

CITY OF HIBBING, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2005

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December 31, 2005

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ORGANIZATION
December 31, 2005

CITY COUNCIL

Mayor

Richard Wolff

Council Members

Ward A

Dan Marich

Ward B

Patricia Shafer

Ward C

Jack Lund

Ward D

Timothy Harkonen

Ward E

Frank Bigelow

ADMINISTRATION

Clerk/Treasurer

Jeffrey A. Young

APPOINTED

City Assessor

Bruce Sandberg

City Attorney

Richard K. Sellman

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hibbing, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hibbing, Minnesota's, management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Utilities Commission, which represent 89 percent, 99 percent, and 95 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Utilities Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2006, on our consideration of the City of Hibbing, Minnesota'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, infrastructure condition data, and notes on pages 4 through 11, and 50 through 54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hibbing, Minnesota's basic financial statements. The combining and individual fund financial statements and schedules, and the Hibbing Economic Development Authority's (a component unit) combining financial statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the basic financial statements of City of Hibbing, Minnesota. The combining and individual fund financial statements and schedules, and the Hibbing Economic Development Authority's (a component unit) combining financial statements and schedule, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Walker, Kruy & Halberg, P.C.

June 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

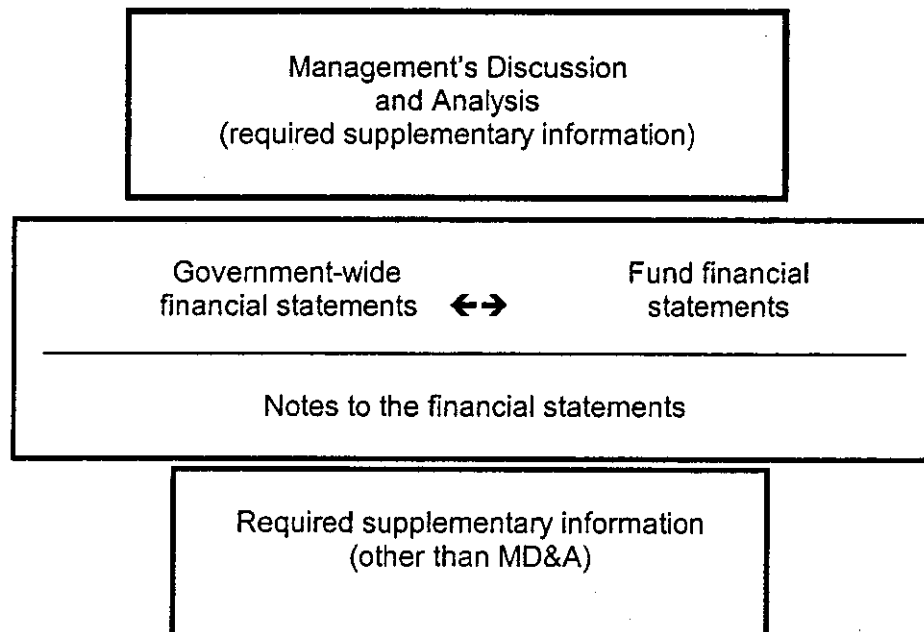
The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Hibbing, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$30,718,478, of which \$19,959,860 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$11,870,574. Invested in capital assets, net of related debt represents \$13,954,226 of the total.
- The Hibbing Economic Development Authority (EDA) has total net assets of \$118,965. Invested in capital assets, net of related debt represents \$(658,047) of the total.
- The City of Hibbing's primary government's net assets increased by \$3,455,326 for the year ended December 31, 2005. The governmental activities' net assets increased \$3,016,917 and the business-type activities' net assets increased by \$438,409.
- The EDA's net assets increased by \$159,791.
- The net cost of governmental activities was \$10,754,933 for the current year. The net cost was funded by general revenues and other items totaling \$13,771,850.
- Governmental funds' fund balances increased by \$2,382,372.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Hibbing, Minnesota's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The management's discussion and analysis (this section) is required to accompany the basic financial statements, and therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



December 31, 2005

There are two government-wide financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The fund financial statements explain how governmental activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Government-wide Financial Statements

The statement of net assets and the statement of activities report information about the City, as a whole, and about its activities in a way that helps the reader determine whether the City's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These government-wide statements report the City's net assets and how they have changed. You can think of the City's net assets — the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors; such as changes in the City's property tax base and state aid and the condition of City's buildings and streets also need to be considered in assessing the overall health of the City.

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

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, public works, culture and recreation, economic development, and transportation. Property taxes and state and federal grants and aids finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's sewer operations and refuse removal services are reported here.
- **Component Units**—The Hibbing Economic Development Authority (EDA) and the Hibbing Public Utilities Commission (PUC) are reported here. EDA does not prepare separate financial statements. Complete financial statements of the PUC may be obtained from Hibbing Public Utilities Commission, 19th Street and East 6th Avenue, Hibbing, Minnesota 55746.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—governmental and proprietary—use different accounting methods.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

- Proprietary funds—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased from \$39,133,726 to \$42,589,052. Looking at the net assets and net expenses of governmental and business-type activities separately, however, reveal differences. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 16,034,886	\$ 13,817,342	\$ 1,545,473	\$ 1,179,724	\$ 17,580,359	\$ 14,997,066
Capital assets	23,813,113	24,170,203	23,064,109	21,175,658	46,877,222	45,345,861
Total assets	<u>39,847,999</u>	<u>37,987,545</u>	<u>24,609,582</u>	<u>22,355,382</u>	<u>64,457,581</u>	<u>60,342,927</u>
Long-term debt outstanding	(6,126,715)	(7,272,702)	(9,053,000)	(9,357,519)	(15,179,715)	(16,630,221)
Other liabilities	(3,002,806)	(3,013,282)	(3,686,008)	(1,565,698)	(6,688,814)	(4,578,980)
Total liabilities	<u>(9,129,521)</u>	<u>(10,285,984)</u>	<u>(12,739,008)</u>	<u>(10,923,217)</u>	<u>(21,868,529)</u>	<u>(21,209,201)</u>
Net assets						
Invested in capital assets, net of debt	19,959,860	19,932,978	13,954,226	11,765,599	33,914,086	31,698,577
Restricted	2,320,990	2,114,923	-	-	2,320,990	2,114,923
Unrestricted	8,437,628	5,653,660	(2,083,652)	(333,434)	6,353,976	5,320,226
Total net assets	<u>\$ 30,718,478</u>	<u>\$ 27,701,561</u>	<u>\$ 11,870,574</u>	<u>\$ 11,432,165</u>	<u>\$ 42,589,052</u>	<u>\$ 39,133,726</u>

Net assets of the City's governmental activities increased 11 percent (\$30,718,478 compared to \$27,701,561). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from \$5,653,660 at December 31, 2004, to \$8,437,628 at the end of 2005.

Net assets of the City's business-type activities increased 4 percent (\$11,870,574 compared to \$11,432,165) in 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,133,639	\$ 2,028,751	\$ 4,276,923	\$ 4,080,214	\$ 6,410,562	\$ 6,108,965
Operating grants and contributions	1,447,544	1,600,700	-	3,840	1,447,544	1,604,540
Capital grants and contributions	688,875	175,792	207,958	620,906	896,833	796,698
General revenues:						
Taxes	5,858,353	5,619,691	-	-	5,858,353	5,619,691
Intergovernmental	7,425,004	6,953,170	-	-	7,425,004	6,953,170
Other general revenues	488,493	82,278	20,065	8,787	508,558	91,065
Total revenues	<u>18,041,908</u>	<u>16,460,382</u>	<u>4,504,946</u>	<u>4,713,747</u>	<u>22,546,854</u>	<u>21,174,129</u>
Program expenses:						
General government	3,564,373	3,156,048	-	-	3,564,373	3,156,048
Public safety	4,733,520	4,868,844	-	-	4,733,520	4,868,844
Public works	3,376,934	3,148,626	-	-	3,376,934	3,148,626
Culture and recreation	2,637,375	2,604,387	-	-	2,637,375	2,604,387
Other	505,779	333,631	-	-	505,779	333,631
Interest	207,010	252,697	-	-	207,010	252,697
Garbage and refuse collection	-	-	2,125,531	2,204,359	2,125,531	2,204,359
Sewer operating and maintenance	-	-	1,936,835	1,757,072	1,936,835	1,757,072
Memorial building concessions	-	-	4,171	6,032	4,171	6,032
Total expenses	<u>15,024,991</u>	<u>14,364,233</u>	<u>4,066,537</u>	<u>3,967,463</u>	<u>19,091,528</u>	<u>18,331,696</u>
Increase in net assets	<u>\$ 3,016,917</u>	<u>\$ 2,096,149</u>	<u>\$ 438,409</u>	<u>\$ 746,284</u>	<u>\$ 3,455,326</u>	<u>\$ 2,842,433</u>

The City's total revenues increased by 6% (\$1,372,725). The total cost of all programs and services increased by 4% (\$759,832). Our analysis below separately considers the operations of governmental, business-type activities, and EDA – Component Unit activity.

Governmental Activities

Revenue for the City's governmental activities increased by 10% (\$1,581,526 while total expenses increased by 5% (\$660,758). The increase in net assets for governmental activities was \$3,016,917 in 2005.

The cost of all governmental activities this year was \$15,024,991. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs (\$2,133,639) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,561,423). Our taxpayers paid \$5,858,353 in taxes in 2005.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Public safety	\$ 4,733,520	\$ 4,868,844	\$ 2,438,058	\$ 2,568,641
General government	3,564,373	3,156,048	3,096,407	2,832,749
Public works	3,376,934	3,148,626	2,515,925	2,659,877
Culture and recreation	2,637,375	2,604,387	2,186,021	2,232,461
Other	505,779	333,631	311,512	12,565
Interest	207,010	252,697	207,010	252,697
Totals	<u>\$ 15,024,991</u>	<u>\$ 14,364,233</u>	<u>\$ 10,754,933</u>	<u>\$ 10,558,990</u>

Business-Type Activities

Revenues of the City's business-type activities were \$4,504,946 and expenses were \$4,066,537 (see Table 2). There was an increase in net assets of \$438,409 during the year ended December 31, 2005. The factors driving these results include:

- Operations produced \$386,423 of income for the year ended December 31, 2005.
- The City received capital grants totaling \$207,958 for the year.

EDA Component Unit Activity

The EDA had a net increase in net assets of \$159,791 for the year ended December 31, 2005. General revenues such as taxes and grants not restricted to specific programs accounted for \$307,936 of this, with net program revenues under expenses of \$(148,145).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$12,728,144 which is over last year's total of \$10,345,772. Included in this year's total fund balance is a surplus of \$10,336,342 in the City's general fund. The general fund had an increase of \$2,181,985. The other major governmental fund recorded a decrease in net assets. The largest increase in other governmental funds was for \$181,273 in the Capital Equipment and Improvement Capital Projects Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$266,526 below the final budget amounts. The most significant negative variance (\$57,007) occurred in the City's transportation program. The most significant positive variance occurred in the City's public works. Resources available for appropriation were above the final budgeted amounts. The City received more taxes and intergovernmental aids than expected.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City had \$46,877,222 invested in a broad range of capital assets, net of accumulated depreciation, including land, land improvements, buildings, infrastructure and equipment. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$1,531,361 over last year.

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land, artwork, gravel roads	\$ 6,307,583	\$ 6,357,512	\$ 130,057	\$ 130,057	\$ 6,437,640	\$ 6,487,569
Buildings and improvements	7,662,646	8,360,004	19,891,168	10,426,116	27,553,814	18,786,120
Infrastructure	6,968,284	7,601,073	-	-	6,968,284	7,601,073
Equipment, machinery, and furniture	2,104,491	1,718,695	360,438	389,862	2,464,929	2,108,557
Construction in progress	<u>770,109</u>	<u>132,919</u>	<u>2,682,446</u>	<u>10,229,623</u>	<u>3,452,555</u>	<u>10,362,542</u>
Totals	<u>\$ 23,813,113</u>	<u>\$ 24,170,203</u>	<u>\$ 23,064,109</u>	<u>\$ 21,175,658</u>	<u>\$ 46,877,222</u>	<u>\$ 45,345,861</u>

This year's major additions included:

➤ Heavy rescue truck	\$ 269,525
➤ Ambulance	102,570
➤ Fire turn out gear	90,842
➤ Dump truck and back hoe	171,497
➤ Two police cars	41,393
➤ Wastewater treatment improvements	2,599,584
➤ Urban street work and sidewalks	571,191
➤ Park mower and utility vehicle	51,957
➤ Two pickups and a van	61,067

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

Debt

At year-end, the City had \$19,958,313 in long-term debt outstanding versus \$21,841,997 last year—as shown in Table 5.

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

Table 5
Outstanding Debt, at Year-end

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>EDA Component Unit</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds (backed by the City)	\$ 690,000	\$ 1,055,000	\$ -	\$ 268,311	\$ 4,778,598	\$ 5,152,680
Certificates of indebtedness	915,000	565,000	-	-	-	-
Capital leases	2,248,253	2,617,225	-	-	-	-
Police and Fire indebtedness	1,971,897	2,629,196	-	-	-	-
General obligation revenue notes	-	-	9,053,000	9,089,208	-	-
Loans payable	-	-	-	-	-	59,096
Compensated absences	301,565	406,281	-	-	-	-
Total	\$ 6,126,715	\$ 7,272,702	\$ 9,053,000	\$ 9,357,519	\$ 4,778,598	\$ 5,211,776

The State limits the amount of net debt that the City's can issue to 2 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$690,000 is significantly below the \$11,089,486 State-imposed limit.

The City had one new debt issue during the year for a capital equipment certificate of indebtedness for \$565,000.

