-	-	-	
Restricted	748,813	-	-	4,172,946
Committed	-	-	-	8,471,445
Assigned	970,111	12,233	21,101	1,339,916
TOTAL FUND BALANCES	1,718,924	12,233	21,101	13,984,307
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,718,924	\$ 239,850	\$ 21,101	\$ 14,740,169

CITY OF HIBBING, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**
Year Ended December 31, 2016

	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	\$ -	\$ -	\$ -	\$ 511,973
Special assessments	-	-	-	-
Intergovernmental	-	-	-	326
Charges for services	-	-	-	-
Gifts and contributions	-	-	-	-
Interest	147	75	4	18,598
Miscellaneous	-	-	-	-
TOTAL REVENUES	\$ 147	\$ 75	\$ 4	\$ 530,897
EXPENDITURES				
Current	-	-	-	-
Debt service	-	-	-	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	147	75	4	530,897
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
Net Change In Fund Balances	147	75	4	530,897
FUND BALANCE - JANUARY 1	48,707	24,996	84,810	6,213,640
FUND BALANCE - DECEMBER 31	\$ 48,854	\$ 25,071	\$ 84,814	\$ 6,744,537

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
\$ -	\$ -	\$ 199,873	\$ 62,112	\$ -	\$ 1,414,896
-	240,613	1,341,976	-	-	22,477
-	-	-	-	17,866	-
-	-	-	-	-	25,057
-	-	6,257	-	707	7,143
-	-	-	-	-	10,500
<u>\$ -</u>	<u>\$ 240,613</u>	<u>\$ 1,548,106</u>	<u>\$ 62,112</u>	<u>\$ 18,573</u>	<u>\$ 1,480,073</u>
-	-	-	-	-	-
-	340,000	-	-	-	497,000
-	108,319	-	-	-	37,188
-	-	2,296,802	155,207	200	982,338
-	448,319	2,296,802	155,207	200	1,516,526
-	(207,706)	(748,696)	(93,095)	18,373	(36,453)
-	-	-	75,000	-	(75,000)
-	-	-	-	-	25,983
-	-	-	75,000	-	(49,017)
-	(207,706)	(748,696)	(18,095)	18,373	(85,470)
357,631	476,685	2,571,754	20,276	225,004	2,719,017
<u>\$ 357,631</u>	<u>\$ 268,979</u>	<u>\$ 1,823,058</u>	<u>\$ 2,181</u>	<u>\$ 243,377</u>	<u>\$ 2,633,547</u>

CITY OF HIBBING, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (continued)**
Year Ended December 31, 2016

	Mining Effects Capital Projects Fund	Raceway Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 219,869	\$ -	\$ -	\$ 2,346,611
Special assessments	-	-	-	62,112
Intergovernmental	-	17,009	-	1,622,401
Charges for services	-	12,000	-	29,866
Gifts and contributions	-	-	-	25,057
Interest	-	770	64	33,765
Miscellaneous	-	-	-	10,500
TOTAL REVENUES	\$ 219,869	\$ 29,779	\$ 64	\$ 4,130,312
EXPENDITURES				
Current	-	10,776	-	10,776
Debt service	-	-	-	-
Principal	-	-	-	837,000
Interest and other charges	-	-	-	145,507
Capital Outlay	-	19,003	-	3,453,550
TOTAL EXPENDITURES	-	29,779	-	4,446,833
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	219,869	-	64	(316,521)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	75,000
Transfers out	(250,000)	-	-	(325,000)
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	25,983
TOTAL OTHER FINANCING SOURCES (USES)	(250,000)	-	-	(224,017)
Net Change In Fund Balances	(30,131)	-	64	(540,538)
FUND BALANCE - JANUARY 1	1,749,055	12,233	21,037	14,524,845
FUND BALANCE - DECEMBER 31	\$ 1,718,924	\$ 12,233	\$ 21,101	\$ 13,984,307

CITY OF HIBBING, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

REVENUES

Taxes

General property	\$ 2,680,360
Taconite	
Production	446,178
Homestead credit	475,984
Municipal aid	1,529,602
School replacement aid	—
Franchise	134,804
Other	<u>683,082</u>
Total Taxes	<u>5,950,010</u>

