



Commission Meeting

MAY 16TH, 2024

LUKE PETERSON

Commission Meeting Agenda

May 16th, 2024

Chair J. Hart	—	Commissioner J. Bayliss	—
Commissioner J. Stokes	—	Commissioner J. Babich	—
Commissioner J. Sandstede	—	Legal Counsel A. Borland	—
General Manager L. Peterson	—	Auditors Sterle & Co., LLP	—
Utility Operations S. Dickinson	—	Energy & Pricing P. Plombon	—
Safety & Facilities P. Rutchasky	—	Admin & Comm E. Dixon	—
City Administrator G. Pruszinske	—	Local 94 President Rich Kampsula	—

1. Review of 2023 Audited Financials
2. Preparation for May 22nd Joint Working Session
3. Staffing Update



Item 1

Item 1 – Review of 2023 Audited Financials

May 16th, 2024

Jeff Hart
Commission Chair
1902 E. 6th Avenue
Hibbing, MN 55746

RE: Item 1 – Review of 2023 Audited Financials

Dear Commissioners;

HPU Staff is pleased to present for your review what is expected to be the final version of Hibbing Public Utilities' Audited Financial report from 2023. Bonnie Schwiager of Abdo Solutions Inc. will be attending the meeting to provide a summary presentation of these documents.

Sincerely;



Luke J. Peterson

Public Utilities Commission

Financial Statements and
Supplementary Information

December 31, 2023 and 2022

Public Utilities Commission

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December 31, 2023 and 2022

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INDEPENDENT AUDITOR’S REPORT

To the Members of the Commission
Public Utilities Commission
Hibbing, Minnesota

Opinions

We have audited the accompanying financial statements of the single-enterprise proprietary fund activity of the Public Utilities Commission, a component unit of the City of Hibbing, Minnesota (the Commission), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the major funds of the Commission as of December 31, 2023 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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 the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 6 and the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions, the related notes disclosures, and the Schedule of Changes in the Commission's OPEB Liability and Related Ratios starting on page 41 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.



Other Information

Management is responsible for the other information in the annual report. The other information comprises the introductory section and schedule of department revenues and expenses but does not include the basic financial statements and our auditor’s report thereon. Our opinions on the basic financial statement do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated NEED DATE, on our consideration of the Commission’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission’s internal control over financial reporting and compliance.



Abdo
Minneapolis, Minnesota

DRAFT



Public Utilities Commission

Management's Discussion and Analysis
December 31, 2023 and 2022
(Unaudited)

Our discussion and analysis of the Hibbing Public Utilities Commission's (HPU) financial performance provides an overview of the Utility's financial activities for the fiscal year ended December 31, 2023 and 2022 with comparison to the prior year where applicable. Please read it in conjunction with the financial statements, which follow in this report.

Financial Highlights

For the 12-month period ended December 31, 2023, HPU continued its infrastructure renewal program and managed customer rates for stable, long-term growth.

- Current Assets totaled \$45 million as of December 31 reflecting a decrease of \$5 million for the year.
- Long Term Financing of approximately \$15 million through Minnesota Public Facilities Authority completed in 2023 with first withdrawal funded in 2024.
- Net Utility Property Plant & Equipment totaled \$70 million as of December 31, 2023 as capital investments exceeded capital depreciation by \$26 million for the year as the Commission improves its core utility infrastructure.
- Other assets totaled \$4.8 million as of December 31, 2023 reflecting a decrease of \$9.6 for the year. The equity in joint venture decreased \$10 million due to distributions paid out to its members and HPU purchasing the remaining shares of the joint venture, the Laurentian Energy Authority, in August 2023. Due to this transaction, the activity of the Laurentian Energy Authority has been blended and included in HPU's financial statements.

Using This Annual Report

This annual report consists of financial statements for the Hibbing Public Utilities Commission, a component unit of the City of Hibbing, and its blended component unit. The Commission reports its financial activities for the utilities of the City of Hibbing as a single-enterprise proprietary fund. The following analysis will discuss the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position related to this enterprise fund for 2023.

Statement of Net Position

A Statement of Net Position is a statement of the financial position of an entity which states the assets and deferred outflows of resources, liabilities and deferred inflows of resources and equity at a particular point in time. The Statement of Net Position shown on the following page displays the current and previous year's data. These statements reflect the Utility's financial position as of December 31, 2023 and 2022.

Public Utilities Commission

Management's Discussion and Analysis
 December 31, 2023 and 2022
 (Unaudited)

Table 1 net position (below) is a summary of the Utility's statement of net position.

**Table 1
 Net Position
 (In Thousands)**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Cash	\$ 2,961	\$ 6,081	\$ 1,803
Other current assets	41,726	43,593	44,043
Restricted assets	1,628	1,027	1,191
Net property, plant and equipment	69,566	57,487	55,607
Other noncurrent assets	4,778	14,405	19,561
Total assets	<u>120,659</u>	<u>122,593</u>	<u>122,205</u>
Deferred Outflows of Resources			
Total assets and deferred outflows of resources	2,838	3,704	4,967
	<u>123,497</u>	<u>126,297</u>	<u>127,172</u>
Liabilities			
Current liabilities	4,388	7,005	4,995
Long-term liabilities	21,087	22,941	24,468
Total liabilities	<u>25,475</u>	<u>29,946</u>	<u>29,463</u>
Deferred Inflows of Resources			
	6,065	5,912	6,117
Deferred Inflows Net Position			
Invested in capital assets, net of debt	68,989	56,561	55,392
Restricted	162	162	162
Unrestricted	22,806	33,716	36,038
Total net position	<u>91,957</u>	<u>90,439</u>	<u>91,592</u>
Total liabilities, deferred Inflows of resources and net position	<u>\$ 123,497</u>	<u>\$ 126,297</u>	<u>\$ 127,172</u>

- Long Term Bonds and Notes have decreased by \$145,000 due to the pay down of debt during the year.
- Total Net Position has increased by \$1.5 million. While HPU showed an operating loss of \$579 thousand, it was offset by an increase in investment income and capital contributions received.

Public Utilities Commission

Management's Discussion and Analysis
 December 31, 2023 and 2022
 (Unaudited)

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position display revenues, expenses and change in net position over a given period of time (calendar years 2023, 2022, and 2021).

Table 2 is an Income Statement Summary of the Statements of Revenues, Expenses and Changes in Net Position.

**Table 2
 Income Statement Summary
 (In Thousands)**

	2023	2022	2021
Operating			
Revenue	\$ 30,866	\$ 29,336	\$ 29,190
Expense	(31,445)	(30,782)	(32,398)
Operating loss	(579)	(1,446)	(3,208)
Nonoperating			
Revenue	2,039	338	174
Expense	(582)	(152)	(149)
Nonoperating income	1,457	186	25
Capital contributions	640	107	-
Increase in net position	\$ 1,518	\$ (1,153)	\$ (3,184)

- Operating revenues totaled \$30.9 million reflecting an increase of \$1.6 from 2022 with increased sales and utility rate revenue.
- Operating expenses totaled \$31.4 million reflecting an increase of \$663 thousand from 2022 due to general inflationary price increases.
- The total change in net position totaled \$1.5 million reflecting \$2.7 million more gained than 2022 as the Commission manages rates for long term stability and infrastructure renewal.

Public Utilities Commission

Management's Discussion and Analysis
 December 31, 2023 and 2022
 (Unaudited)

Capital Assets and Debt

Capital Assets

The total assets added by utility in 2023 are as follows:

Water utility	\$ 6,198,175
Electric utility	9,405,417
Gas utility	145,615
Steam utility	<u>-</u>
Total	<u>\$ 15,749,207</u>

Debt

As of December 31, 2023 the Utility had \$300,000 in outstanding debt compared to \$440,000 as of December 31, 2022 a net decrease of \$140,000. See table 3 below.

**Table 3
 Outstanding Bonds and Notes
 (In Thousands)**

	2023	2022
2005 Public Utility revenue note	\$ 300	\$ 440

In December, HPU issued Series 2023A General Obligation Revenue Note through the Public Facilities Authority Drinking Water Fund for \$9,336,684. No draws were received on the new Note in 2023 and the balance outstanding is zero at year end. However, the Commission received \$4,304,682 thus far in 2024.

Economic Factors

HPU maintained financial and customer rate stability while also replenishing its core utility infrastructure. By leveraging its power generating assets at Hibbing Renewable Energy Center, HPU has been able to manage commodity price exposure while also renew its infrastructure for long term stability.

HPU relied on purchased gas and purchased power rate recovery mechanisms to collect a portion of the increased costs from ratepayers during the year.

HPU continues to plan for future core utility infrastructure improvements and efficiencies of operations, sustainability and governance while balancing affordability and reliability.

Contacting The Utility's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Luke J. Peterson, General Manager at the Hibbing Public Utilities Commission, 1902 E 6th Ave, Hibbing, MN 55746 (218 262 7759)

Public Utilities Commission

Statements of Net Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash	\$ 2,710,911	\$ 5,831,341
Designated cash, other post-employment benefits	250,000	250,000
Investments	34,716,235	38,025,032
Restricted assets:		
Cash held for fuel assistance recipients	55,566	99,154
Cash held for customer deposits	457,832	413,845
Accounts receivable, net of allowance for doubtful accounts of \$54,000 and \$63,000	2,649,317	2,328,748
Unbilled revenues	2,312,649	2,056,625
Other receivable	-	132,555
Current maturities notes receivable, Steam conversion program	44,000	46,000
Current portion of lease receivable	72,636	-
Inventories	1,215,047	954,126
Prepaid expense	716,379	49,723
	<u>45,200,572</u>	<u>50,187,149</u>
Noncurrent Assets		
Restricted assets:		
Bond reserve account	1,114,431	514,053
Net property, plant and equipment	69,566,247	57,486,579
Notes receivable, Steam conversion program	225,238	282,912
Lease receivable	521,688	-
Investment in joint venture	-	10,047,837
Regulatory assets	4,031,506	4,075,126
	<u>75,459,110</u>	<u>72,406,507</u>
Total noncurrent assets	<u>75,459,110</u>	<u>72,406,507</u>
Total assets	<u>120,659,682</u>	<u>122,593,656</u>
Deferred Outflows of Resources		
Related to net pension liability	1,096,135	1,352,207
Related to post-employment benefits liability	1,527,956	2,351,464
Related to Laurentian Energy Authority	213,590	-
	<u>2,837,681</u>	<u>3,703,671</u>
Total deferred outflows of resources	<u>2,837,681</u>	<u>3,703,671</u>
Total assets and deferred outflows of resources	<u>\$ 123,497,363</u>	<u>\$ 126,297,327</u>