MODIFIED APPROACH FOR GRAVEL ROADS

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

- There was no significant change in the assessed condition of the gravel roads from the previous assessment.
- The current assessed condition compares favorably with the condition level the City has established.
- The estimated annual cost to maintain the gravel roads was \$87,000 as compared to the actual costs during the current year of \$125,938.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2006 budget, tax rates, and fees that will be charged for the business-type activities.

- The State of Minnesota will increase the City's local government aid by 6% from the prior year.
- City General Fund expenditures for 2006 are budgeted to increase 7.5% over the 2005 budget.
- Property taxes levies will increase 3% for 2006.
- Consistent with the national and global economy, rising health care and fuel costs significantly impact the City's budgets.

The City's 2006 capital budget calls for it to spend another \$1,931,000 for capital projects, principally for the following:

• Public works	\$ 658,035
• Public safety	331,765
• General government	205,000
• Parks and recreation	216,200
• Library	90,000
• Other	430,000

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
December 31, 2005

	Primary Government			Component Units	
	Governmental Activities	Business- type Activities	Total	EDA	PUC
ASSETS					
Cash and cash equivalents	\$ 10,141,378	\$ 550,126	\$ 10,691,504	\$ 1,273,035	\$ 4,024,251
Investments	1,572,841	-	1,572,841	395,431	1,000,000
Taxes receivable	142,858	-	142,858	169,609	-
Special assessments receivable	116,563	36,962	153,525	-	-
Accounts receivable	438,620	165,466	604,086	18,333	1,903,329
Interest receivable	13,366	-	13,366	-	2,532
Unbilled revenues	-	-	-	-	2,744,780
Internal balances	2,625,034	(2,625,034)	-	-	-
Due from other governments	75,484	415,608	491,092	-	-
Due from other component units	451,355	296,532	747,887	-	-
Loans receivable	313,476	-	313,476	1,921,192	-
Inventories	-	35,311	35,311	-	854,751
Prepaid expenses	143,911	45,468	189,379	6,000	397,582
Deferred charges	-	-	-	43,286	-
Equity in joint venture	-	-	-	-	5,078,984
Other assets	-	-	-	-	20,952
Temporarily restricted assets					
Cash and cash equivalents	-	-	-	972,212	906,452
Capital Assets					
Land, improvements, artwork, gravel roads and construction in progress	7,077,692	2,812,503	9,890,195	9,300	412,931
Infrastructure	16,707,336	-	16,707,336	-	-
Buildings and improvements	18,064,371	26,166,805	44,231,176	1,824,699	5,901,565
Equipment, machinery, and furniture	8,029,360	2,044,126	10,073,486	283,789	42,743,700
Transmissions and distribution system	-	-	-	-	42,256,977
Less: accumulated depreciation	(26,065,646)	(7,959,325)	(34,024,971)	(797,238)	(60,568,562)
TOTAL ASSETS	39,847,999	21,984,548	61,832,547	6,119,648	47,680,224
LIABILITIES					
Accounts payable	642,936	220,892	863,828	34,727	2,276,179
Salaries payable	862,586	18,728	881,314	-	-
Due to other governments	910,667	35,542	946,209	3,560	-
Due to primary government	-	-	-	451,355	296,532
Contracts payable	78,737	389,860	468,597	11,178	-
Customer deposits	-	-	-	27,293	170,716
Other accrued liabilities	9,164	-	9,164	-	273,049
Deferred revenues	427,904	140,899	568,803	579,747	22,255
Accrued interest payable	70,812	56,883	127,695	114,225	34,312
Compensated absences	-	198,170	198,170	-	397,382
Long-term liabilities					
Due within one year	1,605,611	462,000	2,067,611	410,000	123,600
Due in more than one year	4,521,104	8,591,000	13,112,104	4,368,598	6,043,695
TOTAL LIABILITIES	9,129,521	10,113,974	19,243,495	6,000,683	9,637,720
NET ASSETS					
Invested in capital assets, net of related debt	19,959,860	13,954,226	33,914,086	(658,047)	29,534,611
Restricted for:					
Capital projects	1,749,821	-	1,749,821	-	-
Debt service	358,871	-	358,871	1,074,362	355,761
Other purposes	212,298	-	212,298	34,813	-
Unrestricted	8,437,628	(2,083,652)	6,353,976	(332,163)	8,152,132
TOTAL NET ASSETS	\$ 30,718,478	\$ 11,870,574	\$ 42,589,052	\$ 118,965	\$ 38,042,504

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

STATEMENT OF ACTIVITIES
Year Ended December 31, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT				
Governmental activities				
General government	\$ 3,564,373	\$ 466,666	\$ 1,300	\$ -
Public safety	4,733,520	1,197,720	1,022,178	75,564
Public works	3,376,934	31,848	259,249	569,912
Culture and recreation	2,637,375	390,396	17,559	43,399
Economic development	261,357	6,498	5,422	-
Transportation	244,422	40,511	141,836	-
Interest on long-term debt	207,010	-	-	-
Total Governmental Activities	<u>15,024,991</u>	<u>2,133,639</u>	<u>1,447,544</u>	<u>688,875</u>
Business-type Activities				
Garbage and refuse collection	2,125,531	2,236,979	-	-
Sewer operating and maintenance	1,936,835	2,033,559	-	207,958
Memorial building concessions	4,171	6,385	-	-
Total Business-type Activities	<u>4,066,537</u>	<u>4,276,923</u>	<u>-</u>	<u>207,958</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 19,091,528</u>	<u>\$ 6,410,562</u>	<u>\$ 1,447,544</u>	<u>\$ 896,833</u>
COMPONENT UNITS				
EDA	\$ 1,069,958	\$ 796,297	\$ 125,516	\$ -
PUC	21,928,050	22,242,310	-	-
TOTAL COMPONENT UNITS	<u>\$ 22,998,008</u>	<u>\$ 23,038,607</u>	<u>\$ 125,516</u>	<u>\$ -</u>

General Revenues

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Tax increment financing

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

Special Item - sale of wetland credits

Total General Revenues and Special Item

CHANGE IN NET ASSETS

NET ASSETS - JANUARY 1

NET ASSETS - DECEMBER 31

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	EDA	PUC
\$ (3,096,407)	\$ -	\$ (3,096,407)		
(2,438,058)	-	(2,438,058)		
(2,515,925)	-	(2,515,925)		
(2,186,021)	-	(2,186,021)		
(249,437)	-	(249,437)		
(62,075)	-	(62,075)		
(207,010)	-	(207,010)		
<u>(10,754,933)</u>	<u>-</u>	<u>(10,754,933)</u>		
-	111,448	111,448		
-	304,682	304,682		
-	2,214	2,214		
<u>-</u>	<u>418,344</u>	<u>418,344</u>		
<u>(10,754,933)</u>	<u>418,344</u>	<u>(10,336,589)</u>		
			\$ (148,145)	\$ -
			<u>-</u>	<u>314,260</u>
			<u>(148,145)</u>	<u>314,260</u>
4,072,465	-	4,072,465	-	-
1,654,468	-	1,654,468	85,556	-
131,420	-	131,420	-	-
-	-	-	146,055	-
7,425,004	-	7,425,004	16,447	-
199,882	13,065	212,947	59,878	207,013
259,628	7,000	266,628	-	-
28,983	-	28,983	-	-
<u>13,771,850</u>	<u>20,065</u>	<u>13,791,915</u>	<u>307,936</u>	<u>207,013</u>
3,016,917	438,409	3,455,326	159,791	521,273
<u>27,701,561</u>	<u>11,432,165</u>	<u>39,133,726</u>	<u>(40,826)</u>	<u>37,521,231</u>
<u>\$ 30,718,478</u>	<u>\$ 11,870,574</u>	<u>\$ 42,589,052</u>	<u>\$ 118,965</u>	<u>\$ 38,042,504</u>

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005

	General Fund	Library Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 7,239,049	\$ 91,752	\$ 2,810,577	\$ 10,141,378
Investments	1,572,841	-	-	1,572,841
Taxes receivable	135,674	2,016	5,168	142,858
Special assessments receivable	-	-	116,563	116,563
Accounts receivable	355,658	51	71,500	427,209
Interest receivable	13,366	-	-	13,366
Due from other funds	2,768,296	-	-	2,768,296
Due from component unit	451,355	-	-	451,355
Due from other governments	59,678	-	15,806	75,484
Loans receivables	-	-	313,476	313,476
Prepaid items	7,368	138	-	7,506
TOTAL ASSETS	\$ 12,603,285	\$ 93,957	\$ 3,333,090	\$ 16,030,332
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 222,510	\$ 18,148	\$ 402,278	\$ 642,936
Salaries payable	810,638	51,948	-	862,586
Due to other governments	855,349	72	55,246	910,667
Contracts payable	-	-	78,737	78,737
Deferred revenue	369,282	-	428,816	798,098
Other accrued liabilities	9,164	-	-	9,164
TOTAL LIABILITIES	2,266,943	70,168	965,077	3,302,188
FUND BALANCES				
Reserved for				
Encumbrances	-	-	331,635	331,635
Prepaid items	7,368	138	-	7,506
Other purposes	-	-	50,000	50,000
Unreserved, designated	7,734,614	-	429,683	8,164,297
Unreserved, undesignated, reported in				
General Fund	2,594,360	-	-	2,594,360
Special revenue funds	-	23,651	138,509	162,160
Capital projects funds	-	-	1,418,186	1,418,186
TOTAL FUND BALANCES	10,336,342	23,789	2,368,013	12,728,144
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,603,285	\$ 93,957	\$ 3,333,090	\$ 16,030,332

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

CITY OF HIBBING, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET ASSETS
December 31, 2005

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 12,728,144
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	23,813,113
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements	370,194
A portion of assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets.	4,554
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(70,812)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(6,126,715)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 30,718,478</u>

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

GOVERNMENTAL FUNDS
Year Ended December 31, 2005

	General Fund	Library Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 4,231,282	\$ 475,546	\$ 1,218,705	\$ 5,925,533
Special assessments	-	-	26,664	26,664
Licenses and permits	176,427	-	-	176,427
Intergovernmental	8,201,530	93,055	1,130,972	9,425,557
Charges for services	1,534,089	58,364	9,750	1,602,203
Fines	109,684	-	-	109,684
Gifts and contributions	20,837	13,101	53,178	87,116
Interest	149,704	-	50,178	199,882
Miscellaneous	106,424	-	105,198	211,622
TOTAL REVENUES	14,529,977	640,066	2,594,645	17,764,688
EXPENDITURES				
Current				
General government	1,518,033	-	-	1,518,033
Public safety	4,610,741	-	-	4,610,741
Public works	2,140,453	-	-	2,140,453
Culture and recreation	1,617,808	726,112	-	2,343,920
Economic development	99,859	-	63,218	163,077
Transportation	175,522	-	-	175,522
Miscellaneous	1,818,696	-	77,695	1,896,391
Debt Service				
Principal	848,399	-	757,874	1,606,273
Interest and other charges	113,461	-	109,795	223,256
Capital Outlay				
General government	-	-	28,946	28,946
Public safety	-	-	520,418	520,418
Public works	-	-	1,173,469	1,173,469
Culture and recreation	-	-	213,764	213,764
Economic development	-	-	20,000	20,000
Miscellaneous	-	-	23,249	23,249
TOTAL EXPENDITURES	12,942,972	726,112	2,988,428	16,657,512
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,587,005	(86,046)	(393,783)	1,107,176
OTHER FINANCING SOURCES (USES)				
Transfers in	-	75,719	31,497	107,216
Transfers out	(107,216)	-	-	(107,216)
Debt issuance	-	-	565,000	565,000
Insurance proceeds	110,000	-	-	110,000
Sale of capital assets	563,213	-	8,000	571,213
TOTAL OTHER FINANCING SOURCES (USES)	565,997	75,719	604,497	1,246,213
SPECIAL ITEM				
Sale of wetland credits	28,983	-	-	28,983
NET CHANGE IN FUND BALANCES	2,181,985	(10,327)	210,714	2,382,372
FUND BALANCES - JANUARY 1	8,154,357	34,116	2,157,299	10,345,772
FUND BALANCES - DECEMBER 31	\$ 10,336,342	\$ 23,789	\$ 2,368,013	\$ 12,728,144

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

CITY OF HIBBING, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2005

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,382,372

Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives

Expenditures for capital assets	1,615,856	
Less current year depreciation	<u>(1,661,361)</u>	
Net capital assets		(45,505)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

(311,585)

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

Change in deferred revenue - delinquent property taxes	(27,397)	
Change in deferred revenue - delinquent special assessments	(16,794)	
Change in deferred revenue - loans receivable	<u>(77,200)</u>	
		(121,391)

Governmental funds report bond proceeds as current financial resources; in contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure; in contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.

1,041,271

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

Change in accrued interest payable on long-term debt	16,247	
Change in long-term compensated absences	<u>104,716</u>	
		120,963

Internal service funds are used by management to charge the costs of certain activities, such as health insurance, to individual funds. A portion of the net revenue (expense) of the internal service fund is reported with governmental activities.