Licenses and Permits

101,993

Intergovernmental

Federal grants	
Federal Transportation grant	166,881
Bulletproof Vest grant	9,735
Rural Access to Emergency Devices	1,000
FEMA State Home and Security Program	312
State grants	
Market value credit	2,413
Local government aid	8,098,794
Police aid	206,720
Police disability benefit	19,267
Firemen's aid	77,329
State transportation grant	235,923
PERA rate increase aid	24,366
Petro tank reimbursement	836
IRRRB	29,533
Other	33,926
County grants	
Ambulance	
Local grants	
Police liaison grant	30,088
Fire department grants	<u>10,000</u>
Total Intergovernmental	<u>8,947,123</u>

Charges for Services

General government	
Bus transportation	54,155
Miscellaneous	12,097
Public safety	
Ambulance calls	1,726,422
Fire protection contracts	—
Other	10,410
Highways and streets	
Miscellaneous	275
Culture and recreation	
Rent	140,024
Other	125,014
Cemetery	<u>90,329</u>
Total Charges for Services	<u>2,158,726</u>

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

REVENUES (continued)

Fines

Court fines	\$ 83,744
Police forfeitures	21,565
Administrative fines	750
Total Fines	106,059

Gifts and Contributions

Gifts and Contributions	1,830
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Investment Income (Loss)

Interest on investments	44,185
Increase (decrease) in fair value of investments	(29,321)
Total Investment Income (Loss)	14,864

Miscellaneous

Insurance recoveries	350
Insurance dividends	145,848
Other	9,856
Total Miscellaneous	156,054
TOTAL REVENUES	17,436,659

EXPENDITURES

Current

General Government

Mayor and council	257,482
Elections	51,498
City administration	178,017
City clerk	525,889
City hall	77,768
Accounting	58,680
Data processing	82,232
Legal	117,941
Personnel administration	126,966
Zoning and housing	218,910
Assessor	67,843
Total General Government	1,763,226

Public Safety

Police	3,185,758
Animal Shelter	81,259
Fire	1,817,499
Paid on-call fire	186,090
Ambulance	1,082,656
Civil defense	14,025
Total Public Safety	6,367,287

Public Works

Highways and streets	2,037,349
Streets and alleys	313,581
Engineering	558,394
Garage	52,555
Street lighting	52,555
Total Public Works	2,961,879

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

EXPENDITURES (continued)

Current	
Culture and Recreation	
Recreation	\$ 48,718
Memorial building	336,626
Municipal golf course	38,872
Parks	108,056
City Services	<u>1,444,751</u>
Total Culture and Recreation	<u>1,977,023</u>
Economic Development	
Administration	<u>15,271</u>
Total Economic Development	<u>15,271</u>
Transportation	
Bus	<u>297,642</u>
Total Transportation	<u>297,642</u>
Miscellaneous	
Cemetery	213,673
Public access	98,475
Insurance	1,857,771
Donations and contributions	22,705
Other	<u>110,180</u>
Total Miscellaneous	<u>2,302,804</u>
Debt Service	
Principal	27,761
Interest and agent fees	<u>12,552</u>
Total Debt Service	<u>40,313</u>
Capital Outlay	
Transportation	211,422
Miscellaneous	<u>415,976</u>
Total Capital Outlay	<u>627,398</u>
TOTAL EXPENDITURES	<u>16,352,843</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,083,816
OTHER FINANCING SOURCES (USES)	
Transfers out	(59,480)
Sale of capital assets	<u>123</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(59,357)</u>
NET CHANGE IN FUND BALANCE	1,024,459
FUND BALANCE - JANUARY 1	<u>15,044,287</u>
FUND BALANCE - DECEMBER 31	<u>\$ 16,068,746</u>

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

REVENUES

Taxes

General property	\$ 415,651
Taconite homestead credit	73,490
Other	96,530
Total Taxes	585,671

Intergovernmental

State grants	
Market value credit	372

Charges for Services

11,966

Gifts and Contributions

19,532

Interest

Miscellaneous

TOTAL REVENUES	617,541
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EXPENDITURES

Current

Culture and Recreation

Library	
Personal services	400,200
Supplies	84,322
Other services and charges	80,059
Retiree health insurance premiums	67,406
Other	482

TOTAL EXPENDITURES	632,469
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EXCESS (DEFICIENCY) OF REVENUES

OVER EXPENDITURES (14,928)

OTHER FINANCING SOURCES (USES)

Transfer in	2,980
Transfer out	
TOTAL OTHER FINANCING SOURCES (USES)	2,980

NET CHANGE IN FUND BALANCES

(11,948)

FUND BALANCE - JANUARY 1

22,027

FUND BALANCE - DECEMBER 31

\$ 10,079

CITY OF HIBBING, MINNESOTA

HOUSING INCENTIVE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

REVENUES

Interest	\$ 147
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EXPENDITURES