See notes to financial statements

Public Utilities Commission

Statements of Net Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts payable	\$ 2,418,195	\$ 3,992,527
Accrued expenses	246,305	264,771
Due to City of Hibbing	557,707	1,678,692
Compensated absences payable	307,985	222,218
Current portion of lease liability	199,867	194,173
Current portion of long-term debt, bonds and notes payable	145,000	140,000
Current liabilities payable from restricted assets:		
Third party advances for fuel assistance	55,566	99,154
Customer deposits payable	457,832	413,845
	<u>4,388,457</u>	<u>7,005,380</u>
Total current liabilities		
Noncurrent Liabilities		
Compensated absences payable	880,521	757,309
Total post employment liability	16,128,037	16,607,353
Net pension liability	3,478,154	4,633,219
Long-term debt, bonds and notes payable	155,000	300,000
Unamortized discount	(2,674)	(4,066)
Lease liability	447,592	647,460
	<u>21,086,630</u>	<u>22,941,275</u>
Total noncurrent liabilities		
Total liabilities	<u>25,475,087</u>	<u>29,946,655</u>
Deferred Inflows of Resources		
Related to net pension liability	1,263,352	335,000
Related to post-employment benefits liability	4,207,334	5,576,869
Related to leases	594,324	-
	<u>6,065,010</u>	<u>5,911,869</u>
Total deferred inflows of resources		
Net Position		
Net investments in capital assets	68,989,249	56,561,081
Restricted for debt service	161,984	161,984
Unrestricted	22,806,033	33,715,738
	<u>91,957,266</u>	<u>90,438,803</u>
Total net position		
Total liabilities, deferred inflows of resources and net position	<u>\$ 123,497,363</u>	<u>\$ 126,297,327</u>

See notes to financial statements

Public Utilities Commission

Statements of Revenues, Expenses and Changes in Net Position
 Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Revenue		
Charges for services	\$ 30,323,571	\$ 28,766,695
Other	542,764	569,609
	<u>30,866,335</u>	<u>29,336,304</u>
Operating Expenses		
Operation and maintenance	26,878,066	27,281,199
Depreciation	4,567,042	3,501,278
	<u>31,445,108</u>	<u>30,782,477</u>
Operating loss	<u>(578,773)</u>	<u>(1,446,173)</u>
Nonoperating Revenues (Expenses)		
Investment income	2,039,019	273,421
Miscellaneous nonoperating income (expense)	(53,411)	64,516
Equity in net income of joint venture	(481,604)	(106,341)
Interest expense	(47,013)	(45,224)
	<u>1,456,991</u>	<u>186,372</u>
Income (loss) before contributions	878,218	(1,259,801)
Capital Contributions	<u>640,245</u>	<u>106,625</u>
Change in net position	1,518,463	(1,153,176)
Net Position, Beginning	<u>90,438,803</u>	<u>91,591,979</u>
Net Position, Ending	<u>\$ 91,957,266</u>	<u>\$ 90,438,803</u>

See notes to financial statements

Public Utilities Commission

Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Receipts from customers	\$ 30,335,873	\$ 29,451,985
Distribution from joint venture	9,041,666	9,041,666
Principal collected from steam conversion loan program	59,674	80,983
Payments to suppliers	(26,297,512)	(23,509,695)
Payments for payroll and benefits	(5,499,487)	(6,915,430)
	<u>7,640,214</u>	<u>8,149,509</u>
Net cash from operating activities		
Cash Flows From Capital and Related Financing Activities		
Payments for additions to property, plant and equipment	(15,279,417)	(4,417,271)
Capital contributions received	717,245	-
Payment for the purchase of remaining shares of LEA	(759,890)	-
Principal payments of general obligation revenue bonds	(140,000)	(130,000)
Interest paid	(45,621)	(43,830)
	<u>(15,507,683)</u>	<u>(4,591,101)</u>
Net cash from capital and related financing activities		
Cash Flows From Investing Activities		
Investments income received	1,824,911	243,314
Investments matured	27,959,295	2,098,955
Investments purchased	(25,036,768)	(1,790,084)
	<u>4,747,438</u>	<u>552,185</u>
Net cash from investing activities		
Net change in cash		
	(3,120,031)	4,110,593
Cash, Beginning	<u>6,756,324</u>	<u>2,645,731</u>
Cash, Ending	<u>\$ 3,636,293</u>	<u>\$ 6,756,324</u>
Cash is presented on the statements of net position as follows:		
Cash	\$ 2,710,911	\$ 5,831,341
Designated cash	250,000	250,000
Restricted assets	1,627,829	1,027,052
	<u>4,588,740</u>	<u>7,108,393</u>
Total cash and restricted assets		
Less noncash equivalents included in restricted assets	(952,447)	(352,069)
	<u>\$ 3,636,293</u>	<u>\$ 6,756,324</u>

See notes to financial statements

Public Utilities Commission

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating loss	\$ (578,773)	\$ (1,446,173)
Adjustments to reconcile operating loss to net cash from operating activities:		
Other nonoperating income	(53,411)	64,516
Depreciation and amortization	4,567,042	3,501,278
Distributions from joint venture	9,041,666	9,041,666
Change in operating assets, deferred outflows or resources, liabilities and deferred inflows of resources:		
Accounts receivable	(320,569)	208,993
Unbilled revenue	(256,024)	(96,244)
Other receivable	55,555	(55,555)
Inventories	(260,921)	46,246
Prepaid expenses	(666,656)	141,685
Receivable for steam conversion loan program	59,674	80,975
Lease receivable	(594,324)	-
Regulatory assets	43,620	(4,075,126)
Deferred outflows of resources	1,079,580	1,262,986
Accounts payable	(2,064,932)	681,084
Compensated absences payable	208,979	(119,476)
Accrued expenses	(18,466)	183,602
Due to City of Hibbing	(1,120,985)	1,092,022
Third party advances for fuel assistance	(43,588)	(161,139)
Customer deposits payable	43,987	(6,021)
Accrued post employment benefits	(479,316)	(4,040,623)
Net pension liability	(1,155,065)	2,049,598
Deferred inflows of resources	153,141	(204,785)
Net cash from operating activities	<u>\$ 7,640,214</u>	<u>\$ 8,149,509</u>
Noncash Investing, Capital and Related Financing Activities		
Developer contribution	<u>\$ -</u>	<u>\$ 29,625</u>
Unrealized gain on investments	<u>\$ 214,108</u>	<u>\$ 31,498</u>
Capital purchased on account	<u>\$ 490,600</u>	<u>\$ -</u>
Noncash capital additions related to the purchase of LEA	<u>\$ 3,857,606</u>	<u>\$ -</u>

See notes to financial statements

1. Summary of Significant Accounting Policies

The financial statements of the Public Utilities Commission, City of Hibbing, Minnesota have been prepared in conformity with generally accepted accounting principles as applied to governmental enterprise units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying financial statements.

Reporting Entity

In evaluating how to define the entity for financial reporting purposes, management considered whether the Commission is a component unit of another primary government. The Commission is a business type activity providing water, electric power, natural gas and steam services to the City of Hibbing. The Commission's basic financial statements include the financial position and results of operations of the Commission and its component unit, the Laurentian Energy Authority (the Authority). See Note 10 for additional information related to the Authority. Management has determined that the Commission is appropriately noted as a component unit of the City of Hibbing following criteria set forth in generally accepted accounting principles.

The Public Utilities Commission was established pursuant to Minnesota Laws 1949, Chapter 422, which gave the Commission full and exclusive control over the provision of water, electric power, natural gas and steam services and the facilities used in providing these services to the City of Hibbing. The Commission is composed of five members, all of whom are appointed by the Hibbing City Council and all of whom serve three-year terms.

Basis of Accounting

The Commission is a single-enterprise proprietary fund and uses the accrual basis of accounting. Proprietary funds are used to account for operations that are financed in a manner similar to private business enterprise in that a periodic determination of revenues earned, expenses incurred and/or changes in net position is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under this method, revenues are recorded when earned and expenses are recognized as soon as they result in liabilities for the benefits provided.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Commission complies with all applicable GASB pronouncements. Effective January 1, 2022, the Commission approved the application of regulated operations as allowed under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* for regulated entities. The Commission approved regulatory accounting treatment for certain expenses that will be collected in future rates in order to better match when these expenses will be recovered through the rate-making process.

Public Utilities Commission

Notes to Financial Statements
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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 funds' principle ongoing operations. The principle operating revenues of the Commission are charges to customers in the form of utility rates. Operating expenses include the cost of providing the utility services, administration expenses and depreciation on capital assets.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents

Cash includes amounts on hand as well as in demand deposit accounts.

Investments

State statutes authorize the Commission to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds or repurchase agreements. All investments are recorded at fair value. The Commission categorizes the fair value measurements of investments in accordance with generally accepted accounting principles, including GASB Statement 72. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement 72 establishes a fair value hierarchy. The hierarchy is based on valuation inputs, categorized at three levels, dependent on whether the inputs to those valuations are observable or unobservable in the marketplace.

Designated Assets

The Commission has designated a portion of its available cash to help offset the cost of its annual other post-employment benefits.

Accounts Receivable

Accounts receivable are reported net of allowance for uncollectibles, which were established based on current collection experience. Receivables are comprised of amounts due from customers, and other receivables which represent amounts due from transactions incurred in the normal course of operations.

Unbilled Revenues

Unbilled revenues represent an estimate of December services that were not billed to customers until the following year.

Public Utilities Commission

Notes to Financial Statements
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Inventories

Parts inventory and fuel and bulk supplies are valued at weighted average cost.

Inventories consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
Parts	\$ 1,095,483	\$ 885,960
Fuel and bulk supplies	119,564	68,166
	<u>\$ 1,215,047</u>	<u>\$ 954,126</u>

Prepaid Expenses

Prepaid balances are for payments made by the Commission in the current year for goods or services benefitting subsequent fiscal years.

Note Receivable, Steam Conversion Loan Program

In 2020, the Commission established a loan program for those residential customers wishing to convert their heating systems from steam to gas. The customers were required to go through a loan approval process in order to be eligible for the program. The loans were interest free and the loan repayment terms were open as to customer preferences but were not to exceed a 10-year period. The Commission contracted with a local bank to handle the repayment process of the program. As of December 31, 2023 and 2022 the Commission had outstanding loans through the program of \$269,238 and \$328,912, respectively. In 2021 the program was suspended and no new loans are currently being issued.

Restricted Assets

Certain proceeds of the general obligation revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net position because their use is limited by statute and applicable bond covenants. The bond reserve account is used to segregate resources accumulated for future debt service payments.

The Commission also holds cash that is restricted for the following specific uses:

- Customer deposits - Refundable deposits paid by customers at inception of service.
- Fuel assistance recipients - Amounts received from a third party that are to be applied against utility bills for qualifying low-income utility users.

Third parties also hold assets in escrow accounts on the Commission's behalf in conjunction with debt issues, as discussed in Note 5.

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

Property, Plant and Equipment

Property, plant and equipment (including right-to-use lease assets) are stated at cost. The Commission adopted a formal capitalization policy effective for 2010, which was revised in 2018 to increase the capitalization threshold to \$10,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and grounds	5-50
Production equipment	20-53
Transmission and distribution equipment	15-77
Furniture and equipment	4-50

Lease assets are typically amortized over the lease term.