(49,208)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 3,016,917

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

Business-type Activities - Enterprise Funds

	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund- Memorial Building Concessions	Totals	Governmental Activities - Insurance Internal Service Fund
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 428,148	\$ -	\$ 121,978	\$ 550,126	\$ -
Special assessments receivable	442	36,520	-	36,962	-
Accounts receivable	53,701	106,749	1,212	161,662	15,215
Due from component unit	133,172	163,360	-	296,532	-
Due from other governments	-	415,608	-	415,608	-
Inventories	35,311	-	-	35,311	-
Prepaid expenses	-	-	-	-	181,873
TOTAL CURRENT ASSETS	650,774	722,237	123,190	1,496,201	197,088
NONCURRENT ASSETS					
Capital assets					
Land and improvements	-	130,057	-	130,057	-
Construction in progress	-	2,682,446	-	2,682,446	-
Buildings	94,976	26,071,829	-	26,166,805	-
Machinery and equipment	1,655,399	364,367	24,360	2,044,126	-
Less accumulated depreciation	(1,381,137)	(6,555,104)	(23,084)	(7,959,325)	-
TOTAL NONCURRENT ASSETS	369,238	22,693,595	1,276	23,064,109	-
TOTAL ASSETS	1,020,012	23,415,832	124,466	24,560,310	197,088
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	141,999	78,893	-	220,892	-
Salaries payable	10,862	7,866	-	18,728	-
Accrued interest payable	-	56,883	-	56,883	-
Due to other funds	-	2,577,280	-	2,577,280	191,016
Due to other governments	34,334	1,208	-	35,542	-
Deferred revenue	-	140,899	-	140,899	-
Compensated absences	102,675	95,495	-	198,170	-
Contracts payable	-	389,860	-	389,860	-
Bonds, notes and loans payable - current	-	462,000	-	462,000	-
TOTAL CURRENT LIABILITIES	289,870	3,810,384	-	4,100,254	191,016
NONCURRENT LIABILITIES					
Bonds, notes and loans payable	-	8,591,000	-	8,591,000	-
TOTAL LIABILITIES	289,870	12,401,384	-	12,691,254	191,016
NET ASSETS					
Invested in capital assets, net of related debt	369,238	13,583,712	1,276	13,954,226	-
Unrestricted	360,904	(2,569,264)	123,190	(2,085,170)	6,072
TOTAL NET ASSETS	\$ 730,142	\$ 11,014,448	\$ 124,466	\$ 11,869,056	\$ 6,072

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2005

Business-type Activities - Enterprise Funds

	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund- Memorial Building Concessions	Totals	Governmental Activities - Insurance Internal Service Fund
OPERATING REVENUES					
Charges for services	\$ 2,235,039	\$ 2,026,214	\$ 6,385	\$ 4,267,638	\$ -
Premiums	-	-	-	-	2,447,554
Sewer connect fees	-	7,346	-	7,346	-
Miscellaneous	1,940	-	-	1,940	-
TOTAL OPERATING REVENUES	<u>2,236,979</u>	<u>2,033,560</u>	<u>6,385</u>	<u>4,276,924</u>	<u>2,447,554</u>
OPERATING EXPENSES					
Personal services	638,999	585,032	-	1,224,031	-
Contractual services	1,108,879	102,065	-	1,210,944	-
Administration	542	712	-	1,254	-
Utilities	23,290	172,383	-	195,673	-
Repairs and maintenance	3,646	50,785	848	55,279	-
Other supplies and expenses	205,819	136,367	1,161	343,347	-
Claims and judgments	-	-	-	-	321,498
Insurance claims and expenses	9,029	7,122	-	16,151	2,193,286
Depreciation	125,379	710,957	1,920	838,256	-
Miscellaneous	764	4,560	242	5,566	-
TOTAL OPERATING EXPENSES	<u>2,116,347</u>	<u>1,769,983</u>	<u>4,171</u>	<u>3,890,501</u>	<u>2,514,784</u>
OPERATING INCOME (LOSS)	<u>120,632</u>	<u>263,577</u>	<u>2,214</u>	<u>386,423</u>	<u>(67,230)</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	9,971	-	3,094	13,065	1,620
Amortization	-	(2,887)	-	(2,887)	-
Interest expense	-	(156,748)	-	(156,748)	-
Gain on sale of capital assets	-	7,000	-	7,000	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>9,971</u>	<u>(152,635)</u>	<u>3,094</u>	<u>(139,570)</u>	<u>1,620</u>
INCOME (LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>130,603</u>	<u>110,942</u>	<u>5,308</u>	<u>246,853</u>	<u>(65,610)</u>
Capital grants and contributions	-	207,958	-	207,958	-
CHANGE IN NET ASSETS	<u>130,603</u>	<u>318,900</u>	<u>5,308</u>	<u>454,811</u>	<u>(65,610)</u>
TOTAL NET ASSETS - JANUARY 1	<u>599,539</u>	<u>10,695,548</u>	<u>119,158</u>	<u>11,414,245</u>	<u>71,682</u>
TOTAL NET ASSETS - DECEMBER 31	<u>\$ 730,142</u>	<u>\$ 11,014,448</u>	<u>\$ 124,466</u>	<u>\$ 11,869,056</u>	<u>\$ 6,072</u>

Change in net assets, per above

\$ 454,811

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.

(16,402)

Change in business-type activities in net assets per government-wide financial statements

\$ 438,409

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund - Memorial Building Concessions	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,260,184	\$ 2,341,185	\$ 5,882	\$ 4,607,251	\$ 2,433,527
Cash paid to suppliers	(1,537,289)	(602,239)	(2,629)	(2,142,157)	(2,534,903)
Cash paid to employees	(490,246)	(468,260)	-	(958,506)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>232,649</u>	<u>1,270,686</u>	<u>3,253</u>	<u>1,506,588</u>	<u>(101,376)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund financing of cash deficit	-	2,577,280	-	2,577,280	191,016
Prior year cash deficit payment	-	(1,704,984)	-	(1,704,984)	(91,260)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>872,296</u>	<u>-</u>	<u>872,296</u>	<u>99,756</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	(72,608)	(3,080,865)	-	(3,153,473)	-
Principal paid on long-term debt	-	(722,311)	-	(722,311)	-
Interest paid on long-term debt	-	(152,404)	-	(152,404)	-
Capital grants and contributions	-	207,958	-	207,958	-
Sale of fixed assets	-	7,000	-	7,000	-
Proceeds from sale of GO revenue notes	-	1,597,640	-	1,597,640	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(72,608)</u>	<u>(2,142,982)</u>	<u>-</u>	<u>(2,215,590)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	<u>9,971</u>	<u>-</u>	<u>3,094</u>	<u>13,065</u>	<u>1,620</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>170,012</u>	<u>-</u>	<u>6,347</u>	<u>176,359</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>258,136</u>	<u>-</u>	<u>115,631</u>	<u>373,767</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 428,148</u>	<u>\$ -</u>	<u>\$ 121,978</u>	<u>\$ 550,126</u>	<u>\$ -</u>

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund - Memorial Building Concessions	Totals	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 120,632	\$ 263,577	\$ 2,214	\$ 386,423	\$ (67,230)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	125,379	710,957	1,920	838,256	-
(Increase) decrease in:					
Special assessments receivable - unapportioned	1,189	1,800	-	2,989	-
Accounts receivable	2,704	36,141	(503)	38,342	(14,027)
Due from component unit	18,260	2,534	-	20,794	-
Due from other governments	1,052	304,704	-	305,756	-
Inventories	(3,955)	-	-	(3,955)	-
Prepaid expenses	-	270	-	270	(20,057)
Increase (decrease) in:					
Accounts payable	8,034	27,534	(378)	35,190	(62)
Salaries payable	(17,990)	(1,729)	-	(19,719)	-
Compensated absences - current	10,967	(38,226)	-	(27,259)	-
Due to other governments	(33,623)	678	-	(32,945)	-
Deferred revenue	-	(37,554)	-	(37,554)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 232,649</u>	<u>\$ 1,270,686</u>	<u>\$ 3,253</u>	<u>\$ 1,506,588</u>	<u>\$ (101,376)</u>

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

CITY OF HIBBING, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2005

CITY OF HIBBING, MINNESOTA

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CITY OF HIBBING, MINNESOTA

**ORGANIZATION
December 31, 2005**

CITY COUNCIL

Mayor

Richard Wolff

Council Members

Ward A

Dan Marich

Ward B

Patricia Shafer

Ward C

Jack Lund

Ward D

Timothy Harkonen

Ward E

Frank Bigelow

ADMINISTRATION

Clerk/Treasurer

Jeffrey A. Young

APPOINTED

City Assessor

Bruce Sandberg

City Attorney

Richard K. Sellman

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

P.O. Box 960 • 225 1st Street North, Suite 2400 • Virginia, Minnesota 55792
218-749-4880 • FAX 218-749-8528

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hibbing, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hibbing, Minnesota's, management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Utilities Commission, which represent 89 percent, 99 percent, and 95 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Public Utilities Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2006, on our consideration of the City of Hibbing, Minnesota'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, infrastructure condition data, and notes on pages 4 through 11, and 50 through 54 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hibbing, Minnesota's basic financial statements. The combining and individual fund financial statements and schedules, and the Hibbing Economic Development Authority's (a component unit) combining financial statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the basic financial statements of City of Hibbing, Minnesota. The combining and individual fund financial statements and schedules, and the Hibbing Economic Development Authority's (a component unit) combining financial statements and schedule, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Walter, Shroy & Halber, P.C.

June 20, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

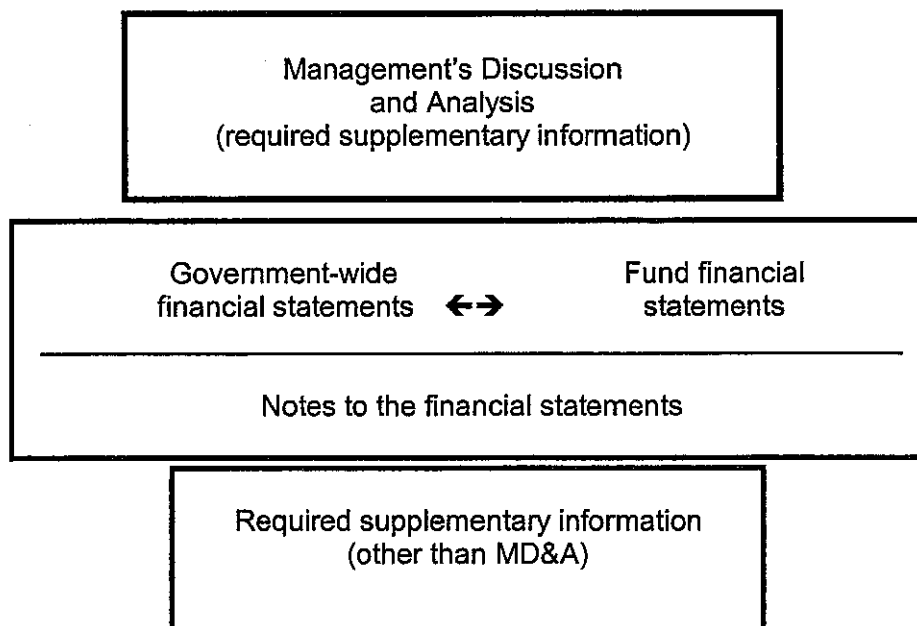
The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Hibbing, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$30,718,478, of which \$19,959,860 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$11,870,574. Invested in capital assets, net of related debt represents \$13,954,226 of the total.
- The Hibbing Economic Development Authority (EDA) has total net assets of \$118,965. Invested in capital assets, net of related debt represents \$(658,047) of the total.
- The City of Hibbing's primary government's net assets increased by \$3,455,326 for the year ended December 31, 2005. The governmental activities' net assets increased \$3,016,917 and the business-type activities' net assets increased by \$438,409.
- The EDA's net assets increased by \$159,791.
- The net cost of governmental activities was \$10,754,933 for the current year. The net cost was funded by general revenues and other items totaling \$13,771,850.
- Governmental funds' fund balances increased by \$2,382,372.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The City of Hibbing, Minnesota's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The management's discussion and analysis (this section) is required to accompany the basic financial statements, and therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are interrelated.



CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

There are two government-wide financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The fund financial statements explain how governmental activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Government-wide Financial Statements

The statement of net assets and the statement of activities report information about the City, as a whole, and about its activities in a way that helps the reader determine whether the City's financial condition has improved or declined as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These government-wide statements report the City's net assets and how they have changed. You can think of the City's net assets — the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors; such as changes in the City's property tax base and state aid and the condition of City's buildings and streets also need to be considered in assessing the overall health of the City.

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

- **Governmental activities**—Most of the City's basic services are reported here, including general government, public safety, public works, culture and recreation, economic development, and transportation. Property taxes and state and federal grants and aids finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of services it provides. The City's sewer operations and refuse removal services are reported here.
- **Component Units**—The Hibbing Economic Development Authority (EDA) and the Hibbing Public Utilities Commission (PUC) are reported here. EDA does not prepare separate financial statements. Complete financial statements of the PUC may be obtained from Hibbing Public Utilities Commission, 19th Street and East 6th Avenue, Hibbing, Minnesota 55746.

Fund Financial Statements

The fund financial statements provide detailed information about the significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds—governmental and proprietary—use different accounting methods.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting. This method measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation statement following each governmental fund financial statement.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

- Proprietary funds—When the City charges customers for the services it provides—whether to outside customers or to other units of the City—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased from \$39,133,726 to \$42,589,052. Looking at the net assets and net expenses of governmental and business-type activities separately, however, reveal differences. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 16,034,886	\$ 13,817,342	\$ 1,545,473	\$ 1,179,724	\$ 17,580,359	\$ 14,997,066
Capital assets	<u>23,813,113</u>	<u>24,170,203</u>	<u>23,064,109</u>	<u>21,175,658</u>	<u>46,877,222</u>	<u>45,345,861</u>
Total assets	<u>39,847,999</u>	<u>37,987,545</u>	<u>24,609,582</u>	<u>22,355,382</u>	<u>64,457,581</u>	<u>60,342,927</u>
Long-term debt outstanding	(6,126,715)	(7,272,702)	(9,053,000)	(9,357,519)	(15,179,715)	(16,630,221)
Other liabilities	<u>(3,002,806)</u>	<u>(3,013,282)</u>	<u>(3,686,008)</u>	<u>(1,565,698)</u>	<u>(6,688,814)</u>	<u>(4,578,980)</u>
Total liabilities	<u>(9,129,521)</u>	<u>(10,285,984)</u>	<u>(12,739,008)</u>	<u>(10,923,217)</u>	<u>(21,868,529)</u>	<u>(21,209,201)</u>
Net assets						
Invested in capital assets, net of debt	19,959,860	19,932,978	13,954,226	11,765,599	33,914,086	31,698,577
Restricted	2,320,990	2,114,923	-	-	2,320,990	2,114,923
Unrestricted	<u>8,437,628</u>	<u>5,653,660</u>	<u>(2,083,652)</u>	<u>(333,434)</u>	<u>6,353,976</u>	<u>5,320,226</u>
Total net assets	<u>\$ 30,718,478</u>	<u>\$ 27,701,561</u>	<u>\$ 11,870,574</u>	<u>\$ 11,432,165</u>	<u>\$ 42,589,052</u>	<u>\$ 39,133,726</u>

Net assets of the City's governmental activities increased 11 percent (\$30,718,478 compared to \$27,701,561). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from \$5,653,660 at December 31, 2004, to \$8,437,628 at the end of 2005.