NET CHANGE IN FUND BALANCE	147
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FUND BALANCE - JANUARY 1	48,707
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FUND BALANCE - DECEMBER 31	\$ 48,854
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CITY OF HIBBING, MINNESOTA

SMALL CITIES DEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

REVENUES

Interest	\$	75
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EXPENDITURES

NET CHANGE IN FUND BALANCE	75
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FUND BALANCE - JANUARY 1	24,996
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FUND BALANCE - DECEMBER 31	\$ 25,071
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CITY OF HIBBING, MINNESOTA

MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

REVENUES

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

EXPENDITURES

Current		
Economic Development		
Miscellaneous		
Repayments to DEED		-
TOTAL EXPENDITURES		-
NET CHANGE IN FUND BALANCE		<u>4</u>
FUND BALANCE - JANUARY 1		<u>84,810</u>
FUND BALANCE - DECEMBER 31	\$	<u>84,814</u>

CITY OF HIBBING, MINNESOTA

DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

REVENUES	Other Postemploy- ment Benefits	2002 G.O. Refunding Bonds	2013A G.O. Bonds	Totals
Taxes				
General property	\$ 363,348	\$ -	\$ -	\$ 363,348
Taconite homestead credit	64,242	-	-	64,242
Other	84,383	-	-	84,383
Total Taxes	511,973	-	-	511,973
Intergovernmental				
State grants				
Market value credit	326	-	-	326
MSA maintenance	-	-	70,613	70,613
MSA construction	-	-	170,000	170,000
Total Intergovernmental	326	-	240,613	240,939
Interest	18,598	-	-	18,598
TOTAL REVENUES	530,897	-	240,613	771,510
EXPENDITURES				
Debt Service				
Principal	-	-	340,000	340,000
Interest	-	-	107,619	107,619
Other charges	-	-	700	700
TOTAL EXPENDITURES	-	-	448,319	448,319
EXCESS OF REVENUES OVER EXPENDITURES	530,897	-	(207,706)	323,191
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	-
Transfer out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGE IN FUND BALANCES	530,897	-	(207,706)	323,191
FUND BALANCE - JANUARY 1	6,213,640	357,631	476,685	7,047,956
FUND BALANCE - DECEMBER 31	\$ 6,744,537	\$ 357,631	\$ 268,979	\$ 7,371,147

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2016

	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement
REVENUES				
Taxes				
General property	\$ 141,850	\$ -	\$ -	\$ 1,020,924
Taconite homestead credit	25,080	-	-	170,292
Taconite production	-	-	-	-
Other	32,943	-	-	223,680
Total Taxes	<u>199,873</u>	<u>-</u>	<u>-</u>	<u>1,414,896</u>
Special Assessments				
Principal	-	60,765	-	-
Interest and penalties	-	1,347	-	-
Total Special Assessments	<u>-</u>	<u>62,112</u>	<u>-</u>	<u>-</u>
Intergovernmental				
Federal grants	-	-	-	-
Public Safety Interoperable Communications	-	-	-	-
Other	-	-	-	-
State grants				
Market value credit	127	-	-	863
MSA maintenance municipal	330,583	-	-	-
MSA construction municipal	1,011,266	-	-	-
IRRB	-	-	-	-
Other	-	-	-	21,614
County grants	-	-	-	-
Total Intergovernmental	<u>1,341,976</u>	<u>-</u>	<u>-</u>	<u>22,477</u>
Charges for Services				
Rent and advertising	-	-	17,866	-
Gifts and Contributions	-	-	-	25,057
Interest	6,257	-	707	7,143
Miscellaneous				
Other	-	-	-	10,500
TOTAL REVENUES	<u>\$ 1,548,106</u>	<u>\$ 62,112</u>	<u>\$ 18,573</u>	<u>\$ 1,480,073</u>