Regulatory Assets

Under GASB 62, the Commission defers expenses for future recognitions as they are recovered or returned through the rate-making process. Regulatory asset balances were as follows at December 31:

	2023	2022
Deferred maintenance costs	\$ 1,463,283	\$ 1,053,690
Power costs	2,568,223	3,021,436
Total regulatory assets	\$ 4,031,506	\$ 4,075,126

All balances are amortized over a 5-year period.

Due to City of Hibbing

The Commission acts as a collection agent for garbage, sewage and storm water services billed by the City of Hibbing. The Commission includes these charges on its own monthly utility billings and remits collection of these charges to the City on a periodic basis.

Compensated Absences

Employees of the Hibbing Public Utilities Commission may accumulate up to 180 days of sick leave. After ten years of service and upon termination of employment, employees are paid one-half of their unused accumulated sick leave. At December 31, 2023 and 2022, the liability for sick leave, which represents one-half of the accumulated sick leave, was \$880,521 and \$757,309, respectively. The remaining sick leave is available to employees only in the event of illness related absences and is not reflected in these financial statements.

Employees may also accrue vacation pay up to a maximum of 31 working days per year based on length of employment. A maximum of 10 unused vacation days may be carried past the employee's anniversary date. At December 31, 2023 and 2022, the Commission's liability for vacation pay was \$307,985 and \$222,218, respectively.

Long-Term Obligations

Long-term debt and other obligations are reported as Commission liabilities. Bond premiums and discounts, are amortized over the life of the bonds using the straight-line method.

Leases

The Commission is a lessee because it leases capital assets from other entities. As a lessee, the Commission reports a lease liability and an intangible right-to-use capital asset (known as a lease asset) in the financial statements.

The Commission is a lessor because it leases capital assets to other entities. As a lessor, the Commission reports a lease receivable and corresponding deferred inflow of resources in the financial statements. The Commission continues to report and depreciate capital assets being leased as capital assets.

The Commission has a policy to recognize leases that have cash flows greater than \$100,000 over the life of the contract.

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 Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

Post Employment Benefits

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense are reported on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Deferred Inflows and Outflows of Resources

Deferred outflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an expense until then. A deferred inflow of resources represents an acquisition of net position that applies to future periods and so will not be recognized as revenue until that time.

Net Position

GASB No. 34 requires the classification of net position into three components - net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Contributions

Cash and capital assets are contributed to the Commission from customers, the municipality or external parties. The value of property contributed to the Commission is reported as revenue on the statements of revenues, expenses and changes in net position.

Effect of New Accounting Standards on Current Period Financial Statements

The GASB has approved the following:

- Statement No. 100, *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*
- Statement No. 101, *Compensated Absences*
- Statement No. 102, *Certain Risk Disclosures*

When they become effective, application of these standards may restate portions of these financial statements.

Comparative Data

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

2. Deposits and Investments

Deposits

Minnesota Statutes require that all deposits, which are not U.S. government securities, be protected by insurance, surety bond or collateral. The market value for collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes legal investments, as well as certain first mortgage notes and certain state and local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than that furnishing the collateral.

Custodial credit risk is the risk that in the event of bank failure, a government's deposits may not be returned to it. The Commission's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Public Utilities Commission

Notes to Financial Statements
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At December 31, 2023 and 2022 the carrying amount of the Commission's deposits were \$3,635,493 and \$6,756,324 and the bank balance was \$4,671,009 and \$6,895,286, respectively. As of December 31, 2023 and 2022, \$0 and \$3,314,595 of the Commission's bank balances were exposed to custodial credit risk, respectively.

Investments

State statutes authorize the Commission to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds or repurchase agreements.

GASB Statement 72 sets forth the framework for measuring the fair value of investments based on a hierarchy of valuation inputs into three levels as follows:

Level 1 - All securities are valued with the market approach by using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 - All securities are valued with the market approach using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. The matrix pricing technique is used to value securities based on the securities' relationship to benchmark quoted prices. Inputs for level 2 include: (1) quoted prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in inactive markets, (3) inputs other than quoted prices that are observable for the asset or liability and (4) inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Securities within this hierarchy have unobservable inputs for the asset or liability. These investments primarily consist of assets where the asset is distressed or there is not an active market. Securities are valued using either the cost method where a replacement values is determinable or the income method using the present value technique.

Net Asset Value (NAV) - The fair value of investments in entities that calculate a net asset value per share are determined using the NAV in lieu of the leveling methodology described above.

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Money market mutual fund	\$ 367,787	\$ -	\$ -	\$ 367,787
Certificate of deposit	-	10,000,000	-	10,000,000
Cash equivalents - Minnesota Money Market Funds				25,300,894
Total				\$ 35,668,681

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
U.S. Treasuries	\$ -	\$ 24,015,150	\$ -	\$ 24,015,150
Money market mutual fund	352,069	-	-	352,069
Cash equivalents - Minnesota Money Market Funds				14,009,882
Total				\$ 38,377,101

All investments fall into the one to five maturity category.

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

The cash equivalent values were obtained from statements provided by the Minnesota Municipal Money Market Fund. The Fund is an external investment pool not registered with the SEC that follows the same regulatory rules of the SEC under rule 2a7and is managed by the Board and Minnesota Statutes. The fair value of the pool is the same as the value of the pool shares. The investment in the Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

As of December 31, 2023 and 2022, the Commission did not have any investments exposed to custodial risk.

The Commission's investment policy requires that an investment must be held by the Commission or its agent in the Commission's name and comply with Minnesota Statutes.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The money market mutual funds were rated AAAM by Standard & Poor's at December 31, 2023 and 2022.

The Commission does not have a policy that specifically addresses credit risk.

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

3. Property, Plant and Equipment

A summary of changes in capital assets during 2023 is as follows:

	2023			
	Balance January 1, 2023	Additions	Deletions	Balance December 31, 2023
Capital assets, not being depreciated:				
Land and land rights	\$ 344,407	\$ 218,021	\$ -	\$ 526,428
Construction in progress	2,178,089	14,597,613	15,394,726	1,380,976
Total capital assets, not being depreciated	2,522,496	14,815,634	15,394,726	1,943,404
Capital assets being depreciated/amortized:				
Intangible asset	2,764,688	-	-	2,764,688
Land improvements	-	2,272,059	-	2,272,059
Buildings	9,994,994	1,379,543	-	11,374,537
Production equipment	73,336,016	8,108,459	105,467	81,339,008
Transmission and distribution system	53,289,138	7,613,680	700,971	60,201,847
Furniture and equipment	4,639,205	490,334	292,946	4,836,593
Lease assets:				
Vehicles	68,911	-	-	68,911
Substation equipment	892,644	-	-	892,644
Total capital assets being depreciated	144,985,596	19,864,075	1,099,384	163,750,287
Less accumulated depreciation	89,901,591	6,865,668	930,946	95,836,313
Less accumulated amortization on leased assets	119,922	171,209	-	291,131
Net property, plant and equipment	\$ 57,486,579	\$ 27,642,832	\$ 15,563,164	\$ 69,566,247

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

A summary of changes in capital assets during 2022 is as follows:

	2022			Balance December 31, 2022
	Balance January 1, 2022	Additions	Deletions	
Capital assets, not being depreciated:				
Land and land rights	\$ 344,407	\$ -	\$ -	\$ 344,407
Construction in progress	2,304,769	-	126,680	2,178,089
Total capital assets, not being depreciated	<u>2,649,176</u>	<u>-</u>	<u>126,680</u>	<u>2,522,496</u>
Capital assets being depreciated/amortized:				
Intangible asset	2,764,688	-	-	2,764,688
Buildings	9,699,262	295,732	-	9,994,994
Production equipment	70,643,768	2,692,248	-	73,336,016
Transmission and distribution system	51,807,827	1,481,311	-	53,289,138
Furniture and equipment	4,563,467	75,738	-	4,639,205
Lease assets:				
Vehicles	-	68,911	-	68,911
Substation equipment	-	892,644	-	892,644
Total capital assets being depreciated	<u>139,479,012</u>	<u>5,506,584</u>	<u>-</u>	<u>144,985,596</u>
Less accumulated depreciation	86,520,235	3,381,356	-	89,901,591
Less accumulated amortization on leased assets	<u>-</u>	<u>119,922</u>	<u>-</u>	<u>119,922</u>
Net property, plant and equipment	<u>\$ 55,607,953</u>	<u>\$ 2,005,306</u>	<u>\$ 126,680</u>	<u>\$ 57,486,579</u>

4. Leases

Lessee - Lease Liabilities

The Commission leases certain vehicles and substation equipment. As required by GASB 87, *Leases*, the Commission records a lease asset and lease liability for its leasing activities. See Note 3, property, plant and equipment, for the breakdown and activity of lease assets during the year.

The Commission entered into zero leasing transactions in 2023. The Commission entered into two leasing transactions in 2022. The lease related to vehicles has a three-year term. The lease related to substation equipment has a six-year term. The Commission used a discount rate of 2.9% to value both contracts.

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

The annual requirements for the lease liability as of December 31, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending December 31:			
2024	\$ 199,867	\$ 16,448	\$ 216,315
2025	181,419	10,581	192,000
2026	186,750	5,250	192,000
2027	79,423	577	80,000
	<u>\$ 647,459</u>	<u>\$ 32,856</u>	<u>\$ 680,315</u>

Lessor - Lease Receivables

<u>Date</u>	<u>Lease Receivable Description</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>2023</u>
01/01/2023	Pole attachments	12/31/2025	2.00%	\$ 135,675
10/24/2023	Water tower space	02/14/2028	2.00	458,649
	Total			<u>\$ 594,324</u>

The Commission recognized \$62,756 of lease revenue and \$11,611 of interest income during 2023 related to its lessor contracts.

5. Long-Term Debt

Bonds and notes payable consist of the following at December 31:

	<u>2023</u>	<u>2022</u>
\$2,030,000 Public Utilities Revenue Notes Series 2005A, due in semi-annual installments of \$30,000 to \$80,000 through December 2025, interest at 4.1425%	\$ 300,000	\$ 440,000
Less current maturities	145,000	140,000
Total long-term debt, bonds and notes payable	<u>\$ 155,000</u>	<u>\$ 300,000</u>

The terms of Revenue Note Series 2005A called for the proceeds of the note to be placed in an escrow account. As funds were expended, the Commission submitted requests to the escrow agent to draw down on the account. The remaining funds are to be held in an escrow account until the maturity date of the bond. As of December 31, 2023 and 2022, the account had a balance of \$367,787 and \$352,069, respectively.

The escrow account discussed above is reflected as restricted assets in the accompanying statement of net position.

On December 22, 2023, the Commission issued the Series 2023A General Obligation Revenue Note for \$9,336,684, with interest at 2.014%, through the Public Facilities Authority Drinking Water Fund (PFA). The final maturity date of the Note is August 20, 2043, with payments made semiannually. As of December 31, 2023, the Commission has not received any draws on the Note from PFA. Subsequent to year end, through the date the financial statements were available to be issued, the Commission received \$5,574,492 related to the Note.