Net assets of the City's business-type activities increased 4 percent (\$11,870,574 compared to \$11,432,165) in 2005.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005

**Table 2
Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,133,639	\$ 2,028,751	\$ 4,276,923	\$ 4,080,214	\$ 6,410,562	\$ 6,108,965
Operating grants and contributions	1,447,544	1,600,700	-	3,840	1,447,544	1,604,540
Capital grants and contributions	688,875	175,792	207,958	620,906	896,833	796,698
General revenues:						
Taxes	5,858,353	5,619,691	-	-	5,858,353	5,619,691
Intergovernmental	7,425,004	6,953,170	-	-	7,425,004	6,953,170
Other general revenues	488,493	82,278	20,065	8,787	508,558	91,065
Total revenues	<u>18,041,908</u>	<u>16,460,382</u>	<u>4,504,946</u>	<u>4,713,747</u>	<u>22,546,854</u>	<u>21,174,129</u>
Program expenses:						
General government	3,564,373	3,156,048	-	-	3,564,373	3,156,048
Public safety	4,733,520	4,868,844	-	-	4,733,520	4,868,844
Public works	3,376,934	3,148,626	-	-	3,376,934	3,148,626
Culture and recreation	2,637,375	2,604,387	-	-	2,637,375	2,604,387
Other	505,779	333,631	-	-	505,779	333,631
Interest	207,010	252,697	-	-	207,010	252,697
Garbage and refuse collection	-	-	2,125,531	2,204,359	2,125,531	2,204,359
Sewer operating and maintenance	-	-	1,936,835	1,757,072	1,936,835	1,757,072
Memorial building concessions	-	-	4,171	6,032	4,171	6,032
Total expenses	<u>15,024,991</u>	<u>14,364,233</u>	<u>4,066,537</u>	<u>3,967,463</u>	<u>19,091,528</u>	<u>18,331,696</u>
Increase in net assets	<u>\$ 3,016,917</u>	<u>\$ 2,096,149</u>	<u>\$ 438,409</u>	<u>\$ 746,284</u>	<u>\$ 3,455,326</u>	<u>\$ 2,842,433</u>

The City's total revenues increased by 6% (\$1,372,725). The total cost of all programs and services increased by 4% (\$759,832). Our analysis below separately considers the operations of governmental, business-type activities, and EDA – Component Unit activity.

Governmental Activities

Revenue for the City's governmental activities increased by 10% (\$1,581,526 while total expenses increased by 5% (\$660,758). The increase in net assets for governmental activities was \$3,016,917 in 2005.

The cost of all governmental activities this year was \$15,024,991. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs (\$2,133,639) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,561,423). Our taxpayers paid \$5,858,353 in taxes in 2005.

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

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005

**Table 3
Governmental Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Public safety	\$ 4,733,520	\$ 4,868,844	\$ 2,438,058	\$ 2,568,641
General government	3,564,373	3,156,048	3,096,407	2,832,749
Public works	3,376,934	3,148,626	2,515,925	2,659,877
Culture and recreation	2,637,375	2,604,387	2,186,021	2,232,461
Other	505,779	333,631	311,512	12,565
Interest	<u>207,010</u>	<u>252,697</u>	<u>207,010</u>	<u>252,697</u>
Totals	<u>\$15,024,991</u>	<u>\$14,364,233</u>	<u>\$10,754,933</u>	<u>\$10,558,990</u>

Business-Type Activities

Revenues of the City's business-type activities were \$4,504,946 and expenses were \$4,066,537 (see Table 2). There was an increase in net assets of \$438,409 during the year ended December 31, 2005. The factors driving these results include:

- Operations produced \$386,423 of income for the year ended December 31, 2005.
- The City received capital grants totaling \$207,958 for the year.

EDA Component Unit Activity

The EDA had a net increase in net assets of \$159,791 for the year ended December 31, 2005. General revenues such as taxes and grants not restricted to specific programs accounted for \$307,936 of this, with net program revenues under expenses of \$(148,145).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$12,728,144 which is over last year's total of \$10,345,772. Included in this year's total fund balance is a surplus of \$10,336,342 in the City's general fund. The general fund had an increase of \$2,181,985. The other major governmental fund recorded a decrease in net assets. The largest increase in other governmental funds was for \$181,273 in the Capital Equipment and Improvement Capital Projects Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$266,526 below the final budget amounts. The most significant negative variance (\$57,007) occurred in the City's transportation program. The most significant positive variance occurred in the City's public works. Resources available for appropriation were above the final budgeted amounts. The City received more taxes and intergovernmental aids than expected.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City had \$46,877,222 invested in a broad range of capital assets, net of accumulated depreciation, including land, land improvements, buildings, infrastructure and equipment. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$1,531,361 over last year.

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

	Governmental Activities		Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Land, artwork, gravel roads	\$ 6,307,583	\$ 6,357,512	\$ 130,057	\$ 130,057	\$ 6,437,640	\$ 6,487,569
Buildings and improvements	7,662,646	8,360,004	19,891,168	10,426,116	27,553,814	18,786,120
Infrastructure	6,968,284	7,601,073	-	-	6,968,284	7,601,073
Equipment, machinery, and furniture	2,104,491	1,718,695	360,438	389,862	2,464,929	2,108,557
Construction in progress	<u>770,109</u>	<u>132,919</u>	<u>2,682,446</u>	<u>10,229,623</u>	<u>3,452,555</u>	<u>10,362,542</u>
Totals	<u>\$ 23,813,113</u>	<u>\$ 24,170,203</u>	<u>\$ 23,064,109</u>	<u>\$ 21,175,658</u>	<u>\$ 46,877,222</u>	<u>\$ 45,345,861</u>

This year's major additions included:

➤ Heavy rescue truck	\$ 269,525
➤ Ambulance	102,570
➤ Fire turn out gear	90,842
➤ Dump truck and back hoe	171,497
➤ Two police cars	41,393
➤ Wastewater treatment improvements	2,599,584
➤ Urban street work and sidewalks	571,191
➤ Park mower and utility vehicle	51,957
➤ Two pickups and a van	61,067

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

Debt

At year-end, the City had \$19,958,313 in long-term debt outstanding versus \$21,841,997 last year—as shown in Table 5.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005

Table 5
Outstanding Debt, at Year-end

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>EDA Component Unit</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General obligation bonds (backed by the City)	\$ 690,000	\$ 1,055,000	\$ -	\$ 268,311	\$ 4,778,598	\$ 5,152,680
Certificates of indebtedness	915,000	565,000	-	-	-	-
Capital leases	2,248,253	2,617,225	-	-	-	-
Police and Fire indebtedness	1,971,897	2,629,196	-	-	-	-
General obligation revenue notes	-	-	9,053,000	9,089,208	-	-
Loans payable	-	-	-	-	-	59,096
Compensated absences	301,565	406,281	-	-	-	-
Total	<u>\$ 6,126,715</u>	<u>\$ 7,272,702</u>	<u>\$ 9,053,000</u>	<u>\$ 9,357,519</u>	<u>\$ 4,778,598</u>	<u>\$ 5,211,776</u>

The State limits the amount of net debt that the City's can issue to 2 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$690,000 is significantly below the \$11,089,486 State-imposed limit.

The City had one new debt issue during the year for a capital equipment certificate of indebtedness for \$565,000.

MODIFIED APPROACH FOR GRAVEL ROADS

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

- There was no significant change in the assessed condition of the gravel roads from the previous assessment.
- The current assessed condition compares favorably with the condition level the City has established.
- The estimated annual cost to maintain the gravel roads was \$87,000 as compared to the actual costs during the current year of \$125,938.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2006 budget, tax rates, and fees that will be charged for the business-type activities.

- The State of Minnesota will increase the City's local government aid by 6% from the prior year.
- City General Fund expenditures for 2006 are budgeted to increase 7.5% over the 2005 budget.
- Property taxes levies will increase 3% for 2006.
- Consistent with the national and global economy, rising health care and fuel costs significantly impact the City's budgets.

The City's 2006 capital budget calls for it to spend another \$1,931,000 for capital projects, principally for the following:

• Public works	\$ 658,035
• Public safety	331,765
• General government	205,000
• Parks and recreation	216,200
• Library	90,000
• Other	430,000

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS
December 31, 2005

	Primary Government			Component Units	
	Governmental Activities	Business- type Activities	Total	EDA	PUC
ASSETS					
Cash and cash equivalents	\$ 10,141,378	\$ 550,126	\$ 10,691,504	\$ 1,273,035	\$ 4,024,251
Investments	1,572,841	-	1,572,841	395,431	1,000,000
Taxes receivable	142,858	-	142,858	169,609	-
Special assessments receivable	116,563	36,962	153,525	-	-
Accounts receivable	438,620	165,466	604,086	18,333	1,903,329
Interest receivable	13,366	-	13,366	-	2,532
Unbilled revenues	-	-	-	-	2,744,780
Internal balances	2,625,034	(2,625,034)	-	-	-
Due from other governments	75,484	415,608	491,092	-	-
Due from other component units	451,355	296,532	747,887	-	-
Loans receivable	313,476	-	313,476	1,921,192	-
Inventories	-	35,311	35,311	-	854,751
Prepaid expenses	143,911	45,468	189,379	6,000	397,582
Deferred charges	-	-	-	43,286	-
Equity in joint venture	-	-	-	-	5,078,984
Other assets	-	-	-	-	20,952
Temporarily restricted assets					
Cash and cash equivalents	-	-	-	972,212	906,452
Capital Assets					
Land, improvements, artwork, gravel roads and construction in progress	7,077,692	2,812,503	9,890,195	9,300	412,931
Infrastructure	16,707,336	-	16,707,336	-	-
Buildings and improvements	18,064,371	26,166,805	44,231,176	1,824,699	5,901,565
Equipment, machinery, and furniture	8,029,360	2,044,126	10,073,486	283,789	42,743,700
Transmissions and distribution system	-	-	-	-	42,256,977
Less: accumulated depreciation	(26,065,646)	(7,959,325)	(34,024,971)	(797,238)	(60,568,562)
TOTAL ASSETS	39,847,999	21,984,548	61,832,547	6,119,648	47,680,224
LIABILITIES					
Accounts payable	642,936	220,892	863,828	34,727	2,276,179
Salaries payable	862,586	18,728	881,314	-	-
Due to other governments	910,667	35,542	946,209	3,560	-
Due to primary government	-	-	-	451,355	296,532
Contracts payable	78,737	389,860	468,597	11,178	-
Customer deposits	-	-	-	27,293	170,716
Other accrued liabilities	9,164	-	9,164	-	273,049
Deferred revenues	427,904	140,899	568,803	579,747	22,255
Accrued interest payable	70,812	56,883	127,695	114,225	34,312
Compensated absences	-	198,170	198,170	-	397,382
Long-term liabilities					
Due within one year	1,605,611	462,000	2,067,611	410,000	123,600
Due in more than one year	4,521,104	8,591,000	13,112,104	4,368,598	6,043,695
TOTAL LIABILITIES	9,129,521	10,113,974	19,243,495	6,000,683	9,637,720
NET ASSETS					
Invested in capital assets, net of related debt	19,959,860	13,954,226	33,914,086	(658,047)	29,534,611
Restricted for:					
Capital projects	1,749,821	-	1,749,821	-	-
Debt service	358,871	-	358,871	1,074,362	355,761
Other purposes	212,298	-	212,298	34,813	-
Unrestricted	8,437,628	(2,083,652)	6,353,976	(332,163)	8,152,132
TOTAL NET ASSETS	\$ 30,718,478	\$ 11,870,574	\$ 42,589,052	\$ 118,965	\$ 38,042,504

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	EDA	PUC
\$ (3,096,407)	\$ -	\$ (3,096,407)		
(2,438,058)	-	(2,438,058)		
(2,515,925)	-	(2,515,925)		
(2,186,021)	-	(2,186,021)		
(249,437)	-	(249,437)		
(62,075)	-	(62,075)		
(207,010)	-	(207,010)		
<u>(10,754,933)</u>	<u>-</u>	<u>(10,754,933)</u>		
-	111,448	111,448		
-	304,682	304,682		
-	2,214	2,214		
<u>-</u>	<u>418,344</u>	<u>418,344</u>		
<u>(10,754,933)</u>	<u>418,344</u>	<u>(10,336,589)</u>		
			\$ (148,145)	\$ -
			<u>-</u>	<u>314,260</u>
			<u>(148,145)</u>	<u>314,260</u>
4,072,465	-	4,072,465	-	-
1,654,468	-	1,654,468	85,556	-
131,420	-	131,420	-	-
-	-	-	146,055	-
7,425,004	-	7,425,004	16,447	-
199,882	13,065	212,947	59,878	207,013
259,628	7,000	266,628	-	-
28,983	-	28,983	-	-
<u>13,771,850</u>	<u>20,065</u>	<u>13,791,915</u>	<u>307,936</u>	<u>207,013</u>
3,016,917	438,409	3,455,326	159,791	521,273
<u>27,701,561</u>	<u>11,432,165</u>	<u>39,133,726</u>	<u>(40,826)</u>	<u>37,521,231</u>
<u>\$ 30,718,478</u>	<u>\$ 11,870,574</u>	<u>\$ 42,589,052</u>	<u>\$ 118,965</u>	<u>\$ 38,042,504</u>