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2016

REVENUES	Mining Effects	Raceway	MDI Maintenance	Total
Taxes				
General property	\$ -	\$ -	\$ -	\$ 1,162,774
Taconite homestead credit	-	-	-	195,372
Taconite production	219,869	-	-	219,869
Other	-	-	-	256,623
Total Taxes	219,869	-	-	1,834,638
Special Assessments				
Principal	-	-	-	60,765
Interest and penalties	-	-	-	1,347
Total Special Assessments	-	-	-	62,112
Intergovernmental				
Federal grants				
Public Safety Interoperable				
Communications	-	-	-	-
Other	-	-	-	-
State grants				
Market value credit	-	-	-	990
MSA maintenance municipal	-	-	-	330,583
MSA construction municipal	-	-	-	1,011,266
IRRRB	-	-	-	-
Other	-	-	-	21,614
County grants	-	17,009	-	17,009
Total Intergovernmental	-	17,009	-	1,381,462
Charges for Services				
Rent and advertising	-	12,000	-	29,866
Gifts and Contributions				
Interest		770	64	14,941
Miscellaneous				
Other	-	-	-	10,500
TOTAL REVENUES	\$ 219,869	\$ 29,779	\$ 64	\$ 3,358,576

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2016

	<u>Permanent Improvement</u>	<u>Privately- Financed</u>	<u>Memorial Building</u>	<u>Capital Equipment and Improvement</u>
EXPENDITURES				
Current	\$	\$	\$	\$
Debt Service				
Principal	-	-	-	497,000
Interest and other charges	-	-	-	37,188
Total Debt Service	-	-	-	534,188
Capital Outlay				
General government				
Mayor and council	-	-	-	-
Elections	-	-	-	-
City clerk	-	-	-	63
City hall	-	-	-	86,567
Data processing	-	-	-	-
Zoning and housing	-	-	-	9,904
Public safety				
Police	-	-	-	70,158
Fire	-	-	-	20,884
Paid on-call fire	-	-	-	1,806
Ambulance	-	-	-	407,844
Civil defense	-	-	-	-
Animal shelter	-	-	-	13,244
Public works				
Streets and alleys	2,296,802	155,207	-	42,664
Engineering	-	-	-	2,678
Garage	-	-	-	9,454
Culture and recreation				
Memorial building	-	-	200	71,749
Municipal golf course	-	-	-	-
Parks	-	-	-	205,787
Library	-	-	-	30,788
Racetrack	-	-	-	-
Recreation	-	-	-	573
Miscellaneous				
Cemetery	-	-	-	8,175
Other	-	-	-	-
Total Capital Outlay	2,296,802	155,207	200	982,338
TOTAL EXPENDITURES	2,296,802	155,207	200	1,516,526
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(748,696)	(93,095)	18,373	(36,453)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	75,000	-	-
Transfers out	-	-	-	(75,000)
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	25,983
TOTAL OTHER FINANCING SOURCES (USES)	-	75,000	-	(49,017)
NET CHANGE IN FUND BALANCES	(748,696)	(18,095)	18,373	(85,470)
FUND BALANCES - JANUARY 1	2,571,754	20,276	225,004	2,719,017
FUND BALANCES - DECEMBER 31	\$ 1,823,058	\$ 2,181	\$ 243,377	\$ 2,633,547

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2016

	Mining Effects	Raceway	MDI Maintenance	Total
EXPENDITURES				
Current	\$ -	\$ 10,776	\$ -	\$ 10,776
Debt Service				
Principal	- - -	- - -	- - -	497,000
Interest and other charges	- - -	- - -	- - -	37,188
Total Debt Service	- - -	- - -	- - -	534,188
Capital Outlay				
General government				
Mayor and council	- - -	- - -	- - -	- - -
Elections	- - -	- - -	- - -	- - -
City clerk	- - -	- - -	- - -	63
City hall	- - -	- - -	- - -	86,567
Data processing	- - -	- - -	- - -	- - -
Personnel administration	- - -	- - -	- - -	9,904
Public safety				
Police	- - -	- - -	- - -	70,158
Fire	- - -	- - -	- - -	20,884
Paid on-call fire	- - -	- - -	- - -	1,806
Ambulance	- - -	- - -	- - -	407,844
Civil defense	- - -	- - -	- - -	- - -
Animal shelter	- - -	- - -	- - -	13,244
Public works				
Streets and alleys	- - -	- - -	- - -	2,494,673
Engineering	- - -	- - -	- - -	2,678
Garage	- - -	- - -	- - -	9,454
Culture and recreation				
Memorial building	- - -	- - -	- - -	71,949
Municipal golf course	- - -	- - -	- - -	- - -
Parks	- - -	- - -	- - -	205,787
Library	- - -	- - -	- - -	30,788
Racetrack	- - -	19,003	- - -	19,003
Recreation	- - -	- - -	- - -	573
Miscellaneous				
Cemetery	- - -	- - -	- - -	8,175
Other	- - -	- - -	- - -	- - -
Total Capital Outlay	- - -	19,003	- - -	3,453,550
TOTAL EXPENDITURES	- - -	29,779	- - -	3,998,514
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	219,869	- - -	64	(639,938)
OTHER FINANCING SOURCES (USES)				
Transfers in	- - -	- - -	- - -	75,000
Transfers out	(250,000)	- - -	- - -	(325,000)
Debt issuance	- - -	- - -	- - -	- - -
Sale of capital assets	- - -	- - -	- - -	25,983
TOTAL OTHER FINANCING SOURCES (USES)	(250,000)	- - -	- - -	(224,017)
NET CHANGE IN FUND BALANCES	(30,131)	- - -	64	(863,955)
FUND BALANCES - JANUARY 1	1,749,055	12,233	21,037	7,318,376
FUND BALANCES - DECEMBER 31	\$ 1,718,924	\$ 12,233	\$ 21,101	\$ 6,454,421