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

The annual requirements to amortize all long-term debt outstanding as of December 31, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years ending December 31:			
2024	\$ 145,000	\$ 14,374	\$ 159,374
2025	155,000	6,984	161,984
	<u>\$ 300,000</u>	<u>\$ 21,358</u>	<u>\$ 321,358</u>

A summary of changes in long-term obligations during 2023 is as follows:

	2023				
	<u>Balance January 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2023</u>	<u>Due Within One Year</u>
Public Utilities Revenue Note 2005A	\$ 440,000	\$ -	\$ 140,000	\$ 300,000	\$ 145,000
Unamortized bond discount	(4,066)	-	(1,392)	(2,674)	-
	435,934	-	138,608	297,326	145,000
Compensated absences	757,309	202,732	79,520	880,521	-
Lease liability	841,633	-	194,174	647,459	199,202
Total	<u>\$ 2,034,876</u>	<u>\$ 202,732</u>	<u>\$ 412,302</u>	<u>\$ 1,825,306</u>	<u>\$ 344,202</u>

A summary of changes in long-term obligations during 2022 is as follows:

	2022				
	<u>Balance January 1, 2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2023</u>	<u>Due Within One Year</u>
Public Utilities Revenue Note 2005A	\$ 570,000	\$ -	\$ 130,000	\$ 440,000	\$ 140,000
Unamortized bond discount	(5,461)	-	(1,395)	(4,066)	-
	564,539	-	128,605	435,934	140,000
Compensated absences	801,512	-	44,203	757,309	-
Lease liability	-	961,555	119,922	841,633	194,173
Total	<u>\$ 1,366,051</u>	<u>\$ 961,555</u>	<u>\$ 292,730</u>	<u>\$ 2,034,876</u>	<u>\$ 334,173</u>

See Notes 8 and 9 for additional information relate to the net pension liability and total OPEB liability.

6. Risk Management

Risk of Loss

The 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 the past three years.

7. Contingencies and Commitments

The Commission has entered into contracts for the purchase of fuel, including biomass and natural gas, for the purposes of meeting its obligations as a Midcontinent Independent System Operator (MISO) Market Participant, electrical generation owner and public gas system operator.

The agreed upon quantities are based upon current and forecasted needs versus current held supply and MISO capacity accreditation requirement.

Effective June 1, 2022, the Commission began a five year agreement with Minnesota Power to utilize Minnesota Power's 115 KV substation to access the MISO energy and capacity markets. Under the Agreement, the Commission annually accredits the Hibbing Renewable Energy Center through MISO and purchases an additional 6MW of capacity and associated energy from Minnesota Power's Boswell 4 Station.

As of the 2024-2025 MISO Planning Year, MISO implemented a seasonal capacity accreditation construct to determine market participants' capacity shortage and/or excess. For the 2024-2025 Planning Year, the Commission had an average accreditation requirement of 21.1 MW and an average of 32.3 MW capacity available. It is expected that the Commission would maintain its surplus capacity position for the remainder of the term.

The Commission purchases gas and pays for the transportation of the actual gas purchased under a transportation tariff approved by the Federal Energy and Regulatory Commission on Northern Natural Gas' pipeline system. Future gas commitments for the Commission from 2024 to 2028 total \$13.4 million at fixed prices. With current market prices at February 8, 2024, this represents a savings to rate payers of \$1.3 million. The major vendors for the Commission for purchased gas are World Fuel Services Inc, the parent company of its gas broker, WFS Kinnect.

The Commission was involved in legal proceedings as of December 31, 2023. The Commission's insurance carrier is defending the Commission in those proceedings. Although the final outcome is not known at this time, it is believed that any potential negative outcome would not have a material effect to the Commission.

The Commission has incurred expenses in the past related to the cleanup of its former gas plant site. Costs related to complete the cleanup at this time are not known but management does not believe that the Commission will have any significant additional costs based on municipal liability limits of \$400,000. The Minnesota Pollution Control Agency has indicated it is in agreement with the Commission assessment of the maximum limit.

8. Deferred Benefit Pension Plan - Statewide**Plan Description**

The Commission participates in the following cost-sharing multiple-employer defined benefit pension plan 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.

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

Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. In 2023, legislation repealed the statute delaying increases for members retiring before full retirement age.

Contributions

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal years 2023 and 2022 and the Commission was required to contribute 7.5% for Coordinated Plan members. The Commission's contributions to the General Employees Fund for the year ended December 31, 2023 and 2022 were \$371,070 and \$328,732, respectively. The Commission's contributions were equal to the required contributions as set by state statute.

Public Utilities Commission

Notes to Financial Statements
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Pension Costs

At December 31, 2023 and 2022, the Commission reported a liability of \$3,478,154 and \$4,633,219, respectively, for its proportionate share of the General Employees Fund's net pension liability. The Commission's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State is considered a nonemployer contributing entity and the State's contribution meets the definition of a special funding situation. The State's proportionate share of the net pension liability associated with the Commission totaled \$95,859 and \$135,798 at December 31, 2023 and 2022, respectively.

The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022 through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. The Commission's proportionate share was 0.06220% at the end of the measurement period and 0.0585% for the beginning of the period.

	2023	2022
Commission's proportionate share of the net pension liability	\$ 3,478,154	\$ 4,633,219
State of Minnesota's proportionate share of the net pension liability associated with the commission	95,859	135,798
Total	\$ 3,574,013	\$ 4,769,017

For the year ended December 31, 2023 the Commission recognized pension expense of \$240,303 for its proportionate share of the General Employees Plan's pension expense.

At December 31, 2023, the Commission's proportionate share of the general employees plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 115,817	\$ 23,305
Changes in actuarial assumptions	549,593	953,333
Difference between projected and actual investment earnings		171,222
Contributions and proportionate share of contributions expensed, not deferred	219,781	115,492
Contributions paid to PERA subsequent to the measurement date	210,944	-
Total	\$ 1,096,135	\$ 1,263,352

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

At December 31, 2022, the Commission's proportionate share of the general employees plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 38,700	\$ 51,526
Changes in actuarial assumptions	1,083,347	20,938
Difference between projected and actual investment earnings	39,661	-
Contributions and proportionate share of contributions expensed, not deferred	-	262,536
Contributions paid to PERA subsequent to the measurement date	190,499	-
Total	\$ 1,352,207	\$ 335,000

The amounts reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
Years ending June 30:	
2024	\$ 48,491
2025	(480,744)
2026	129,545
2027	(75,453)
Total	\$ (378,161)

Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	33.5 %	5.10 %
International equity	16.5	5.30
Fixed income	25.0	0.75
Private markets	25.0	5.90
	<u>100 %</u>	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2023 and 2022, actuarial valuations were determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 7.0 % (6.5% in 2022). This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 7.0% was deemed to be within that range of reasonableness for financial reporting purposes.

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

Salary growth assumptions range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

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

Actuarial assumptions are reviewed every four years. The most recent four-year experience study was completed in 2022. The assumption changes were adopted by the Board and became effective with the July 1, 2023 actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2023:

Changes in actuarial assumptions:

The investment return assumption and single discount rate were changed from 6.5% to 7.0%.

Changes in Plan Provisions:

- An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.
- The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

Discount Rate

The discount rate used to measure the total pension liability was 7.0% and 6.5% in 2023 and 2022, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions 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.

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.0%)	Current Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
Commission's proportion share of the general employees fund net pension liability at December 31, 2023	\$ 6,153,134	\$ 3,478,154	\$ 1,277,882
	1% Decrease in Discount Rate (5.5%)	Current Discount Rate (6.5%)	1% Increase in Discount Rate (7.5%)
Commission's proportion share of the general employees fund net pension liability at December 31, 2022	\$ 7,318,413	\$ 4,633,219	\$ 2,430,946

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.rnnpera.org.

Public Employees Defined Contribution Plan

Commission board members are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal. The Plan is closed to new board members. The only board member on the Plan in 2023 and 2022 was grandfathered in.

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% 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% of employer contributions and twenty-five hundredths of one percent (0.25%) of the assets in each member's account annually.

Contributions during 2023 were \$210 for both the employer and for the employee. Contributions during 2022 were \$375 for both the employer and for the employee which equaled the required 5% contribution.

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

9. Other Post Employment Benefits

Plan Description (Pay as You Go Method)

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, 2023 and 2022, the Commission expended approximately \$942,596 and \$804,734, respectively, on benefits. At the January 1, 2023 and 2021 valuation dates, the following employees were covered by the benefit terms:

	2023	2021
Inactive employees and beneficiaries currently receiving benefits	98	95
Active employees	45	63
Total	143	158

Actuarial Assumptions

The following assumptions were used in the valuation of the total OPEB liability at December 31, 2023 and 2022:

	2023	2022
Measurement date	December 31, 2023	December 31, 2022
Actuarial valuation date	January 1, 2023	January 1, 2021
Discount rate	3.26% using 20-year tax exempt municipal bond rate	3.72% using 20-year tax exempt municipal bond rate
Inflation rate	2.50%	2.60%
Health care cost trend rate		4.90%-3.90% over 54 years

Total OPEB Liability

Changes in the total OPEB liability for 2022 and 2023 is as follows:

	Total OPEB Liability
Balance as of December 31, 2021	\$ 20,647,976
Changes for the year:	
Service cost	623,529
Interest cost	429,946
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	(4,289,364)
Benefit payments	(804,734)
Net changes	(4,040,623)
Total OPEB Liability, December 31, 2022	\$ 16,607,353

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

	Total OPEB Liability
Changes for the year:	
Service cost	\$ 276,170
Interest cost	610,696
Effect of economic/demographic gains or losses	(453,865)
Effect of assumptions changes or inputs	30,279
Benefit payments	(942,596)
Net changes	(479,316)
Total OPEB Liability, December 31, 2023	\$ 16,128,037

OPEB Liability Sensitivity

The following presents the Commission's total OPEB liability calculated using the discount rate of 3.26% in 2023 (3.72% in 2022) as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease	Current	1% Increase
December 31, 2023	\$ 18,326,591	\$ 16,128,037	\$ 14,316,768
December 31, 2022	19,008,991	16,607,353	14,647,674

The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current health cost rate.

	1% Decrease	Current	1% Increase
December 31, 2023	\$ 14,261,634	\$ 16,128,037	\$ 18,446,894
December 31, 2022	14,475,091	16,607,353	19,289,333

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended December 31, 2023 and 2022, the Commission recognized OPEB expense (revenue) of \$790,289 and \$(103,620), respectively. As of December 31, 2023, the Commission reported deferred inflows and outflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,705,206
Changes of assumptions	1,527,956	2,502,128
	\$ 1,527,956	\$ 4,207,334

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

As of December 31, 2022, the Commission reported deferred inflows and outflows related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 2,110,186
Changes of assumptions	2,351,464	3,466,683
	<u>\$ 2,351,464</u>	<u>\$ 5,576,869</u>

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

Years ending December 31:	
2024	\$ (898,676)
2025	(879,004)
2026	(863,188)
2027	(38,510)
Thereafter	-

10. Joint Venture – Component Unit

The Commission entered into a joint venture with the Virginia Public Utilities Commission to form the Laurentian Energy Authority, LLC (Authority). The Authority is a limited liability company created under Minnesota Statutes, Sections 452.25 and 471.59 and was 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 Xcel Energy, as well as to supply steam to existing customers of the Hibbing and Virginia Public Utilities Commissions.