CITY OF HIBBING, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005

	<u>General Fund</u>	<u>Library Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 7,239,049	\$ 91,752	\$ 2,810,577	\$ 10,141,378
Investments	1,572,841	-	-	1,572,841
Taxes receivable	135,674	2,016	5,168	142,858
Special assessments receivable	-	-	116,563	116,563
Accounts receivable	355,658	51	71,500	427,209
Interest receivable	13,366	-	-	13,366
Due from other funds	2,768,296	-	-	2,768,296
Due from component unit	451,355	-	-	451,355
Due from other governments	59,678	-	15,806	75,484
Loans receivables	-	-	313,476	313,476
Prepaid items	7,368	138	-	7,506
TOTAL ASSETS	<u>\$ 12,603,285</u>	<u>\$ 93,957</u>	<u>\$ 3,333,090</u>	<u>\$ 16,030,332</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 222,510	\$ 18,148	\$ 402,278	\$ 642,936
Salaries payable	810,638	51,948	-	862,586
Due to other governments	855,349	72	55,246	910,667
Contracts payable	-	-	78,737	78,737
Deferred revenue	369,282	-	428,816	798,098
Other accrued liabilities	9,164	-	-	9,164
TOTAL LIABILITIES	<u>2,266,943</u>	<u>70,168</u>	<u>965,077</u>	<u>3,302,188</u>
FUND BALANCES				
Reserved for				
Encumbrances	-	-	331,635	331,635
Prepaid items	7,368	138	-	7,506
Other purposes	-	-	50,000	50,000
Unreserved, designated	7,734,614	-	429,683	8,164,297
Unreserved, undesignated, reported in				
General Fund	2,594,360	-	-	2,594,360
Special revenue funds	-	23,651	138,509	162,160
Capital projects funds	-	-	1,418,186	1,418,186
TOTAL FUND BALANCES	<u>10,336,342</u>	<u>23,789</u>	<u>2,368,013</u>	<u>12,728,144</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,603,285</u>	<u>\$ 93,957</u>	<u>\$ 3,333,090</u>	<u>\$ 16,030,332</u>

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

CITY OF HIBBING, MINNESOTA

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET ASSETS
December 31, 2005**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 12,728,144
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	23,813,113
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements	370,194
A portion of assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets.	4,554
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(70,812)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(6,126,715)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 30,718,478</u>

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2005

	<u>General Fund</u>	<u>Library Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 4,231,282	\$ 475,546	\$ 1,218,705	\$ 5,925,533
Special assessments	-	-	26,664	26,664
Licenses and permits	176,427	-	-	176,427
Intergovernmental	8,201,530	93,055	1,130,972	9,425,557
Charges for services	1,534,089	58,364	9,750	1,602,203
Fines	109,684	-	-	109,684
Gifts and contributions	20,837	13,101	53,178	87,116
Interest	149,704	-	50,178	199,882
Miscellaneous	106,424	-	105,198	211,622
TOTAL REVENUES	<u>14,529,977</u>	<u>640,066</u>	<u>2,594,645</u>	<u>17,764,688</u>
EXPENDITURES				
Current				
General government	1,518,033	-	-	1,518,033
Public safety	4,610,741	-	-	4,610,741
Public works	2,140,453	-	-	2,140,453
Culture and recreation	1,617,808	726,112	-	2,343,920
Economic development	99,859	-	63,218	163,077
Transportation	175,522	-	-	175,522
Miscellaneous	1,818,696	-	77,695	1,896,391
Debt Service				
Principal	848,399	-	757,874	1,606,273
Interest and other charges	113,461	-	109,795	223,256
Capital Outlay				
General government	-	-	28,946	28,946
Public safety	-	-	520,418	520,418
Public works	-	-	1,173,469	1,173,469
Culture and recreation	-	-	213,764	213,764
Economic development	-	-	20,000	20,000
Miscellaneous	-	-	23,249	23,249
TOTAL EXPENDITURES	<u>12,942,972</u>	<u>726,112</u>	<u>2,988,428</u>	<u>16,657,512</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,587,005</u>	<u>(86,046)</u>	<u>(393,783)</u>	<u>1,107,176</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	75,719	31,497	107,216
Transfers out	(107,216)	-	-	(107,216)
Debt issuance	-	-	565,000	565,000
Insurance proceeds	110,000	-	-	110,000
Sale of capital assets	563,213	-	8,000	571,213
TOTAL OTHER FINANCING SOURCES (USES)	<u>565,997</u>	<u>75,719</u>	<u>604,497</u>	<u>1,246,213</u>
SPECIAL ITEM				
Sale of wetland credits	28,983	-	-	28,983
NET CHANGE IN FUND BALANCES	<u>2,181,985</u>	<u>(10,327)</u>	<u>210,714</u>	<u>2,382,372</u>
FUND BALANCES - JANUARY 1	<u>8,154,357</u>	<u>34,116</u>	<u>2,157,299</u>	<u>10,345,772</u>
FUND BALANCES - DECEMBER 31	<u>\$ 10,336,342</u>	<u>\$ 23,789</u>	<u>\$ 2,368,013</u>	<u>\$ 12,728,144</u>

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

CITY OF HIBBING, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2005**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 2,382,372
Governmental funds report outlays for capital assets as expenditures; however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	1,615,856	
Less current year depreciation	<u>(1,661,361)</u>	
Net capital assets		(45,505)
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.		
		(311,585)
Some revenues reported in the statement of activities do not require the use of current financial resources and therefore are not reported as revenues in governmental funds.		
Change in deferred revenue - delinquent property taxes	(27,397)	
Change in deferred revenue - delinquent special assessments	(16,794)	
Change in deferred revenue - loans receivable	<u>(77,200)</u>	
		(121,391)
Governmental funds report bond proceeds as current financial resources; in contrast, the statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure; in contrast, the statement of activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.		
		1,041,271
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.		
Change in accrued interest payable on long-term debt	16,247	
Change in long-term compensated absences	<u>104,716</u>	
		120,963
Internal service funds are used by management to charge the costs of certain activities, such as health insurance, to individual funds. A portion of the net revenue (expense) of the internal service fund is reported with governmental activities.		
		(49,208)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 3,016,917</u>

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

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2005**

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund- Memorial Building Concessions	Totals	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 428,148	\$ -	\$ 121,978	\$ 550,126	\$ -
Special assessments receivable	442	36,520	-	36,962	-
Accounts receivable	53,701	106,749	1,212	161,662	15,215
Due from component unit	133,172	163,360	-	296,532	-
Due from other governments	-	415,608	-	415,608	-
Inventories	35,311	-	-	35,311	-
Prepaid expenses	-	-	-	-	181,873
TOTAL CURRENT ASSETS	650,774	722,237	123,190	1,496,201	197,088
NONCURRENT ASSETS					
Capital assets					
Land and improvements	-	130,057	-	130,057	-
Construction in progress	-	2,682,446	-	2,682,446	-
Buildings	94,976	26,071,829	-	26,166,805	-
Machinery and equipment	1,655,399	364,367	24,360	2,044,126	-
Less accumulated depreciation	(1,381,137)	(6,555,104)	(23,084)	(7,959,325)	-
TOTAL NONCURRENT ASSETS	369,238	22,693,595	1,276	23,064,109	-
TOTAL ASSETS	1,020,012	23,415,832	124,466	24,560,310	197,088
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	141,999	78,893	-	220,892	-
Salaries payable	10,862	7,866	-	18,728	-
Accrued interest payable	-	56,883	-	56,883	-
Due to other funds	-	2,577,280	-	2,577,280	191,016
Due to other governments	34,334	1,208	-	35,542	-
Deferred revenue	-	140,899	-	140,899	-
Compensated absences	102,675	95,495	-	198,170	-
Contracts payable	-	389,860	-	389,860	-
Bonds, notes and loans payable - current	-	462,000	-	462,000	-
TOTAL CURRENT LIABILITIES	289,870	3,810,384	-	4,100,254	191,016
NONCURRENT LIABILITIES					
Bonds, notes and loans payable	-	8,591,000	-	8,591,000	-
TOTAL LIABILITIES	289,870	12,401,384	-	12,691,254	191,016
NET ASSETS					
Invested in capital assets, net of related debt	369,238	13,583,712	1,276	13,954,226	-
Unrestricted	360,904	(2,569,264)	123,190	(2,085,170)	6,072
TOTAL NET ASSETS	\$ 730,142	\$ 11,014,448	\$ 124,466	\$ 11,869,056	\$ 6,072

CITY OF HIBBING, MINNESOTA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds				
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund- Memorial Building Concessions	Totals	Governmental Activities - Insurance Internal Service Fund
OPERATING REVENUES					
Charges for services	\$ 2,235,039	\$ 2,026,214	\$ 6,385	\$ 4,267,638	\$ -
Premiums	-	-	-	-	2,447,554
Sewer connect fees	-	7,346	-	7,346	-
Miscellaneous	1,940	-	-	1,940	-
TOTAL OPERATING REVENUES	<u>2,236,979</u>	<u>2,033,560</u>	<u>6,385</u>	<u>4,276,924</u>	<u>2,447,554</u>
OPERATING EXPENSES					
Personal services	638,999	585,032	-	1,224,031	-
Contractual services	1,108,879	102,065	-	1,210,944	-
Administration	542	712	-	1,254	-
Utilities	23,290	172,383	-	195,673	-
Repairs and maintenance	3,646	50,785	848	55,279	-
Other supplies and expenses	205,819	136,367	1,161	343,347	-
Claims and judgments	-	-	-	-	321,498
Insurance claims and expenses	9,029	7,122	-	16,151	2,193,286
Depreciation	125,379	710,957	1,920	838,256	-
Miscellaneous	764	4,560	242	5,566	-
TOTAL OPERATING EXPENSES	<u>2,116,347</u>	<u>1,769,983</u>	<u>4,171</u>	<u>3,890,501</u>	<u>2,514,784</u>
OPERATING INCOME (LOSS)	<u>120,632</u>	<u>263,577</u> ✓	<u>2,214</u>	<u>386,423</u>	<u>(67,230)</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	9,971	-	3,094	13,065	1,620
Amortization	-	(2,887)	-	(2,887)	-
Interest expense	-	(156,748) ✓	-	(156,748)	-
Gain on sale of capital assets	-	7,000	-	7,000	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>9,971</u>	<u>(152,635)</u>	<u>3,094</u>	<u>(139,570)</u>	<u>1,620</u>
INCOME (LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>130,603</u>	<u>110,942</u>	<u>5,308</u>	<u>246,853</u>	<u>(65,610)</u>
Capital grants and contributions	-	207,958	-	207,958	-
CHANGE IN NET ASSETS	<u>130,603</u>	<u>318,900</u>	<u>5,308</u>	<u>454,811</u>	<u>(65,610)</u>
TOTAL NET ASSETS - JANUARY 1	<u>599,539</u>	<u>10,695,548</u>	<u>119,158</u>	<u>11,414,245</u>	<u>71,682</u>
TOTAL NET ASSETS - DECEMBER 31	<u>\$ 730,142</u>	<u>\$ 11,014,448</u>	<u>\$ 124,466</u>	<u>\$ 11,869,056</u>	<u>\$ 6,072</u>
Change in net assets, per above				\$ 454,811	
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.				(16,402)	
Change in business-type activities in net assets per government-wide financial statements				<u>\$ 438,409</u>	

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund - Memorial Building Concessions	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,260,184	\$ 2,341,185	\$ 5,882	\$ 4,607,251	\$ 2,433,527
Cash paid to suppliers	(1,537,289)	(602,239)	(2,629)	(2,142,157)	(2,534,903)
Cash paid to employees	(490,246)	(468,260)	-	(958,506)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>232,649</u>	<u>1,270,686</u>	<u>3,253</u>	<u>1,506,588</u>	<u>(101,376)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund financing of cash deficit	-	2,577,280	-	2,577,280	191,016
Prior year cash deficit payment	-	(1,704,984)	-	(1,704,984)	(91,260)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>872,296</u> ✓	<u>-</u>	<u>872,296</u>	<u>99,756</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	(72,608)	(3,080,865) ✓	-	(3,153,473)	-
Principal paid on long-term debt	-	(722,311) ✓	-	(722,311)	-
Interest paid on long-term debt	-	(152,404) N/A	-	(152,404)	-
Capital grants and contributions	-	207,958 ✓	-	207,958	-
Sale of fixed assets	-	7,000 ✓	-	7,000	-
Proceeds from sale of GO revenue notes	-	1,597,640	-	1,597,640	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(72,608)</u>	<u>(2,142,982)</u>	<u>-</u>	<u>(2,215,590)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	<u>9,971</u>	<u>-</u>	<u>3,094</u>	<u>13,065</u>	<u>1,620</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>170,012</u>	<u>-</u>	<u>6,347</u>	<u>176,359</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>258,136</u>	<u>-</u>	<u>115,631</u>	<u>373,767</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 428,148</u>	<u>\$ -</u>	<u>\$ 121,978</u>	<u>\$ 550,126</u>	<u>\$ -</u>

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONTINUED)
Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund - Memorial Building Concessions	Totals	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 120,632	\$ 263,577	\$ 2,214	\$ 386,423	\$ (67,230)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	125,379	710,957	1,920	838,256	-
(Increase) decrease in:					
Special assessments receivable - unapportioned	1,189	1,800	-	2,989	-
Accounts receivable	2,704	36,141	(503)	38,342	(14,027)
Due from component unit	18,260	2,534	-	20,794	-
Due from other governments	1,052	304,704	-	305,756	-
Inventories	(3,955)	-	-	(3,955)	-
Prepaid expenses	-	270	-	270	(20,057)
Increase (decrease) in:					
Accounts payable	8,034	27,534	(378)	35,190	(62)
Salaries payable	(17,990)	(1,729)	-	(19,719)	-
Compensated absences - current	10,967	(38,226)	-	(27,259)	-
Due to other governments	(33,623)	678	-	(32,945)	-
Deferred revenue	-	(37,554)	-	(37,554)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 232,649</u>	<u>\$ 1,270,686</u>	<u>\$ 3,253</u>	<u>\$ 1,506,588</u>	<u>\$ (101,376)</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the City of Hibbing, Minnesota, comply with Generally Accepted Accounting Principles (GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended December 31, 2005.