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016

	General Fund	Economic Development Special Revenue Fund	Debt Service Funds			
			Tax Increment VII	Tax Increment XI	Tax Increment XII	Animal Shelter
ASSETS						
Cash and cash equivalents	\$ 828,046	\$ 912,836	\$ 184,828	\$ -	\$ -	\$ 115,949
Cash - restricted	-	-	-	-	-	46,286
Investments - restricted	-	-	-	-	-	-
Taxes receivable						
Unapportioned	1,213	-	-	-	-	-
Delinquent	-	-	110,421	15,964	-	-
Accounts receivable	994	-	-	-	-	-
Due from other funds	1,947	103,000	-	-	-	-
Due from other governments	-	-	-	-	-	-
Loans receivable	-	560,981	-	-	-	-
Prepaid items and other assets	-	-	-	-	-	-
TOTAL ASSETS	\$ 832,200	\$ 1,576,817	\$ 295,249	\$ 15,964	\$ -	\$ 162,235
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 4,742	\$ -	\$ -	\$ -	\$ 300	\$ -
Salaries payable	-	-	-	-	-	-
Due to other funds	-	-	-	1,664	-	-
Due to other governments	-	-	527	527	-	-
Contracts payable	-	-	-	-	-	-
Unearned revenue	-	-	-	-	-	-
TOTAL LIABILITIES	4,742	-	527	2,191	300	-
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue:						
Property taxes	-	-	110,421	15,964	-	-
Loans receivable	-	560,981	-	-	-	-
TOTAL DEFERRED INFLOWS OF RESOURCES	-	560,981	110,421	15,964	-	-
FUND BALANCES						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	184,301	-	-	162,235
Committed	827,458	1,015,836	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	(2,191)	(300)	-
TOTAL FUND BALANCES	827,458	1,015,836	184,301	(2,191)	(300)	162,235
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 832,200	\$ 1,576,817	\$ 295,249	\$ 15,964	\$ -	\$ 162,235

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
December 31, 2016

	Capital Projects Funds					Totals
	Storefront Renovation Project	District VIII Tax Increment	District XII Tax Increment	Tax Abatement		
ASSETS						
Cash and cash equivalents	\$ 7,641	\$ 88,687	\$ -	\$ 56,541	\$ 2,194,528	
Cash - restricted	-	-	-	-	46,286	
Investments	-	-	-	-	-	
Taxes receivable						
Unapportioned	-	-	-	669	1,882	
Delinquent	-	268	-	-	126,653	
Accounts receivable	-	-	-	-	994	
Due from other funds	-	-	-	-	104,947	
Due from other governments	-	-	-	-	-	
Loans receivable	255,977	461,924	-	-	1,278,882	
Prepaid items	-	-	-	-	-	
TOTAL ASSETS	\$ 263,618	\$ 550,879	\$ -	\$ 57,210	\$ 3,754,172	
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ 6,143	\$ 11,185	
Salaries payable	-	-	-	-	-	
Due to other funds	103,000	-	283	-	104,947	
Due to other governments	-	527	526	-	2,107	
Contracts payable	-	-	-	-	-	
Unearned revenue	-	-	-	-	-	
TOTAL LIABILITIES	103,000	527	809	6,143	118,239	
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue:						
Property taxes	-	268	-	-	126,653	
Loans receivable	255,977	461,924	-	-	1,278,882	
TOTAL DEFERRED INFLOWS OF RESOURCES	255,977	462,192	-	-	1,405,535	
FUND BALANCES						
Nonspendable	-	-	-	-	-	
Restricted	-	88,160	-	-	434,696	
Committed	-	-	-	-	1,843,294	
Assigned	-	-	-	51,067	51,067	
Unassigned	(95,359)	-	(809)	-	(98,659)	
TOTAL FUND BALANCES	(95,359)	88,160	(809)	51,067	2,230,398	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 263,618	\$ 550,879	\$ -	\$ 57,210	\$ 3,754,172	