Prior to the transaction in August 2023 described below, the management of the business and affairs of the Authority were governed by a Board of Directors. The Board consisted 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 comprised six seats on the Board. The remaining Board position was elected by a majority of the other directors.

In 2018 the Authority entered into a termination agreement with Northern States Power to cease providing bio massed produced power to Northern States Power. In conjunction with the termination agreement Northern States Power agreed to pay the Authority \$108,500,000 divided into six annual payments.

In 2019 the Authority agreed to transfer ownership of its power production assets to each of its two members. The Commission's share of those assets totaled \$21,110,979 which represented the Authority's remaining book value of those assets. Also, during the year, the Authority distributed equity payments to its two members. The Commission received \$9,041,666 in cash payments from the Authority in 2023 and 2022, representing purchasing power termination payments the Authority received in those years.

As of December 31, 2022, the Commission has reported on its statement of net position an investment of \$10,047,837, in the joint venture, which represents its remaining investment in the entity.

Public Utilities Commission

Notes to Financial Statements
December 31, 2023 and 2022

The Commission had a 50% ownership interest in the Authority. In August 2023, the Commission purchased the remaining 50% ownership interest from the Virginia Public Utilities Commission for \$759,860 due to the operational benefit the remaining partnership assets had for the Commission’s biomass operations. The acquisition date of the transaction was July 1, 2023. At the time of the transaction, the Authority’s total net position was \$1,049,195 and the portion purchased was \$524,598.

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:

	<u>2022</u>
Current assets	\$ 35,389
Other assets	18,263,335
Capital assets	<u>808,324</u>
 Total assets	 <u>\$ 19,107,048</u>
 Current liabilities	 \$ 355
Net position	<u>19,106,693</u>
 Total liabilities and net position	 <u>\$ 19,107,048</u>
 Total operating revenues	 \$ -
Operating expenses	(224,711)
Nonoperating revenue	<u>12,029</u>
 Change in net position	 <u>\$ (212,682)</u>

At December 31, 2023, the balances of the Authority are blended into the financial statements of the Commission.

REQUIRED SUPPLEMENTARY INFORMATION

Public Utilities Commission

Schedule of Changes in the Commission's Total OPEB Liability and Related Ratios and Notes
 Years Ended December 31, 2023 and 2022
 (Unaudited)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total OPEB Liability						
Service cost	\$ 487,215	\$ 383,407	\$ 561,246	\$ 597,214	\$ 623,529	\$ 276,170
Interest	714,998	787,841	531,232	456,552	429,946	610,696
Effect of plan changes	-	-	-	-	-	-
Effect of economic/demographic gains or (losses)	-	(3,616,791)	-	(1,100,781)	-	(453,865)
Effect of assumption changes or inputs	(1,844,377)	3,292,183	1,882,985	181,569	(4,289,364)	30,279
Benefit payments	(827,000)	(820,675)	(881,213)	(845,235)	(804,734)	(942,596)
Net change in total OPEB liability	(1,469,164)	25,965	2,094,250	(710,681)	(4,040,623)	(479,316)
Total OPEB Liability, Beginning	<u>20,707,606</u>	<u>19,238,442</u>	<u>19,264,407</u>	<u>21,358,657</u>	<u>20,647,976</u>	<u>16,607,353</u>
Total OPEB Liability, Ending	<u>\$ 19,238,442</u>	<u>\$ 19,264,407</u>	<u>\$ 21,358,657</u>	<u>\$ 20,647,976</u>	<u>\$ 16,607,353</u>	<u>\$ 16,128,037</u>
Payroll for the Measurement Period	\$ 5,440,813	\$ 4,967,680	\$ 4,592,402	\$ 4,407,245	\$ 4,576,939	\$ 5,410,488
Total OPEB Liability as a % of Employee Payroll	353.59%	387.79%	464.87%	468.27%	362.85%	298.09%

Note:

The Commission implemented the provisions of GASB Statement No. 75 in the year ending December 31, 2018. This schedule is intended to present a 10-year trend information. Additional years will be added as they become available. Changes to significant assumptions are as follows:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Changes in assumptions:						
Discount rate	4.10%	2.74%	2.12%	2.06%	3.72%	3.26%

In 2023, the assumption related to inflation changed from 2.60% to 2.50%.

The Commission does not have a formal funding policy and does not calculate a Actuarially Determined Contribution (ADC) as such the disclosure of a schedule of contributions is not required.

The Commission does not have funds placed in a trust to offset the total OPEB liability. As such a schedule of investment returns is not required.

See notes to required supplementary information

Public Utilities Commission

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer Contributions and Notes -
 Public Employees Retirement Association (PERA)
 Years Ended December 31, 2023 and 2022
 (Unaudited)

<u>Fiscal Year End</u>	<u>Commission's Proportion of the Net Pension Liability</u>	<u>Commission's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated With the Commission</u>	<u>Total</u>	<u>Commission's Covered Payroll</u>	<u>Commission's Proportionate Share of the NPL (asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
6/30/2023	0.0622%	\$ 3,478,154	\$ 95,859	\$ 3,574,013	\$ 4,756,870	73%	83.10%
6/30/2022	0.0585%	4,633,219	135,798	4,769,017	4,449,229	104%	76.70%
6/30/2021	0.0605%	2,538,621	78,965	2,617,586	4,574,751	87%	63.16%
6/30/2020	0.0650%	3,897,047	120,163	4,017,210	4,636,325	84%	79.06%
6/30/2019	0.0696%	3,848,028	119,661	3,967,689	4,925,725	78%	80.23%
6/30/2018	0.0780%	4,327,120	141,834	4,468,954	5,242,301	83%	79.53%
6/30/2017	0.0855%	5,458,264	68,646	5,526,910	5,515,110	99%	75.90%
6/30/2016	0.0907%	7,364,392	96,093	7,460,485	5,425,759	136%	68.91%
6/30/2015	0.0939%	4,866,386	-	4,866,386	5,519,343	88%	78.19%

Schedule of Employer's Contributions
 Years Ended June 30, 2023 and 2022

<u>Calendar Year End</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Commission's Covered Payroll</u>	<u>Contributions as a Percentage of Covered-Employee Payroll</u>
2023	\$ 389,966	\$ 389,966	\$ -	\$ 5,410,488	7.20%
2022	343,997	343,997	-	4,576,939	7.50%
2021	322,630	322,630	-	4,452,624	7.50%
2020	345,036	345,036	-	4,601,631	7.50%
2019	361,207	361,207	-	4,816,386	7.50%
2018	377,111	377,111	-	5,028,369	7.50%
2017	410,463	410,463	-	5,457,721	7.50%
2016	415,642	415,642	-	5,541,887	7.50%
2015	420,637	420,637	-	5,608,485	7.50%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

See notes to required supplementary information

Changes in Assumptions and in Benefit Terms

2023 Changes

Changes in Actuarial Assumptions:

The investment return assumption and single discount rate were changed from 6.5% to 7.0%.

Changes in Plan Provisions:

An additional one-time direct state aid contribution of \$170.1 million will be contributed to the Plan on October 1, 2023.

The vesting period of those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.

The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.

A one-time, non-compounding benefit increase of 2.5% minus the actual 2024 adjustment will be payable in a lump sum for calendar year 2024 by March 31, 2024.

2022 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2021 Changes

Changes in Actuarial Assumptions:

The investment return and single discount rates were changed from 7.5% to 6.5% for financial reporting purposes. The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

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

2020 Changes

Changes in Actuarial Assumptions:

The price inflation assumption was decreased from 2.5% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.0%.

Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average .25% less than previous rates.

Public Utilities Commission

Notes to Required Supplementary Information
December 31, 2023 and 2022

Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.

Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.

Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.

The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disable annuitants was changed from the RP-2014 disabled annuitant mortality table to the

PUB-2010 General/teacher disabled annuitant mortality table, with adjustments.

The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

The assumed spouse age difference was changed from two years older for females to one year older.

The assumed number of male new retirees electing the 1.00% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity options was adjusted accordingly.

Changes in Plan Provisions:

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

2019 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions:

The mortality projection scale was changed from MP-2015 to MP-2017.

The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.

Interest credited on member contributions decreased from 4% to 3%, beginning July 1, 2018.

Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

Contribution stabilizer provisions were repealed.

Annual increases were changed from 1% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost-of Living Adjustment, not less than 1% and not more than 1.5%, beginning January 1, 2019.

For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients or survivors.

Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for nonvested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions:

The State's contribution for the Minneapolis Employees Retirement Fund equals \$16.0 million in 2017 and 2018 and \$6.0 million thereafter.

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

2016 Changes

Changes in Actuarial Assumptions:

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

Public Utilities Commission

Notes to Required Supplementary Information
December 31, 2023 and 2022

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.

Changes in Plan Provisions:

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

2015 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

OTHER INFORMATION

Public Utilities Commission

Schedule of Departmental Revenues and Expenses (Unaudited)
 Years Ended December 31, 2023 and 2022

Year Ended December 31, 2023

	<u>Electric</u>	<u>Steam</u>	<u>Gas</u>	<u>Water</u>	<u>Total</u>
Operating Revenue					
Charges for services	\$ 16,491,368	\$ 2,413,350	\$ 8,527,838	\$ 2,891,015	\$ 30,323,571
Other operating revenues	307,047	85,907	89,722	60,088	542,764
Total operating revenues	<u>16,798,415</u>	<u>2,499,257</u>	<u>8,617,560</u>	<u>2,951,103</u>	<u>30,866,335</u>
Operating Expenses					
Operation and maintenance	15,429,415	3,949,754	5,508,515	1,990,382	26,878,066
Depreciation	2,704,228	874,669	370,515	617,630	4,567,042
Total operating expenses	<u>18,133,643</u>	<u>4,824,423</u>	<u>5,879,030</u>	<u>2,608,012</u>	<u>31,445,108</u>
Operating income (Loss)	<u>\$ (1,335,228)</u>	<u>\$ (2,325,166)</u>	<u>\$ 2,738,530</u>	<u>\$ 343,091</u>	<u>\$ (578,773)</u>

Year Ended December 31, 2022

	<u>Electric</u>	<u>Steam</u>	<u>Gas</u>	<u>Water</u>	<u>Total</u>
Operating Revenue					
Charges for services	\$ 15,279,617	\$ 2,333,220	\$ 8,366,680	\$ 2,787,178	\$ 28,766,695
Other operating revenues	274,721	87,967	92,710	114,211	569,609
Total operating revenues	<u>15,554,338</u>	<u>2,421,187</u>	<u>8,459,390</u>	<u>2,901,389</u>	<u>29,336,304</u>
Operating Expenses					
Operation and maintenance	14,203,346	5,390,401	5,618,977	2,068,475	27,281,199
Depreciation	1,786,808	952,669	225,916	535,885	3,501,278
Total operating expenses	<u>15,990,154</u>	<u>6,343,070</u>	<u>5,844,893</u>	<u>2,604,360</u>	<u>30,782,477</u>
Operating income (Loss)	<u>\$ (435,816)</u>	<u>\$ (3,921,883)</u>	<u>\$ 2,614,497</u>	<u>\$ 297,029</u>	<u>\$ (1,446,173)</u>



**INDEPENDENT AUDITOR’S REPORT
ON MINNESOTA LEGAL COMPLIANCE**

To the Members of the Commission
Public Utilities Commission
Hibbing, Minnesota

We have audited the accompanying financial statements of the single-enterprise proprietary fund activity of the Public Utilities Commission, a component unit of the City of Hibbing, Minnesota (the Commission), as of and for the year ended December 31, 2023, and the related notes to the financial statements which collectively comprise the Commission’s basic financial statements, and have issued our report thereon dated NEED DATE.