A. Financial Reporting Entity

The City's financial reporting entity is comprised of the following:

Primary Government:	City of Hibbing
Discretely Presented Component Unit:	Hibbing Economic Development Authority (EDA)
Discretely Presented Component Unit:	Hibbing Public Utilities Commission (PUC)

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

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

Currently the City has no blended component units.

Discretely Presented Component Units

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The component units that are discretely presented are as follows:

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

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

B. Basis of Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information about the reporting government as a whole. These statements include all the financial activities of the City. The statements distinguish between those activities of the primary government of the City that are governmental and those that are considered business-type activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Fund Financial Statements

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

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUNDS

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

Major Governmental Funds:

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

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

Nonmajor Governmental Funds:

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

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

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

PROPRIETARY FUNDS

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

Major Proprietary Funds:

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

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonmajor Proprietary Funds:

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

Additionally, the government reports the following fund type:

The Insurance Internal Service Fund is used to account for the insurance premiums, co-pays, and deductibles of retiree and employee insurance costs. Financing is provided by insurance premiums from employees and the City and service charges to the various participating governmental and proprietary funds.

C. Measurement Focus and Basis of Accounting

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. Depreciation expense can be specifically identified by program and is included in the direct expenses of each program. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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

D. Cash and Cash Equivalents

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

E. Assets, Liabilities and Fund Balances

- 1) Cash balances for all funds of the City are maintained on a combined basis and invested to the extent possible, in allowable short-term investments. All investments are stated at fair value.
- 2) The General Fund reports accounts receivable net of an allowance for uncollectible accounts. The allowance amount is based on actual accounts.

The PUC Component Unit reports accounts receivable net of an allowance for doubtful accounts of \$63,000 for 2005.

- 3) The City had no significant inventories in the General Fund and records supplies and materials as expenditures when purchased. Enterprise Funds' inventories are valued at cost, on a first-in, first-out (FIFO) basis, and the cost of these inventories are recorded as expenditures when consumed rather than when purchased. The PUC Component Unit's inventories consist of parts, which are valued at weighted average cost and fuel and bulk supplies, which are valued at cost, on a last-in, first-out (LIFO) basis.
- 4) Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- 5) Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The City maintains a threshold level of \$5,000 or more for capitalizing all capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are no longer needed by the City, such assets are either disposed of if it is determined there is no value, or sold for an immaterial amount. Useful lives vary from 20 to 40 years for improvements and buildings, 20 to 40 years for infrastructure, and 5 to 10 years for machinery, equipment and vehicles. Capital assets not being depreciated include land, construction in progress, and gravel roads.

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

- 8) Delinquent property taxes receivable, less any delinquent taxes that are to be received within 60 days, are recorded as a deferred revenue in the fund financial statements.
- 9) In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt. The long-term debt consists primarily of general obligation bonds, general obligation revenue bonds and notes, certificates of indebtedness, lease purchases, and severance payable.

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Revenues and Expenditures

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Fund and Net Asset Deficits

The following funds of the City or the Hibbing Economic Development Authority, a discretely presented component unit, had a deficit fund balance or net assets at December 31, 2005:

Primary Government	
Sewer Operating and Maintenance Enterprise	
Fund – Unrestricted net assets	\$ 2,569,264

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

This deficit occurred due to large over runs in the storm sewer renovation project that will be funded by increased storm sewer charges.

HEDA Component Unit	
District VII Tax Increment Capital Projects Fund	\$ 1,199
Student Housing Enterprise Fund	\$ 142,703

The deficits occurred because expenditures/expenses exceeded revenues and transfers. The City plans to eliminate these deficits through future revenues or transfers.

NOTE 3 - CASH AND CASH EQUIVALENTS

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

As of December 31, 2005, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money		
Market (4M) Fund	\$ 1,090	Not Rated
Federal Home Loan Bank Step-up Bonds	1,474,647	AAA (S& P and Moody's)
1 st American Corporation Trust		
Government Fund	972,212	Not applicable
Wells Fargo Government Advantage		
Money market Fund	<u>395,431</u>	Not applicable
Total Fair Value	<u>\$2,843,380</u>	

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The City does not have a formal investment policy that addresses interest rate risk.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

"Cash and cash equivalents" recorded are comprised of:

	Primary Government	Component Units		
		EDA	PUC	Total
Cash and cash equivalents				
Petty Cash	\$ 1,735	\$ 50	\$ -	\$ 1,785
Deposits	<u>10,689,769</u>	<u>1,272,985</u>	<u>4,930,703</u>	<u>16,893,457</u>
Total cash and cash equivalents	<u>10,691,504</u>	<u>1,273,035</u>	<u>4,930,703</u>	<u>16,895,242</u>
Investments				
Certificates of deposit	97,104	-	1,000,000	1,097,104
Other	<u>1,475,737</u>	<u>1,367,643</u>	<u>-</u>	<u>2,843,380</u>
Total Investments	<u>1,572,841</u>	<u>1,367,643</u>	<u>1,000,000</u>	<u>3,940,484</u>
 Total	 <u>\$12,264,345</u>	 <u>\$ 2,640,678</u>	 <u>\$ 5,930,703</u>	 <u>\$20,835,726</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk.

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits was \$12,059,858; the bank balance was \$13,036,137. At December 31, 2005, the carrying amount of Hibbing Public Utility Commission's deposits, which includes \$1,000,000 of certificates of deposits, was \$5,813,895 and the bank balance was \$5,441,243. At year end, the City's bank balances were entirely insured, or collateralized with securities held by the pledging financial institution's agent in the City's name as required by Minnesota Statute §118A.03. At year end, the Hibbing Public Utility Commission's bank balances were under collateralized by \$990,000.

Investments

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk.

Credit Risk and Concentration of Credit Risk

The City does not have a formal investment policy for credit risk or concentration of credit risk. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper and guaranteed investment contracts. The City places no limit on the amount the City may invest in any one issuer.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 4 - CAPITAL ASSETS

Primary Government

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets, not being depreciated:					
Land and improvements	\$ 1,640,662	\$ 17,499	\$ (67,428)	\$ -	\$ 1,590,733
Artwork	1,807,350	-	-	-	1,807,350
Gravel roads	2,909,500	-	-	-	2,909,500
Construction in progress	132,919	6,593	-	630,597	770,109
Total capital assets, not being depreciated	<u>6,490,431</u>	<u>24,092</u>	<u>(67,428)</u>	<u>630,597</u>	<u>7,077,692</u>
Capital assets, being depreciated:					
Buildings and improvements	18,232,550	135,384	(244,157)	(59,406)	18,064,371
Equipment, machinery, and furniture	7,228,333	885,189	(84,162)	-	8,029,360
Infrastructure	16,707,336	571,191	-	(571,191)	16,707,336
Total capital assets, being depreciated	<u>42,168,219</u>	<u>1,591,764</u>	<u>(328,319)</u>	<u>(630,597)</u>	<u>42,801,067</u>
Less accumulated depreciation for:					
Buildings and improvements	(9,872,546)	(529,179)	-	-	(10,401,725)
Equipment, machinery, and furniture	(5,509,638)	(499,393)	84,162	-	(5,924,869)
Infrastructure	(9,106,263)	(632,789)	-	-	(9,739,052)
Total accumulated depreciation	<u>(24,488,447)</u>	<u>(1,661,361)</u>	<u>84,162</u>	<u>-</u>	<u>(26,065,646)</u>
Total capital assets, being depreciated, net	<u>17,679,772</u>	<u>(69,597)</u>	<u>(244,157)</u>	<u>(630,597)</u>	<u>16,735,421</u>
Governmental activities capital assets, net	<u>\$ 24,170,203</u>	<u>\$ (45,505)</u>	<u>\$ (311,585)</u>	<u>\$ -</u>	<u>\$ 23,813,113</u>
Business-type activities					
Capital assets, not being depreciated:					
Land and improvements	\$ 130,057	\$ -	\$ -	\$ -	\$ 130,057
Construction in progress	10,229,623	2,588,150	-	(10,135,327)	2,682,446
Total capital assets, not being depreciated	<u>10,359,680</u>	<u>2,588,150</u>	<u>-</u>	<u>(10,135,327)</u>	<u>2,812,503</u>
Capital assets, being depreciated:					
Buildings and improvements	16,020,045	11,433	-	10,135,327	26,166,805
Equipment, machinery, and furniture	1,949,173	127,124	(32,171)	-	2,044,126
Total capital assets, being depreciated	<u>17,969,218</u>	<u>138,557</u>	<u>(32,171)</u>	<u>10,135,327</u>	<u>28,210,931</u>
Less accumulated depreciation for:					
Buildings and improvements	(5,593,929)	(681,708)	-	-	(6,275,637)
Equipment, machinery, and furniture	(1,559,311)	(156,548)	32,171	-	(1,683,688)
Total accumulated depreciation	<u>(7,153,240)</u>	<u>(838,256)</u>	<u>32,171</u>	<u>-</u>	<u>(7,959,325)</u>
Total capital assets, being depreciated, net	<u>10,815,978</u>	<u>(699,699)</u>	<u>-</u>	<u>10,135,327</u>	<u>20,251,606</u>
Business-type activities capital assets, net	<u>\$ 21,175,658</u>	<u>\$ 1,888,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,064,109</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

Governmental activities

General government	\$ 246,153
Public safety	145,484
Public works	893,463
Culture and recreation	306,037
Economic development	1,324
Transportation	<u>68,900</u>
Total depreciation expense- governmental activities	<u>\$ 1,661,361</u>

Business-type activities

Garbage and refuse collection	\$ 125,379
Sewer operating and maintenance	710,957
Memorial building concessions	<u>1,920</u>
Total depreciation expense - business-type activities	<u>\$ 838,256</u>

Discretely presented component units

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land and improvements	\$ 19,300	\$ -	\$ (10,000)	\$ -	\$ 9,300
Capital assets, being depreciated:					
Buildings and improvements	3,211,946	16,768	(1,404,015)	-	1,824,699
Equipment, machinery, and furniture	<u>280,231</u>	<u>3,558</u>	<u>-</u>	<u>-</u>	<u>283,789</u>
Total capital assets, being depreciated	<u>3,492,177</u>	<u>20,326</u>	<u>(1,404,015)</u>	<u>-</u>	<u>2,108,488</u>
Less accumulated depreciation for:					
Buildings and improvements	(825,081)	(83,573)	387,645	-	(521,009)
Equipment, machinery, and furniture	<u>(270,667)</u>	<u>(5,562)</u>	<u>-</u>	<u>-</u>	<u>(276,229)</u>
Total accumulated depreciation	<u>(1,095,748)</u>	<u>(89,135)</u>	<u>387,645</u>	<u>-</u>	<u>(797,238)</u>
Total capital assets, being depreciated, net	<u>2,396,429</u>	<u>(68,809)</u>	<u>(1,016,370)</u>	<u>-</u>	<u>1,311,250</u>
Hibbing Economic Development Authority capital assets, net	<u>\$ 2,415,729</u>	<u>\$ (68,809)</u>	<u>\$ (1,026,370)</u>	<u>\$ -</u>	<u>\$ 1,320,550</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Construction in progress	\$ 1,100,770	\$ -	\$ -	\$ (687,839)	\$ 412,931
Capital assets, being depreciated:					
Buildings and grounds	5,970,217	-	(373,884)	305,232	5,901,565
Transmission and distribution system	41,700,148	174,222	-	382,607	42,256,977
Equipment, machinery, and furniture	<u>41,399,642</u>	<u>1,364,468</u>	<u>(20,410)</u>	<u>-</u>	<u>42,743,700</u>
Total capital assets, being depreciated	89,070,007	1,538,690	(394,294)	687,839	90,902,242
Less total accumulated depreciation	(58,605,217)	(2,357,639)	394,294	-	(60,568,562)
Total capital assets, being depreciated, net	<u>30,464,790</u>	<u>(818,949)</u>	<u>-</u>	<u>687,839</u>	<u>30,333,680</u>
Hibbing Public Utilities Commission capital assets, net	<u>\$ 31,565,560</u>	<u>\$ (818,949)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,746,611</u>

NOTE 5 - OPERATING LEASE

The City entered into a sublease agreement with St. Louis County for office facilities for its police department. Total cost for this lease was \$74,728 for the year ended December 31, 2005. The future payments for this lease are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2006	\$ 74,728
2007	74,728
2008	74,728
2009	74,728
2010	74,728
Thereafter	<u>149,456</u>
	<u>\$ 523,096</u>

NOTE 6 - LONG-TERM DEBT

The City issued general obligation bonds to finance the construction of major capital facilities and improvements. The bonds have been issued for both governmental and business-type activities and are being repaid from the applicable resources.

The City has also issued long-term capital leases and certificates of indebtedness for the purchase of major equipment. These leases and certificates are considered obligations of the primary government and are being repaid as part of each year's budgeted expenditures.