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, 2016

	General Fund	Economic Development Special Revenue Fund	Debt Service Funds			
			Tax Increment VII	Tax Increment XI	Tax Increment XII	Animal Shelter
REVENUES						
Taxes						
General	\$ 74,597	\$ -	\$ 67,336	\$ 17,989	\$ 40,109	\$ -
Taconite homestead credit	13,189	-	-	-	-	-
Other	17,324	-	-	-	-	-
Intergovernmental						
State grants						
Market value credit	67	-	-	-	-	-
IRRRB grant	-	-	-	-	-	-
Interest in Capital Lease	-	-	-	-	-	40,313
Gifts and contributions						
Interest	2,189	363	530	15	-	23
Miscellaneous						
Principal on loan repayments	-	84,939	-	-	-	-
Interest on loan repayments	-	21,763	-	-	-	-
TOTAL REVENUES	107,366	107,065	67,866	18,004	40,109	40,336
EXPENDITURES						
Current						
Economic development						
Community development						
Administration	29,723	2,440	3,884	-	59	-
Professional services	12,371	-	586	586	-	-
Loans	-	228,491	-	-	-	-
Tax increment projects	-	-	-	-	-	-
Debt Service						
Principal	-	-	35,000	20,000	-	27,761
Interest	-	-	2,812	749	39,527	12,552
Other charges	-	-	-	-	300	-
Fiscal charges	-	-	450	-	495	-
Capital Outlay						
Community development	-	-	-	-	-	-
TOTAL EXPENDITURES	42,094	230,931	42,732	21,335	40,381	40,313
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	65,272	(123,866)	25,134	(3,331)	(272)	23
OTHER FINANCING SOURCES (USES)						
Debt Issuance	-	-	-	-	-	-
Transfers in	56,500	-	-	3,003	-	-
Transfers out	(3,003)	-	-	-	(228)	-
TOTAL OTHER FINANCING SOURCES (USES)	53,497	-	-	3,003	(228)	-
NET CHANGE IN FUND BALANCES						
	118,769	(123,866)	25,134	(328)	(500)	23
FUND BALANCES - JANUARY 1	708,689	1,139,702	159,167	(1,863)	200	162,212
FUND BALANCES - DECEMBER 31	\$ 827,458	\$ 1,015,836	\$ 184,301	\$ (2,191)	\$ (300)	\$ 162,235

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, 2016

	Capital Projects Funds				
	Storefront Renovation Project	District VIII Tax Increment	District XII Tax Increment	Tax Abatement	Totals
REVENUES					
Taxes					
General	\$ -	\$ 11,879	\$ -	\$ 41,136	\$ 253,046
Taconite homestead credit	-	-	-	7,274	20,463
Other	-	-	-	9,554	26,878
Intergovernmental					
State grants					
Market value credit	-	-	-	37	104
IRRRB grant	-	-	-	-	-
Interest in Capital Lease					40,313
Gifts and contributions					-
Interest					3,480
Miscellaneous					
Principal on loan repayments	94,360	-	-	-	179,299
Interest on loan repayments	12,560	-	-	-	34,323
TOTAL REVENUES	106,920	12,120	-	58,120	557,906
EXPENDITURES					
Current					
Economic development					
Community development	-	-	-	37,599	37,599
Administration	-	-	-	-	36,106
Professional services	-	586	527	-	14,656
Loans	15,496	-	-	8,013	252,000
Tax increment projects	-	-	-	-	-
Debt Service					
Principal	-	-	-	-	82,761
Interest	-	-	-	-	55,640
Other charges	-	-	-	-	300
Fiscal charges	-	-	-	-	945
Capital Outlay					
Community development	-	-	-	-	-
TOTAL EXPENDITURES	15,496	586	527	45,612	480,007
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	91,424	11,534	(527)	12,508	77,899
OTHER FINANCING SOURCES (USES)					
Debt issuance	-	-	-	-	
Transfers in	-	-	228	-	59,731
Transfers out	-	-	-	-	(3,231)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	228	-	56,500
NET CHANGE IN FUND BALANCES	91,424	11,534	(299)	12,508	134,399
FUND BALANCES - JANUARY 1	(186,783)	76,626	(510)	38,559	2,095,999
FUND BALANCES - DECEMBER 31	\$ (95,359)	\$ 88,160	\$ (809)	\$ 51,067	\$ 2,230,398