In connection with our audit, nothing came to our attention that caused us to believe that the Commission failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions of the Minnesota Legal Compliance Audit Guide for Cities, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the Schedule of Findings, Responses and Questioned Costs as item 2023-002. 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 Commission’s noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The Commission’s response to the finding in our audit is described in the accompanying Schedule of Findings, Responses and Questioned Costs. The Commission’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of those charged with governance and management of the Commission and the State Auditor and is not intended to be, and should not be, used by anyone other than these specified parties.

Abdo
Minneapolis, Minnesota

DRAFT



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

To the Members of the Commission
Public Utilities Commission
Hibbing, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the single-enterprise proprietary fund activity of the Public Utilities Commission, a component unit of the City of Hibbing, Minnesota (the Commission), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated NEED DATE.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings, responses and questioned costs as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters which is required to be reported under *Government Auditing Standards*.

Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Commission’s responses to the findings identified in our audit and described in the accompanying schedule of findings, responses and questioned costs. The Commission’s responses was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Abdo

Abdo
Minneapolis, Minnesota
NEED DATE

DRAFT



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Members of the Commission
Public Utilities Commission
Hibbing, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Public Utilities Commission's, a component unit of the City of Hibbing, Minnesota (the Commission), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended December 31, 2023. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Commission's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.



The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission's compliance with the requirements of each major federal program as a whole. In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Commission's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Commission's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Abdo
Minneapolis, Minnesota
NEED DATE



Public Utilities Commission
Hibbing, Minnesota
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Funding Source	Pass-Through Entity	Federal Domestic Assistance Number	Program Name/Number	Federal Expenditures
U.S. Environmental Protection Agency	City of Hibbing	66.468	Drinking Water State Revolving Fund	<u>\$ 5,424,850</u>

DRAFT

Public Utilities Commission
Hibbing, Minnesota
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Public Utilities Commission, a component unit of the City of Hibbing, Minnesota, Minnesota (the Commission) for the year ended December 31, 2023. The Commission's reporting entity is defined in Note 1 to the Commission's financial statements. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. All Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

Note 2: Summary of Significant Accounting Policies for Expenditures

Expenditures reported on this schedule are reported on the modified accrual basis of accounting.

Note 3: Pass-through Entity Identifying Numbers

Pass-through entity identifying numbers, if any, are presented where available.

Note 4: Subrecipients

No federal expenditures presented in this schedule were provided to subrecipients.

Note 5: Indirect Cost Rate

During the year ended December 31, 2023, the Commission did not elect to use the 10% de minimis indirect cost rate.

DRAFT

Public Utilities Commission
Hibbing, Minnesota
Schedule of Findings, Responses and Questioned Costs
For the Year Ended December 31, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	None reported
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2CFR section 200.516(a)	No

Identification of Major Programs/Projects

	<u>CFDA No.</u>
Drinking Water State Revolving Fund	66.468
Dollar threshold used to distinguish between Type A and Type B Programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

Significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

Section III - Major Federal Award Findings and Questioned Costs

None

Section IV - Schedule of Prior Year Audit Findings

A Schedule of Prior Year Audit Findings is included.

Other Issues

None

Public Utilities Commission
Hibbing, Minnesota
Schedule of Findings, Responses and Questioned Costs (Continued)
For the Year Ended December 31, 2023

Finding Description

2023-001 Segregation of Duties

Condition: During our audit we reviewed internal control procedures over the major financial cycles and found the Commission to have limited segregation of duties in these areas as noted below.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Effect: The existence of this limited segregation of duties increases the risk of fraud.

Internal Control Over Receipts

Cause: The Commission’s cashiers receive receipts, records receipt activity in the general ledger, have the ability to make adjustments and take deposits to the bank. Receipts and bank deposits are not subsequently reviewed and there is a lack of compensating controls.

Recommendation: We recommend that an individual, separate from the Cashiers, prepare bank deposits, regularly review receipt transactions, and take deposits to the bank.

Management Response:

There is no disagreement with this finding. The commission has established a new position titled Finance and Customer Service Supervisor. This position was filled in April of 2024 and will provide segregation of duties and additional internal control over receipts.

Internal Control Over Utility Billing

Cause: The Commission’s utility billing specialist enters meter readings into the billing system, generates billing statements and has the ability to manually adjust utility billing accounts. Billing statements and registers are not subsequently reviewed or approved and there is a lack of compensating controls.

Recommendation: We recommend that an individual, separate from the utility billing specialist, review, and approve billing registers.

Management Response:

There is no disagreement with this finding. The commission has established a new position titled Finance and Customer Service Supervisor. This position was filled in April of 2024 and will provide segregation of duties and additional internal control over receipts.

Public Utilities Commission
Hibbing, Minnesota
Schedule of Findings, Responses and Questioned Costs (Continued)
For the Year Ended December 31, 2023

2023-001 Segregation of Duties (Continued)

Internal Control Over Journal Entries

Cause: Adjusting journal entries are being posted to the accounting system without prior approval. Adjustments should be reviewed and approved by an individual other than the adjustment preparer. During the year, we noted a lack of review and approval over manual journal entries.

Recommendation: We recommend the Commission develop a policy for review and approval for review of manual adjustments.

Management Response:

There is no disagreement with this finding. To provide internal control over journal entries, the General Manager will approve manual adjustments as part of the review of monthly financials.

2023-002 Time Period for Payment

Condition: Auditing for legal compliance requires a review of the Commission's payment of claims. Our study indicated an instance of non-compliance that we believe is required to be remedied.

Criteria: Minnesota statute section 471.425 requires that the Commission pay bills within 35 days from receipt. If the invoice is not paid within the 35 days, interest at 1.5 percent per month is to be added to amount due.

Cause: We noted several invoices paid after the 35 day period. This occurred largely during a period of staff transition.

Effect: The Commission is in violation of this statute.

Recommendation: We recommend the Commission review the accounts payable process and ensure timing of payments is addressed within its written policies and procedures.

Management Response:

There is no disagreement with this finding. Understaffing in the accounting department resulted in extended payment dates in the referenced time period. In 2023, the commission hired additional accounting staff and the issue is now resolved.

Hibbing Public Utilities Commission, Minnesota
Schedule of Prior Year Audit Findings
For the Year Ended December 31, 2023

Finding

Description

2022-001

Financial Statement Adjustments – Material Weakness

Criteria: For timely and accurate financial reporting, the Commission should be reconciling all material financial statement accounts on a regular basis throughout the year.

Recommendation: The Commission review the current staffing positions within the Commission itself in order to provide appropriate support to the outside accounting firm assisting with financial reporting duties. Such review should also include appropriate training on the use of the software and procedures to capture accurate information.

Current Year Status: The finding was removed from the current year report. During the audit, no material adjustments were required.

2022-002

Minnesota Legal Compliance – Depositories of Public Funds/Collateral Reporting

Criteria: Minnesota Statutes, section 118A.06, requires the Commission to obtain a bond or collateral, which when computed at its market value, shall be at least ten percent more than the amount of the excess deposit at the close of the banking day.

Recommendation: We recommend the Commission closely monitor the account during the year to ensure adequate collateral on funds at all times.

Current Year Status: The finding was removed from the current year report. During the audit, we noted collateral coverage was sufficient.

2022-003

Minnesota Legal Compliance – Claims and Disbursements/Timely payment of bills

Criteria: Minnesota statutes, section 471.425 subd. 2, requires invoices to be paid within the time period set within the prescribed contract or within 35 days from receipt of the bill.

Recommendation: We recommend the Commission closely review it bill processing system to ensure that bills are being processed timely in accordance with state statutes.

Current Year Status: The finding is repeated in the current year.

Hibbing Public Utilities Commission, Minnesota
Schedule of Prior Year Audit Findings (Continued)
For the Year Ended December 31, 2023

Finding

Description

2022-004

Minnesota Legal Compliance – Miscellaneous Provisions/ Use of Gift Cards for Employee Incentives and Public Purpose Documentation

Criteria:

The Minnesota State Auditor has published a Statement of Position and has taken a stance that there is no statutory authority that authorizes Minnesota local governments to disburse public funds using gift cards. The State Auditor has also published a Statement of Position regarding employee recognition programs and events.

Recommendation:

We recommend that the Commission review the Statements of Position to ensure compliance for employee incentive or recognition programs.

Current Year Status:

The finding was removed from the current year report. During the audit, we noted no use of gift cards for employee incentives or other public purpose noncompliance.