The City and the EDA-Component Unit have issued general obligation revenue and revenue bonds, notes and loans payable to finance improvements of the utility and component unit enterprise project. These are being repaid from the corresponding revenues of either the primary government, Utility, or EDA-Component Unit Enterprise Fund.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Primary Government					
Governmental activities					
General obligation refunding bonds					
2002 Taxable Refunding Bonds	01/15/2002	5.00-5.75%	\$ 980,000	02/1/2008	\$ 480,000
1998 Taxable Pension Refunding Bonds	11/01/1998	5.00-5.30%	\$1,245,000	02/1/2006	<u>210,000</u>
Total general obligation refunding bonds					<u>690,000</u>
Certificates of indebtedness					
Series 2001A	12/15/2001	3.00-3.90%	\$ 200,000	02/1/2006	55,000
Series 2003A	12/01/2003	3.75%	\$ 130,000	12/1/2008	80,000
Series 2004A	11/01/2004	1.55-2.65%	\$ 265,000	08/1/2009	215,000
Series 2005A	12/01/2005	4.68%	\$ 565,000	08/1/2015	<u>565,000</u>
Total certificates of indebtedness					<u>915,000</u>
Lease purchase obligations					
Various	-	4.42-6.40%	various	12/30/2012	2,248,253
Police and Fire Indebtedness	06/30/1999	-	\$6,572,990	06/30/2008	1,971,897
Compensated absences payable					<u>301,565</u>
Governmental activities long-term liabilities					<u>6,126,715</u>
Business-type activities					
General obligation revenue					
2005 Sewer Notes	01/29/2005	1.74%	\$9,847,450	08/20/2022	<u>9,053,000</u>
Total Primary Government Long-Term Liabilities					<u>15,179,715</u>
Discretely Presented Component Units					
EDA					
Bonds and notes payable					
1997 Public Project					
Revenue Bonds	3/5/1997	5.40-6.40%	\$ 3,850,000	2/1/2012	2,195,000
1996A General Obligation Refunding Bonds	9/1/1996	3.75-5.00%	\$ 355,000	2/1/2006	30,000
2002A General Obligation Taxable Refunding Bonds	1/15/2002	5.00-5.75%	\$ 270,000	2/1/2008	150,000
1997B General Obligation Tax Increment Bonds	8/1/1997	7.50%	\$ 320,000	2/1/2017	280,000
1999A General Obligation Tax Increment Bonds	8/1/1999	7.49%	\$ 165,000	2/1/2016	145,000
1998A General Obligation Housing Development Refunding Bonds	10/1/1998	4.00-4.75%	\$ 2,075,585	10/1/2028	<u>1,978,598</u>
Total EDA-Component Unit Long-Term Liabilities					<u>4,778,598</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
PUC					
Bonds and notes payable					\$ 5,214,233
Compensated absences payable					<u>953,062</u>
Total PUC-Component Unit Long-Term Liabilities					<u>6,167,295</u>
Total reporting entity					<u>\$ 26,125,608</u>

Long-term liability activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Primary Government					
Governmental activities					
General obligation bonds payable	\$ 1,055,000	\$ -	\$ (365,000)	\$ 690,000	\$ 370,000
Certificates of indebtedness	565,000	565,000	(215,000)	915,000	210,000
Leases payable	2,617,225	-	(368,972)	2,248,253	368,312
Police and fire indebtedness	2,629,196	-	(657,299)	1,971,897	657,299
Compensated absences payable	<u>406,281</u>	<u>-</u>	<u>(104,716)</u>	<u>301,565</u>	<u>-</u>
Governmental activities - long-term liabilities	<u>7,272,702</u>	<u>565,000</u>	<u>(1,710,987)</u>	<u>6,126,715</u>	<u>1,605,611</u>
Business-type activities					
Bonds payable	268,311	-	(268,311)	-	-
GO revenue notes payable	<u>9,089,208</u>	<u>417,792</u>	<u>(454,000)</u>	<u>9,053,000</u>	<u>462,000</u>
Business-type activities - long-term liabilities	<u>9,357,519</u>	<u>417,792</u>	<u>(722,311)</u>	<u>9,053,000</u>	<u>462,000</u>
Total Primary Government	<u>\$16,630,221</u>	<u>\$ 982,792</u>	<u>\$ (2,433,298)</u>	<u>\$15,179,715</u>	<u>\$ 2,067,611</u>
Discretely Presented Component Units					
EDA					
Bonds payable	\$ 5,152,680	\$ -	\$ (374,082)	\$ 4,778,598	\$ 410,000
Loans payable	<u>59,096</u>	<u>-</u>	<u>(59,096)</u>	<u>-</u>	<u>-</u>
EDA-Component Unit long-term liabilities	<u>\$ 5,211,776</u>	<u>\$ -</u>	<u>\$ (433,178)</u>	<u>\$ 4,778,598</u>	<u>\$ 410,000</u>
PUC					
Bonds and notes payable	\$ 1,905,973	\$ 4,002,233	\$ (693,973)	\$ 5,214,233	\$ 123,600
Compensated absences payable	<u>932,396</u>	<u>20,666</u>	<u>-</u>	<u>953,062</u>	<u>-</u>
PUC-Component Unit long-term liabilities	<u>\$ 2,838,369</u>	<u>\$ 4,022,899</u>	<u>\$ (693,973)</u>	<u>\$ 6,167,295</u>	<u>\$ 123,600</u>
Totals	<u>\$24,680,366</u>	<u>\$ 5,005,691</u>	<u>\$ (3,560,449)</u>	<u>\$26,125,608</u>	<u>\$ 2,601,211</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

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

Year Ending December 31	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 1,605,611	\$ 182,061	\$ 462,000	\$ 157,522	\$ 2,067,611	\$ 339,583
2007	1,310,830	148,584	470,000	149,483	1,780,830	298,067
2008	1,299,423	114,228	478,000	141,306	1,777,423	255,534
2009	435,719	84,552	487,000	132,988	922,719	217,540
2010	399,135	60,328	495,000	124,514	894,135	184,842
2011-2015	774,432	60,868	2,610,000	490,245	3,384,432	551,113
2016-2020	-	-	2,843,000	255,189	2,843,000	255,189
2021-2025	-	-	1,208,000	31,616	1,208,000	31,616
2026-2030	-	-	-	-	-	-
Total	<u>\$ 5,825,150</u>	<u>\$ 650,621</u>	<u>\$ 9,053,000</u>	<u>\$ 1,482,863</u>	<u>\$14,878,150</u>	<u>\$ 2,133,484</u>

Year Ending December 31	Component Units			
	EDA		PUC	
	Principal	Interest	Principal	Interest
2006	\$ 410,000	\$ 299,182	\$ 123,600	\$ 131,527
2007	392,329	248,323	212,734	254,037
2008	417,329	223,425	243,632	208,802
2009	377,329	198,371	249,393	186,095
2010	407,329	173,068	265,286	176,351
2011-2015	1,188,974	538,184	1,460,841	721,641
2016-2020	510,308	325,337	1,761,114	415,742
2021-2025	625,000	194,765	897,633	117,353
2026-2030	450,000	42,770	-	-
Total	<u>\$ 4,778,598</u>	<u>\$ 2,243,425</u>	<u>\$ 5,214,233</u>	<u>\$ 2,211,548</u>

Conduit Debt

The City entered into a joint powers agreement pursuant to Minn. Stat. §471.59 with the City of Chisholm. The purpose of the agreement is to help a Minnesota nonprofit corporation refinance and finance projects for intermediate care facilities in both cities by issuing revenue bonds pursuant to Minn. Stat. §§469.152-.165. These bonds are not a debt of the City, as explained further below. This agreement shall terminate upon the final maturity and payment of the bonds or earlier upon the mutual consent in writing of the parties.

The City entered into a joint powers agreement pursuant to Minn. Stat. §471.59 with the Cities of Crookston, Roseau, and Thief River Falls, Minnesota. The purpose of the agreement is to help a Minnesota nonprofit corporation refinance and finance projects for facilities and equipment used in various programs for developmentally disabled individuals in each city by issuing revenue bonds pursuant to Minn. Stat. §§469.152-.165. These bonds are not a debt of the City, as explained below. This agreement shall terminate upon the final maturity and payment of the bonds or earlier upon the mutual consent in writing of the parties.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

The City entered into a joint powers agreement pursuant to Minn. Stat. §471.59 with the City of Buhl. The purpose of the agreement is to help a Minnesota nonprofit corporation refinance and finance projects for three facilities used to provide residential services to adults with developmental disabilities in both cities by issuing revenue obligations pursuant to Minn. Stat. §§469.152-.165. Since the City of Buhl is the "issuer," and the City of Hibbing gave "host consent," this revenue obligation is not included in the aggregate amount payable in the conduit debt explained below. These obligations are not a debt of the City, as explained below. This agreement shall terminate upon the earlier of: defeasance of the obligations; final maturity and payment of the obligations; or payment in full of the obligations prior to their final maturity.

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

The City has issued revenue bonds and notes to provide financial assistance to private-sector entities for the acquisition and construction of commercial facilities and equipment deemed to be in the public interest. These bonds and notes are secured by the property financed and are payable solely from revenues derived from loan agreements. The City is not obligated in any manner for repayment of the bonds or notes. Accordingly, they are not reported as a liability in the accompanying financial statements.

Since 1995, there are six issues outstanding. The aggregate amount payable at December 31, 2005, is \$6,343,818. Records for revenue bonds or notes issued prior to 1995 are not available.

NOTE 7 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2005, is as follows:

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

<u>Fund or Component Unit</u>	<u>Due From Other Funds</u>	<u>Due From Component Units</u>	<u>Due To Other Funds</u>	<u>Due To Primary Government</u>
Primary Government				
General Fund	\$ 2,768,296	\$ 451,355	\$ -	\$ -
Enterprise Funds				
Garbage and Refuse Collection	-	133,172	-	-
Sewer Operating and Maintenance	-	163,360	2,577,280	-
Total Enterprise Funds	-	296,532	2,577,280	-
Insurance Internal Service Fund	-	-	191,016	-
Total Primary Government	\$ 2,768,296	\$ 747,887	\$ 2,768,296	\$ -

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 7 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

<u>Fund or Component Unit</u>	<u>Due From Other Funds</u>	<u>Due From Component Units</u>	<u>Due To Other Funds</u>	<u>Due To Primary Government</u>
Component Units				
Hibbing Economic Development Authority (EDA)				
General Fund	\$ -	\$ -	\$ 2,097	\$ -
Enterprise Funds				
Student Housing	<u>2,097</u>	<u>-</u>	<u>-</u>	<u>451,355</u>
Total EDA	<u>2,097</u>	<u>-</u>	<u>2,097</u>	<u>451,355</u>
Hibbing Public Utilities Commission	<u>-</u>	<u>-</u>	<u>-</u>	<u>296,532</u>
Total Component Units	\$ <u>2,097</u>	\$ <u>-</u>	\$ <u>2,097</u>	\$ <u>747,887</u>
Total Reporting Entity	\$ <u>2,770,393</u>	\$ <u>747,887</u>	\$ <u>2,770,393</u>	\$ <u>747,887</u>

The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended December 31, 2005 consisted of the following:

Transfer To/From Other Funds/Component Units

<u>Fund or Component Unit</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government		
General Fund	\$ -	\$ 107,216
Special Revenue Funds		
Library	75,719	-
In Fill Housing	1,875	-
Capital Equipment and Improvement		
Capital Projects Fund	<u>29,622</u>	<u>-</u>
Total Primary Government	\$ <u>107,216</u>	\$ <u>107,216</u>
Hibbing Economic Development Authority (EDA)		
General Fund	\$ -	\$ 19,773
Debt Service Funds		
TIF VI	13,792	-
TIF VII	31,749	-
TIF XI	16,048	-
Central Range Public Works	3,736	-
Capital Projects Funds		
TIF VI	-	6,452
TIF VII	-	31,749
TIF XI	-	7,810
Public Works	-	3,736

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 7 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

<u>Fund or Component Unit</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Enterprise Funds		
Student Housing	\$ 18,867	\$ -
Family Center	-	14,672
Total EDA	<u>\$ 84,192</u>	<u>\$ 84,192</u>

Transfers are used to: 1) eliminate deficit fund balances and 2) to help fund operating losses.

NOTE 8 - FUND EQUITY

Restricted Net Assets

The amount reported as net assets restricted for other purposes on the Statement of Net Assets is comprised of the following:

Primary Government

Special Revenue Funds

Restricted for other purposes –

Library	\$ 23,789
Housing incentives	43,378
Economic development	95,131
Capital fund contribution	<u>50,000</u>

Total Net Assets, Restricted for Other
Purposes – Primary Government

\$ 212,298

EDA Component Unit

Restricted for other purposes -

Tax increment financing projects	<u>\$ 34,813</u>
----------------------------------	------------------

Fund Balance

The amount reported as fund balances reserved for other purposes on the Balance Sheet is comprised of the following:

Minnesota Investment Revolving Loans

Special Revenue Fund

Reserved for community capital fund contributions	<u>\$ 50,000</u>
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The amount reported as fund balances unreserved, designated on the Balance Sheet is comprised of the following:

General Fund

Designated for future projects from

Sale of assets	\$ 702,196
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Designated for cash flow

5,732,775

Designated for workers compensation

355,000

Designated for future state aid reductions

580,000

Designated for infrastructure/cooperative programs

364,643

Total Designated - General Fund

\$ 7,734,614

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 8 - FUND EQUITY (CONTINUED)

Debt Service Funds

1990 GO Taxable Pension Bonds	
Designated for debt service	\$ 115,002
2002 GO Refunding Bonds	
Designated for debt service	<u>314,681</u>
Total Designated - Debt Service Funds	\$ <u>429,683</u>

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Risk of loss associated with workers' compensation claims are insured through participation in the League of Minnesota Cities Insurance Trust. The League of Minnesota Cities Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for its members. The City pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the last three fiscal years.