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
STATEMENT OF NET POSITION
ENTERPRISE FUND
December 31, 2016

	Family Center
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 963,267
Due from other governments	-
Loans receivable	-
TOTAL ASSETS	<u>\$ 963,267</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ -
Deferred revenue	-
Due to other funds	-
TOTAL LIABILITIES	<u>-</u>
NET POSITION	
Unrestricted	<u>963,267</u>
TOTAL NET POSITION	<u>\$ 963,267</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 ENTERPRISE FUND
 December 31, 2016

	Family Center
OPERATING REVENUES	
Charges for services	\$ -
Miscellaneous	- -
TOTAL OPERATING REVENUES	- -
OPERATING EXPENSES	
Personal services	- -
Supplies	- -
Maintenance and repairs	- -
Contracted services	- -
Utilities	- -
Depreciation	- -
Miscellaneous	- -
TOTAL OPERATING EXPENSES	- -
OPERATING INCOME	- -
NONOPERATING REVENUES	
Interest income	- -
Interest on notes	8,693
Interest expense	- -
Amortization	- -
Gain on disposal of student housing facility	- -
TOTAL NONOPERATING REVENUES	8,693
INCOME BEFORE TRANSFERS	8,693
Transfers in	- -
Transfers out	- -
CHANGE IN NET POSITION	8,693
TOTAL NET POSITION - JANUARY 1	954,574
TOTAL NET POSITION - DECEMBER 31	<u>\$ 963,267</u>

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
December 31, 2016

	Family Center
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ -
Cash paid to suppliers	- -
Cash paid to employees	- -
NET CASH PROVIDED BY OPERATING ACTIVITIES	- -
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer in from other funds	- -
Transfer out to other funds	- -
Prior year cash deficit payment	- -
Interfund financing of cash deficit	- -
Principal received on note	374,397
Interest received on note	<u>8,693</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>383,090</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase or construction of fixed assets	- -
Principal paid on long-term debt	- -
Interest paid on long-term debt	- -
Sale of facility	- -
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	- -
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	- -
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	383,090
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>580,177</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 963,267</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>

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, 2016

	Tax Increment District VII	
	Redevelopment	
District type	469	
Authorized under Minn. Statute, ch#	1993	
Established in	1993	
Planned completion in	2019	
Original net tax capacity	\$ 3,904	
Current net tax capacity	49,369	
Fiscal disparity deduction		
Captured Net Tax Capacity Retained by the City	\$ 45,465	
	Accounted for in Prior Years	Current Year
SOURCES OF FUNDS		
Bond proceeds	\$ 320,000	\$ -
Note proceeds		
Tax increments received	998,314	67,336
General property taxes received		
Interest on invested funds	11,985	530
Grants	299,999	-
Local contributions	8,251	-
Miscellaneous	19,619	-
TOTAL SOURCES OF FUNDS	1,658,168	67,866
USES OF FUNDS		
Building acquisition		
Other public improvements	721,672	-
Bond payments		
Principal	245,000	35,000
Interest and fiscal charges	339,573	3,262
Professional services	33,376	586
Administrative costs	144,215	3,884
TOTAL USES OF FUNDS	1,483,836	42,732
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS BEFORE TRANSFERS	174,332	25,134
TRANSFERS		
Decertified district - remittance to County		
Transfers to other districts		
Transfers to other funds	(15,165)	-
Transfers from other districts		
Transfers from other funds		
TOTAL TRANSFERS	(15,165)	-
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS AND TRANSFERS	\$ 159,167	25,134
DISTRICT BALANCE - JANUARY 1		159,167
DISTRICT BALANCE - DECEMBER 31		\$ 184,301