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Lighting the path forward

Public Utilities Commission

2023 Financial Statement Audit



Audit Results

Auditor's Opinion



Unmodified/Clean
Opinion

Minnesota Legal Compliance



One Finding Reported

Single Audit



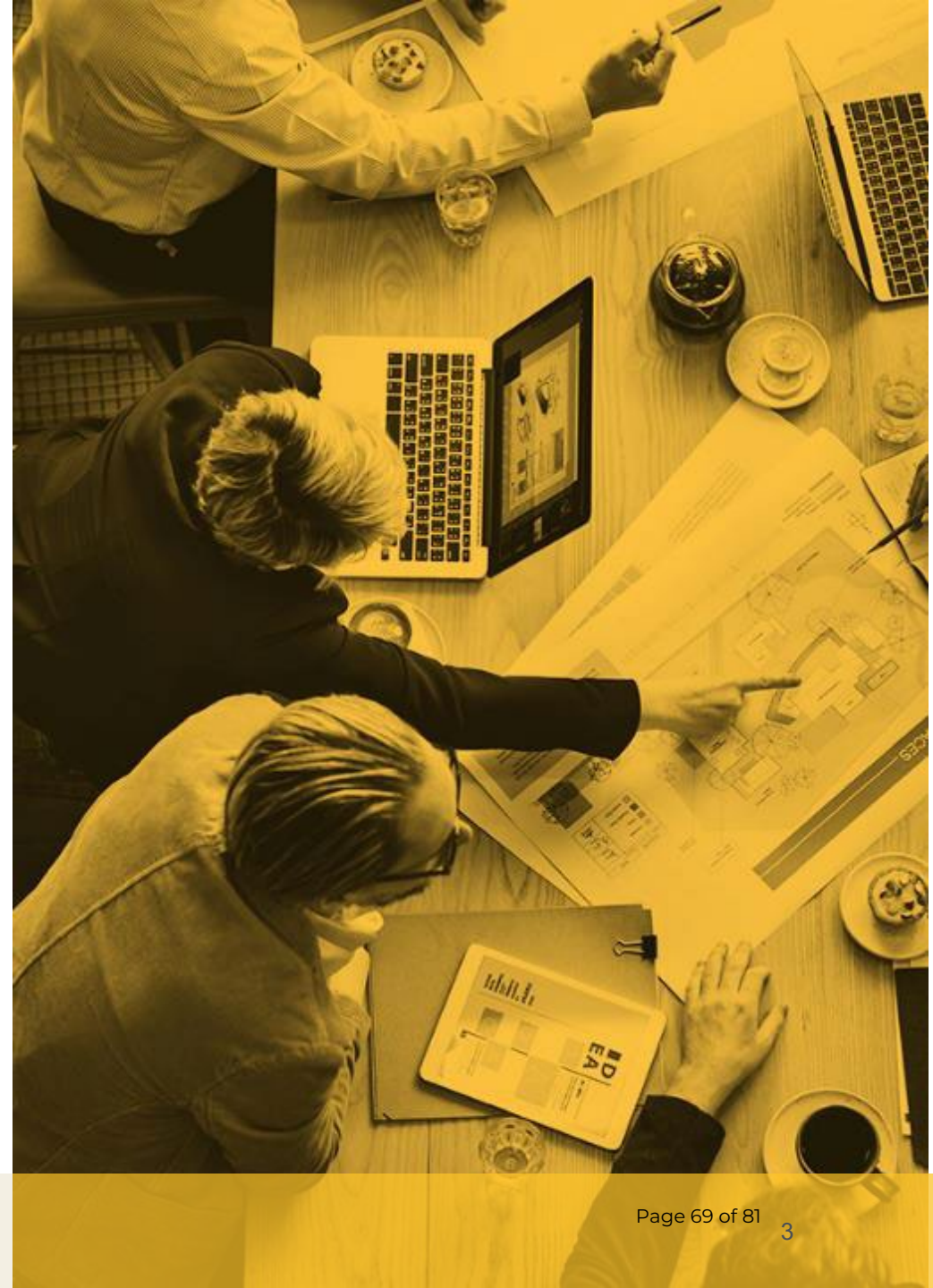
No Compliance Findings
Reported

Audit Findings (2023)

Internal Controls: Segregation of Duties

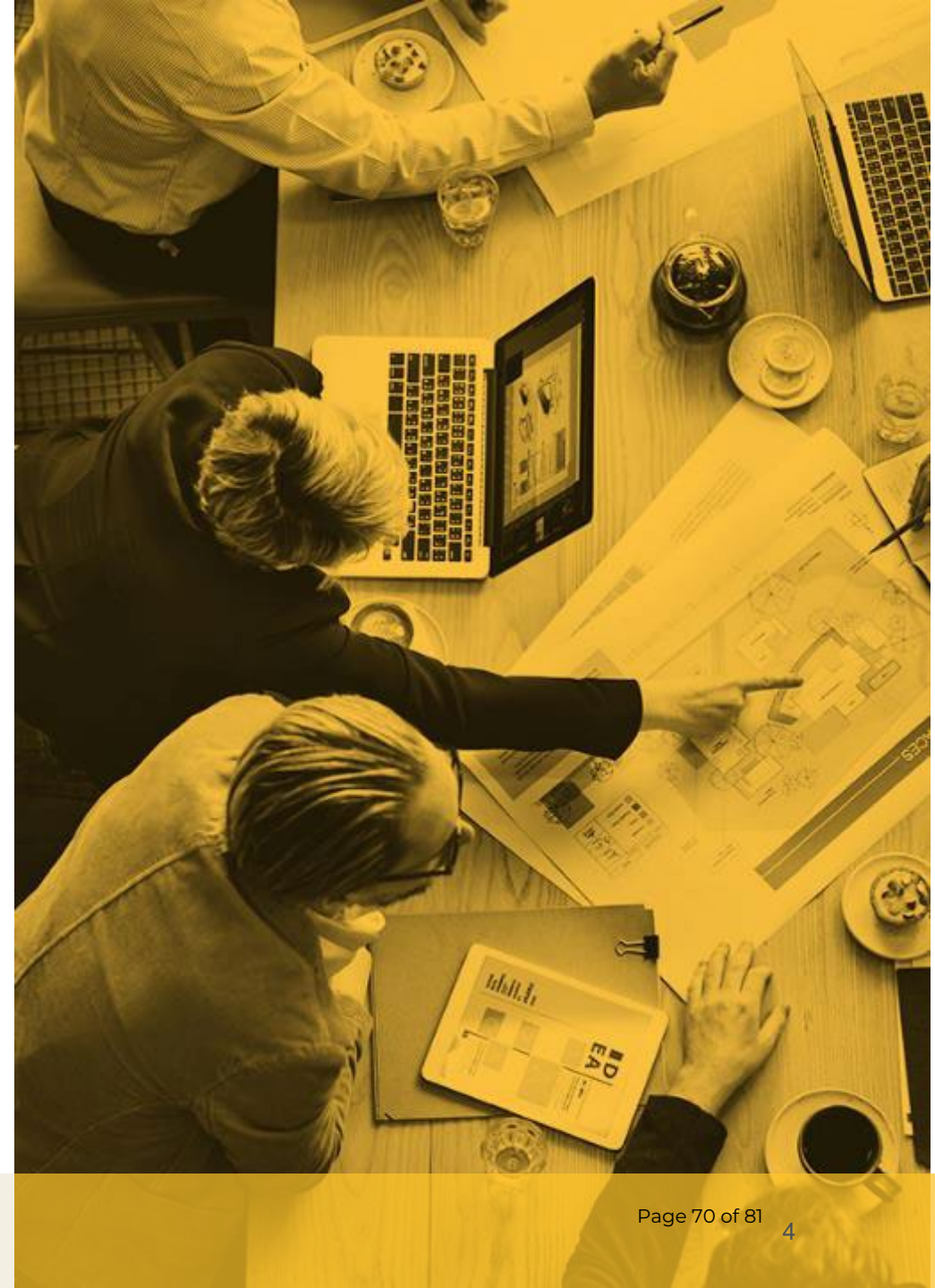
- Receipt Process
- Utility Billing
- Journal Entries

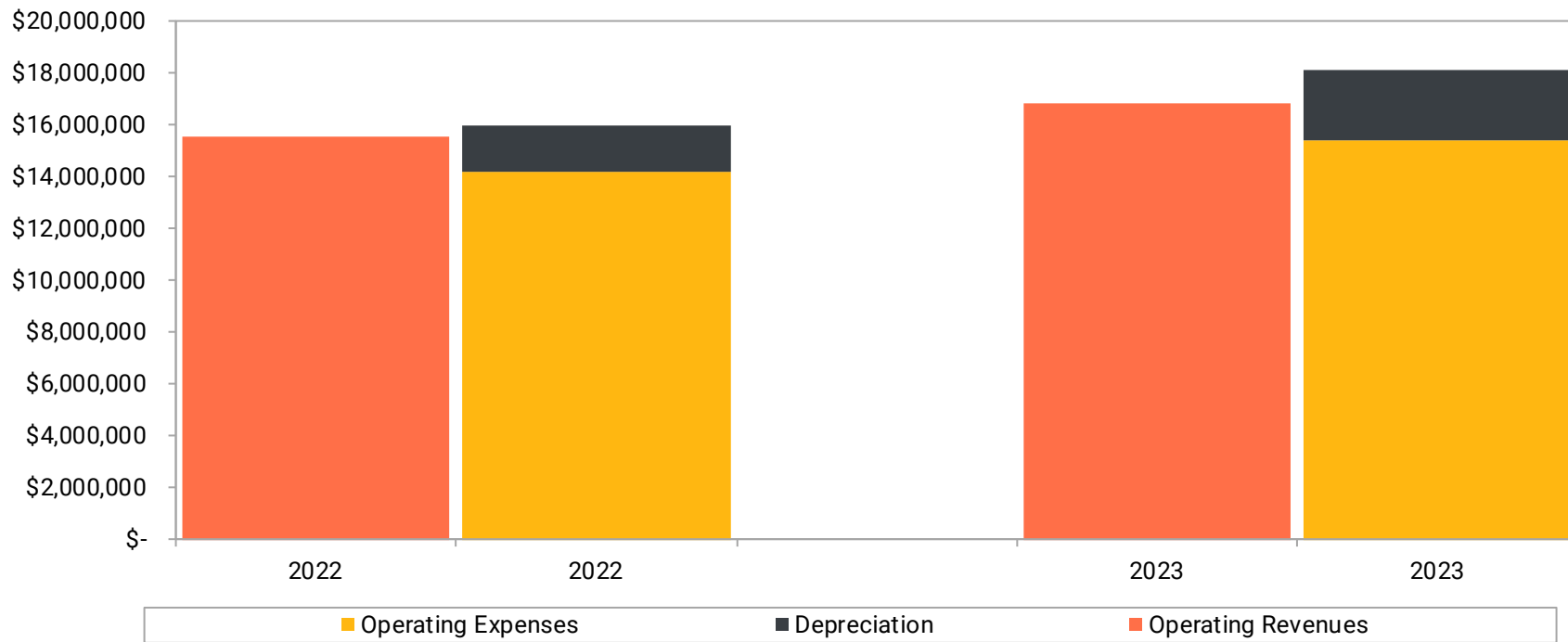
Compliance: Time Period of Payments



Audit Findings (2022)

- **Financial Statement Adjustments**
- **Compliance**
 - Collateral Reporting
 - Time Period of Payment
 - Employee Incentives and Public Purpose Documentation