Tax Increment District VII		Tax Increment District XI		Tax Increment District XII	
Qualified Housing		Redevelopment		Redevelopment	
469 1993 2020		469 1999 2025		469 2012 2038	
\$ 472 8,491 -		\$ 525 16,324 3,652		\$ 14,338 42,120 -	
<u>\$ 8,019</u>		<u>\$ 12,147</u>		<u>\$ 27,782</u>	
Accounted for in Prior Years		Accounted for in Prior Years		Accounted for in Prior Years	
Current Year		Current Year		Current Year	
\$ - 239,994 -		\$ 165,000 11,879 -		\$ 830,000 2,025 -	
5,844 385,000 -		1,885 - 67,786		363 - -	
18,670 649,508		2,786 - 412,536		- - 832,388	
<u>12,120</u>		<u>18,004</u>		<u>40,109</u>	
555,095 67,392 -		253,248 - 145,000		700,000 - 20,000	
-		135,568 586 33,237		749 586 586	
11,587 30,205		45 -		101,854 30,779 65	
664,279		586 567,098		40,322 527 59	
<u>586</u>		<u>21,335</u>		<u>832,698</u>	
(14,771)		(11,534)		(154,562)	
		(3,331)		(310)	
		(328)		(310)	
\$ 76,626		\$ (1,863)		(799)	
<u>76,626</u>		<u>(1,863)</u>		<u>(310)</u>	
\$ 88,160		\$ (2,191)		\$ (1,109)	

Fort & Company, P.A.

Certified Public Accountants

Diane D. Krueger-Pirnat, CPA
Laura Rusich, CPA

Connor B. Michels, EA
Morgan L. Anderson

Christine A. Towner, CPA
Kimberly A. Jarvis

Victoria C. Arnoldy, CPA
John W. Fort, CPA - Retired

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, 2016, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated June 30, 2017. 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 over financial reporting* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 2016-1, 2016-2 and 2016-3 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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.

Other Matters

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 Responses. The City of Hibbing's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of the Report

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

Fort & Company
Fort & Company, P.A.
June 30, 2017

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2016

SIGNIFICANT DEFICIENCIES

2016-1. 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 monitors transactions and structures 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, 2016

**2016-2. 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.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Year Ended December 31, 2016

2016-3. CAPITAL OUTLAYS AND CAPITAL ASSET CAPITALIZATION PROCESS

Condition and Criteria

During the 2016 audit, it was identified that a material amount of capital assets related to the 2013 city-wide bonded paving project were not properly capitalized as infrastructure in 2013 and required a restatement to beginning net position. This prompted a review of the capitalization process that is in place and a determination of where the process did not function properly.

Effect

Failed to identify capital outlay expenditures that qualified for capitalization as capital assets and required restatement of the beginning net position in the 2016 government-wide financial statements.

Cause

This situation came about through a combination of elements. One element impacting the process was a lack of understanding the treatment of the project by the State of Minnesota as a typical MSA Construction project and being assigned a MSA project code. This part of the process is typically handled by the City Engineering Department in their communications with the State Department of Transportation. The next step in the process would have involved the Finance Department using the project code in the system to determine the amount of costs to include in the amount for the capital assets journal entry. As the 2013 city-wide paving project had not been assigned a specific project code due to some communication misunderstanding with the State; it was not captured in the Finance Department's capital asset journal entry.

Recommendations

In order to provide controls over the capital asset process at an appropriate level, we suggest the City develop additional processes and procedures for communication over projects and their funding between the Finance Department and the Engineering Department. Secondly, the Finance Department should add a step in their year end capital asset process whereby they perform a reconciliation of total capital outlay expenditures to total current year capital asset additions and specifically identify rationale for differences under US GAAP.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2016

2016-3. CAPITAL OUTLAYS AND CAPITAL ASSET CAPITALIZATION PROCESS (continued)

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Finance Director and City Engineer will jointly call the State Aid Engineer to obtain SAP (State Aid Project) number(s) on all projects for which State aid bonds have been issued, if SAP number(s) have not already been obtained by Engineering Department. The State Aid Engineer will be contacted jointly by the Finance Director and City Engineer for definitive determination of project status if the Finance Department and Engineering Department disagree as to whether a project should have a SAP applied to it. Detailed procedures already in place for determining capitalization and amounts between Finance Department and Engineering Department will continue. The Finance Department will develop a detailed Sources and Uses Schedule, based on the Engineering Department and Finance Department identifying all sources of funding and costs associated with the project as well as general ledger account numbers, to track projects as they occur. The Finance Department has implemented a capital asset tie out procedure for the year ended December 31, 2016 and will continue to do so for future audits.

3. Officials Responsible for Ensuring CAP

Sherri A. Renskers, Finance Director
Patrick L. Garrity, City Clerk/Treasurer
Tom Dicklich, City Administrator
Jesse Story, City Engineer

4. Planned Completion Date for CAP

August 4, 2017

5. Plan to Monitor Completion of CAP

Patrick L. Garrity, City Clerk/Treasurer and Tom Dicklich, City Administrator will monitor that the new steps are put into place effective August 1, 2017.