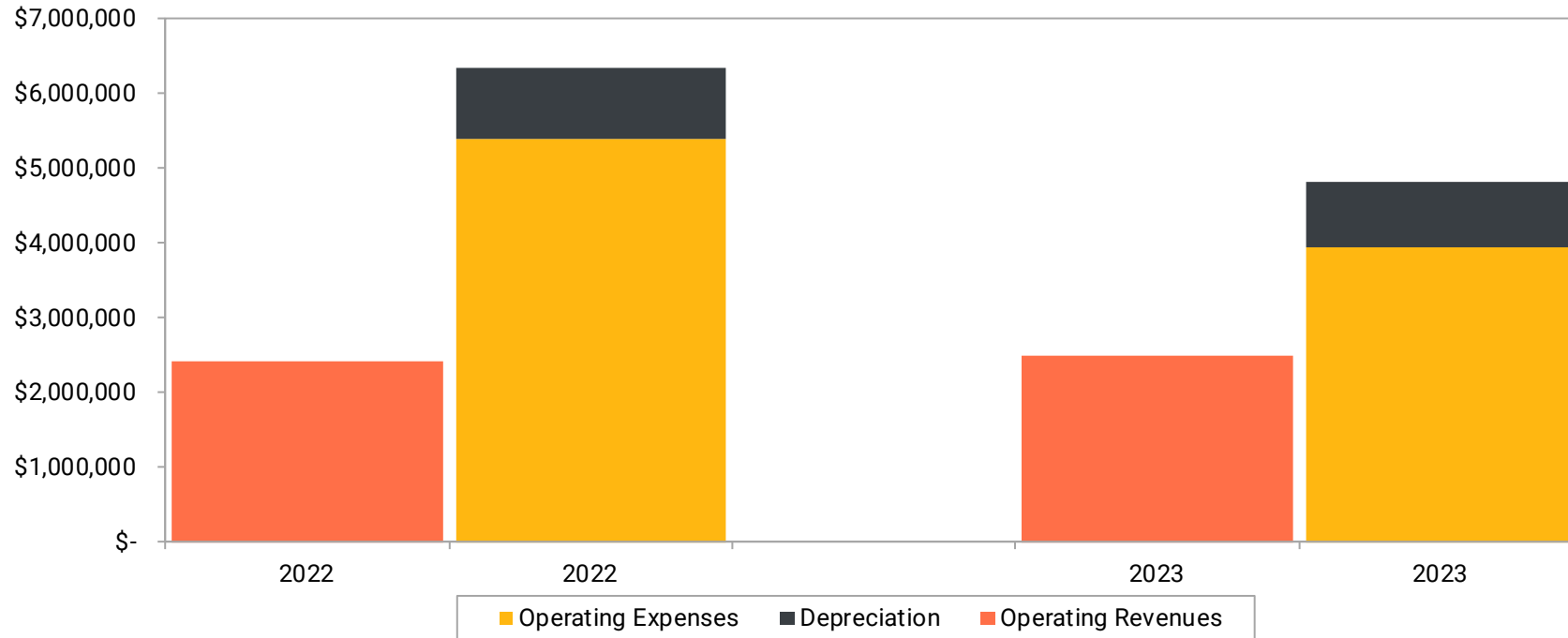


Electric

Operating Revenues and Expenses

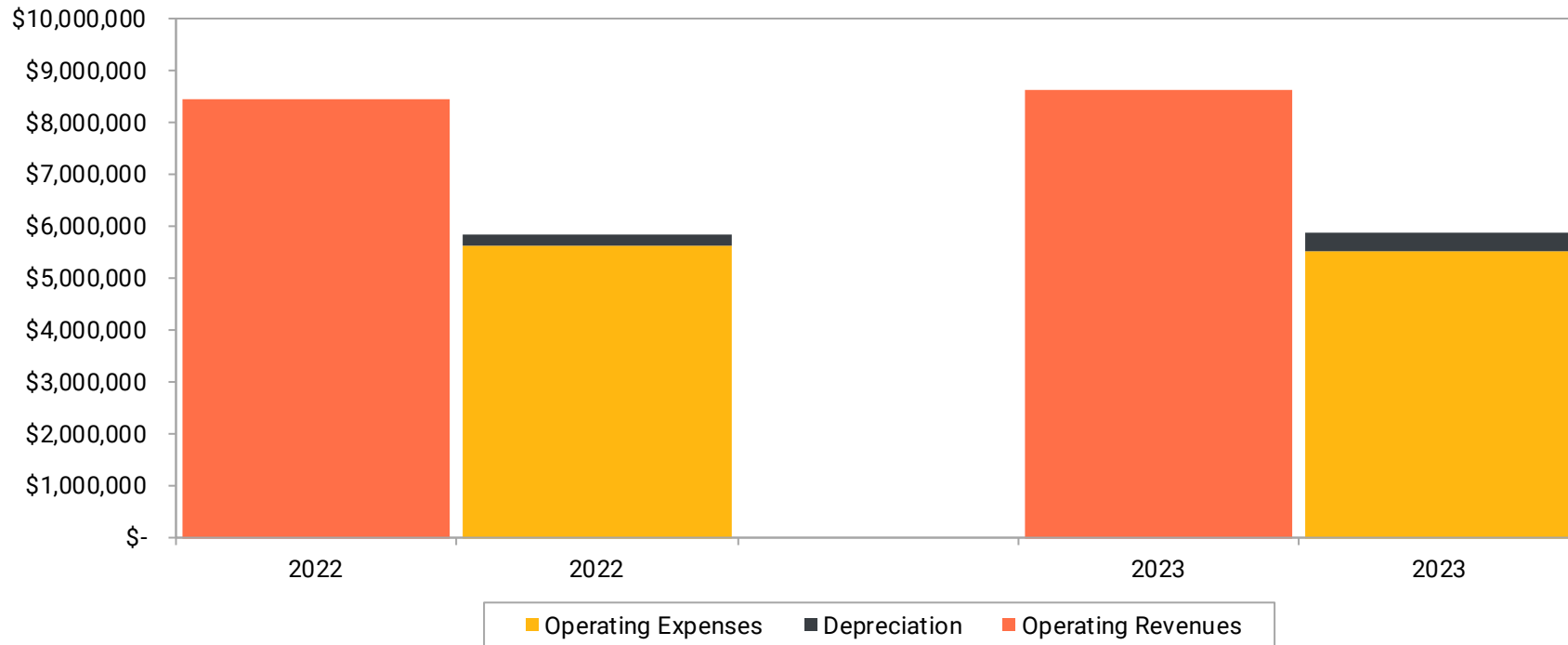
Steam

Operating Revenues and Expenses



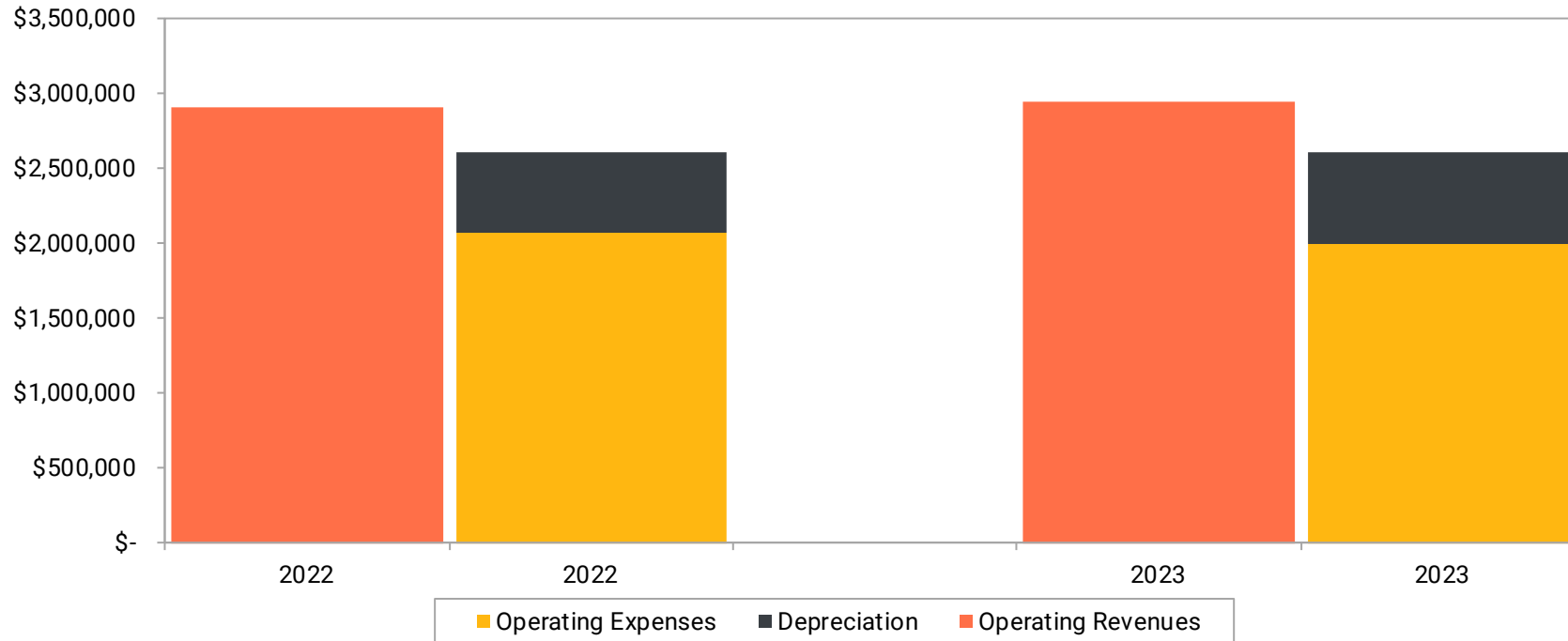
Gas

Operating Revenues and Expenses



Water

Operating Revenues and Expenses





Item 1

Item 2 – Preparation for May 22nd Joint Working Session

May 16th, 2024

Jeff Hart
Commission Chair
1902 E. 6th Avenue
Hibbing, MN 55746

RE: Item 2 – Preparation for May 22nd Joint Working Session

Dear Commissioners;

A Joint Working Session between the Hibbing City Council and the Hibbing Public Utilities Commission will be held on Wednesday May 22nd at 5:00 pm in the Hibbing City Hall. The primary topic of discussion at this meeting will be water projects funding. Attached is a draft agenda for the meeting and I look forward to discussing this with you all.

Sincerely;



Luke J. Peterson



Commission Work Session Agenda

May 22nd, 2024

Chair J. Hart	—	Commissioner J. Bayliss	—
Commissioner J. Stokes	—	Commissioner J. Babich	—
Commissioner J. Sandstede	—	Legal Counsel A. Borland	—
General Manager L. Peterson	—	Auditors Sterle & Co., LLP	—
Utility Operations S. Dickinson	—	Energy & Pricing P. Plombon	—
Safety & Facilities P. Rutchasky	—	Admin & Comm E. Dixon	—
City Administrator G. Pruszinske	—	Local 94 President Rich Kampsula	—

SPECIAL WORKING SESSION OF THE CITY COUNCIL AND PUBLIC UTILITY COMMISSION

1. PFA Funding

- a. Capital Plans
 - i. Dollar amount of projects
 - ii. Time Horizon for full implementation
- b. Funding
 - i. Sources and uses
 - 1. Overall debt forecast, repayment horizon
 - 2. Outside grant funding sources including (IRRRB, DEED, etc.)

2. Misc.

- a. Update on Rate Study: timing, scope, and implementation
- b. Overall financial report of HPU (current budget; annual audit will suffice)
- c. HEDA property for solar project
- d. Mine View operating water service (tentative)



Item 2

Item 3 – Staffing Update

May 16th, 2024

Jeff Hart
Commission Chair
1902 E. 6th Avenue
Hibbing, MN 55746

RE: Item 3 – Staffing Update

Dear Commissioners;

With recent changes in staffing and organizational needs, I look forward to discussing the needs of the Electrical Department/ Line Crew.

Sincerely;



Luke J. Peterson