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 10 - TAX INCREMENT FINANCING DISTRICTS

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

<u>Tax Increment Financing Districts</u>	<u>No. III</u>	<u>No. VI</u>	<u>No. VII</u>
Redevelopment project district established in:	1985	1992	1993
Economic development district established in:	-	-	-
Qualified housing district established in:	-	-	-
Anticipated last tax increment year:	2017	2018	2019
Original net tax capacity:	\$ <u>7,424</u>	\$ <u>12,950</u>	\$ <u>3,412</u>
Current net tax capacity:	\$ <u>22,335</u>	\$ <u>39,414</u>	\$ <u>39,159</u>
Fiscal disparity deduction:	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Captured net tax capacity retained by Authority:	\$ <u>14,911</u>	\$ <u>26,464</u>	\$ <u>35,747</u>
Total bonds issued			
Tax increment bonds	\$ 121,000	\$ 270,000	\$ 320,000
Amounts redeemed	<u>121,000</u>	<u>120,000</u>	<u>40,000</u>
Outstanding bonds at 12/31/05	\$ <u>-</u>	\$ <u>150,000</u>	\$ <u>280,000</u>

<u>No. VIII</u>	<u>No. X</u>	<u>No. XI</u>
-	-	1999
-	1999	-
1993	-	-
2020	2009	2025
\$ <u>-</u>	\$ <u>671</u>	\$ <u>525</u>
\$ <u>11,489</u>	\$ <u>8,272</u>	\$ <u>7,448</u>
\$ <u>-</u>	\$ <u>1,197</u>	\$ <u>-</u>
\$ <u>11,489</u>	\$ <u>7,601</u>	\$ <u>6,923</u>
\$ -	\$ -	\$ 165,000
-	-	<u>20,000</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>145,000</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 11 - OTHER COMMITMENTS AND CONTINGENCIES

Grants

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2005, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Construction Projects

The City had three outstanding construction projects as of December 31, 2005. The projects are evidenced by contractual commitments with contractors and engineers and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Sewer Operating and Maintenance Enterprise Fund		
19 th Street Interceptor Park	\$ 310,071	\$ 1,016,037
Bryan Lake Storm Water	36,320	4,596
28 th Street/7 th Ave. Sanitary Storm	<u>528,454</u>	<u>32,972</u>
Total Sewer Operating and Maintenance Enterprise Fund	<u>\$ 874,845</u>	<u>\$ 1,053,605</u>

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

NOTE 12 - JOINT VENTURES

Joint Powers Contracts

The City entered into joint powers contracts with the State of Minnesota and St. Louis County to refurbish and expand a County-owned garage in Hibbing. Pursuant to this agreement, the Hibbing Economic Development Authority (EDA), a component unit of the City, issued \$3,850,000 Public Project Revenue Bonds, Series 1997, to finance the City and County's share of this project. Settlement of the bonds took place on March 5, 1997, with the bonds being dated February 1, 1997.

The proceeds from the sale of bonds were placed in the EDA Public Works Capital Projects Fund. At December 31, 2005, the fund had the following balances:

Assets	\$ 395,431
Fund Balance	\$ 395,431

Complete financial information can be obtained from the City of Hibbing Finance Director, 401 East 21st Street, Hibbing, Minnesota 55746.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 12 - JOINT VENTURES (CONTINUED)

Chisholm/Hibbing Airport Authority

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

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

During 2005, there were no related party transactions between the City and the Chisholm/Hibbing Airport Authority.

NOTE 13 - RELATED ORGANIZATION

Housing and Redevelopment Authority of Hibbing

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

During 2005, there were no related party transactions between the City and the Housing and Redevelopment Authority of Hibbing.

NOTE 14 - MINNESOTA COMMUNITY CAPITAL FUND

The City of Hibbing is a Class B member of the Minnesota Community Capital Fund (MCCF). The MCCF was established to address unmet development financing needs of communities and economic development organizations throughout Greater Minnesota by pooling local revolving loan fund resources and providing professional management services to support local efforts. The MCCF is designed to provide its members with greater lending flexibility and the capacity to originate multiple loans that are much larger than would be possible with limited resources.

NOTE 15 - POST EMPLOYMENT BENEFITS

Primary Government

In addition to the pension benefits described in Notes 17 and 18, the City provides post-employment health care and life insurance benefits to those employees who meet the eligibility requirements. Currently, 91 retirees meet the eligibility requirements. Expenditures for post-employment benefits are recognized when paid. During the year ended December 31, 2005, expenditures of \$603,041 were recognized for post-employment benefits.

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 15 - POST EMPLOYMENT BENEFITS (CONTINUED)

Component Unit – Hibbing Public Utilities Commission

The Commission provides health care and dental insurance benefits for retired Commission employees. Commission employees become eligible for such benefits upon retirement. The cost of such benefits is recognized as an expense as the premiums are paid. During the year ended December 31, 2005, the Commission expended \$434,027 in benefits for 38 retirees.

NOTE 16 - EQUITY IN JOINT VENTURE

Component Unit – Hibbing Public Utilities Commission

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

The management of the business and affairs of the Authority are governed by a Board of Directors. The Board consists of seven directors. The General Manager, Chairman, and Vice Chairman of the Hibbing Public Utilities as well as the General Manager, President, and Vice President of the Virginia Public Utilities comprise six seats on the Board. The remaining Board position is elected by a majority of the other directors. As of December 31, 2005, the remaining seat was vacant.

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

The Authority is a development stage organization. As of December 31, 2005, biomass fueled steam and electricity production has not yet started. The Authority is scheduled to begin delivering biomass fuel in the summer of 2006 and will begin production in December of 2006.

As of December 31, 2005, the Commission has reported on its balance sheet an investment of \$5,078,984 in the joint venture, which represents its share of monies directly invested and costs incurred in the establishment of the joint venture as well as its 50 percent share of the change in the Authority's net assets for the year.

In conjunction with the joint venture, the Commission has pledged \$246,719 of deposits to secure a letter of credit for the Authority. The deposits are reflected as restricted assets on the accompanying Commission balance sheet.

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 2005 financial statements:

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 16 - EQUITY IN JOINT VENTURE (CONTINUED)

Current assets	\$ 1,442,432
Non-current restricted assets	52,087,872
Other assets	3,589,400
Capital assets	13,685,770
Total assets	70,805,474
Current liabilities	2,142,523
Revenue bonds	58,725,000
Total liabilities	60,647,506
Net assets	10,157,968
Total operating revenues	-
Operating expenses	779,565
Change in net assets	10,157,968

NOTE 17 - DISCONTINUED OPERATIONS

EDA sold its Family Resource Center and operations to Davich Properties, Inc. for \$750,000 on November 1, 2005. Subsequently, the outstanding loan due of \$41,209 was paid off. The net result (less miscellaneous costs) was a promissory note with interest at 5.5% in favor of EDA from Davich Properties, Inc. for \$708,691. Davich is to make monthly installments of \$5,791 commencing on December 1, 2005 until December 1, 2012, when the entire principal balance and any accrued interest shall be due and payable in full.

NOTE 18 - DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Description

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

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

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 18 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 5.10%, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan will increase in 2006 to 5.5%. PEPFF members are required to contribute 6.20% of their annual covered salary in 2005. The rate will increase to 7.0% in 2006. The City of Hibbing, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 5.53% for Coordinated Plan PERF members, and 9.30% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.0% and 10.5%, respectively, effective January 1, 2006. The City's

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 18 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

contributions to the Public Employees Retirement Fund for the years ending December 31, 2005, 2004, and 2003 were \$234,212, \$236,598, and \$227,447, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2005, 2004, and 2003 were \$269,500, \$270,469, and \$263,103, respectively. The Hibbing Public Utilities contributions to the Public Employees Retirement Fund for the years ending December 31, 2005, 2004, and 2003 were \$230,386, \$225,556, and \$214,580, respectively.

NOTE 19 - DEFINED CONTRIBUTION PLAN

Six council members of the City of Hibbing, Minnesota are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and four-tenths of one percent of the assets in each member's account annually.

Total contributions made by the City of Hibbing, Minnesota during fiscal year 2005 were:

<u>Amount</u>		<u>Percentage of Covered Payroll</u>		<u>Required Rates</u>
<u>Employees</u>	<u>Employer</u>	<u>Employees</u>	<u>Employer</u>	
\$ 1,243	\$ 1,243	<u>5.00%</u>	<u>5.00%</u>	<u>5.00%</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HIBBING, MINNESOTA

GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,917,256	\$ 3,709,678	\$ 4,231,282	\$ 521,604
Licenses and permits	107,160	107,160	176,427	69,267
Intergovernmental	7,423,533	7,768,861	8,201,530	432,669
Charges for services	1,481,675	1,481,675	1,534,089	52,414
Fines	100,000	100,000	109,684	9,684
Gifts and contributions	5,000	5,000	20,837	15,837
Interest	50,000	50,000	149,704	99,704
Miscellaneous	68,700	68,700	106,424	37,724
TOTAL REVENUES	11,153,324	13,291,074	14,529,977	1,238,903
EXPENDITURES				
Current				
General government	1,613,130	1,613,130	1,518,033	95,097
Public safety	4,621,850	4,621,850	4,610,741	11,109
Public works	2,679,035	2,374,474	2,140,453	234,021
Culture and recreation	1,595,128	1,595,128	1,617,808	(22,680)
Economic development	102,512	102,512	99,859	2,653
Transportation	178,855	178,855	175,522	3,333
Miscellaneous	1,761,689	1,761,689	1,818,696	(57,007)
Debt Service				
Principal	657,299	848,399	848,399	-
Interest and other charges	-	113,461	113,461	-
TOTAL EXPENDITURES	13,209,498	13,209,498	12,942,972	266,526
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,056,174)	81,576	1,587,005	1,505,429
OTHER FINANCING SOURCES (USES)				
Transfers out	(77,719)	(77,719)	(107,216)	(29,497)
Insurance proceeds	-	-	110,000	110,000
Sale of capital assets	-	-	563,213	563,213
TOTAL OTHER FINANCING SOURCES (USES)	(77,719)	(77,719)	565,997	643,716
SPECIAL ITEM				
Sale of wetland credits	-	-	28,983	28,983
NET CHANGE IN FUND BALANCES	(2,133,893)	3,857	2,181,985	2,178,128
FUND BALANCES - JANUARY 1	8,154,357	8,154,357	8,154,357	-
FUND BALANCES - DECEMBER 31	\$ 6,020,464	\$ 8,158,214	\$ 10,336,342	\$ 2,178,128

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2005**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 567,143	\$ 567,143	\$ 475,546	\$ (91,597)
Intergovernmental	-	-	93,055	93,055
Charges for services	21,200	56,200	58,364	2,164
Gifts and contributions	8,800	8,800	13,101	4,301
TOTAL REVENUES	597,143	632,143	640,066	7,923
EXPENDITURES				
Current				
Culture and recreation	672,862	707,862	726,112	(18,250)
DEFICIENCY OF REVENUES OVER EXPENDITURES	(75,719)	(75,719)	(86,046)	(10,327)
OTHER FINANCING SOURCES				
Transfers in	75,719	75,719	75,719	-
NET CHANGE IN FUND BALANCES	-	-	(10,327)	(10,327)
FUND BALANCES - JANUARY 1	34,116	34,116	34,116	-
FUND BALANCES - DECEMBER 31	\$ 34,116	\$ 34,116	\$ 23,789	\$ (10,327)

CITY OF HIBBING, MINNESOTA

INFRASTRUCTURE CONDITION DATA Year Ended December 31, 2005

MODIFIED APPROACH FOR CITY GRAVEL ROADS INFRASTRUCTURE CAPITAL ASSETS

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

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

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

The City commissioned a physical condition assessment of its gravel roads as of September 2005. This condition assessment will be performed at least every three years. The study assists the City by providing current inspection data used to evaluate current road condition. This helps to maintain a City-defined desirable level of road performance while optimizing the expenditure of limited fiscal resources. The entire gravel road network within the City is composed of approximately 46 miles of gravel road.

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

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

CITY OF HIBBING, MINNESOTA

INFRASTRUCTURE CONDITION DATA (CONTINUED)
Year Ended December 31, 2005

Except in the condition of an extreme weather condition, rain storm, or flooded condition, the City of Hibbing will maintain gravel roads at a condition of Level 2. As of December 31, 2005, the City's gravel roads all rated at a Level 3.

The City expended \$125,938 on gravel road maintenance for the year ended December 31, 2005. Those routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the Year 2008 is a minimum of \$375,000. (\$125,000 projected budget each year for the years ending December 31, 2006, 2007, and 2008.)

A schedule of the estimated annual amount calculated to maintain and preserve its gravel roads at the current level compared to actual expenditures for gravel road maintenance for the years ended December 31, 2003, 2004 and 2005, is presented below:

<u>Year</u>	<u>Estimated Annual Expenditures</u>	<u>Actual Expenditures</u>	<u>Funded by General Fund</u>
2003	\$ 83,000	\$ 83,000	\$ 83,000
2004	87,000	87,000	87,000
2005	87,000	125,938	125,938

CITY OF HIBBING, MINNESOTA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION December 31, 2005

NOTE 1 - BUDGETING

The City Administrator prepares a proposed budget for the City's funds on the same basis as the fund financial statements. The City Council adopts an annual budget for the fiscal year for the General Fund and Library Special Revenue Fund.

Legal budgetary control is at the fund account level; management control is exercised at line-item levels. Budget appropriations lapse at year end, if unexpended.

Budgeted amounts are as originally adopted or as amended by the City Council. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund and Library Special Revenue Fund present a comparison of budgetary data to actual results.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded appropriations in the following fund for the year ended December 31, 2005:

Library Special Revenue Fund	\$ 18,250
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This expenditure was funded by available fund balances and a transfer in.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HIBBING, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2005

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	In Fill Housing Special Revenue Fund	1990 G.O. Taxable Pension Bond Debt Service Fund
ASSETS					
Cash and cash equivalents	\$ 43,378	\$ 22,261	\$ 72,870	\$ -	\$ 114,591
Taxes receivable	-	-	-	-	814
Special assessments receivable	-	-	-	-	-
Accounts receivable	-	-	50,000	-	-
Due from other governments	-	-	-	-	-
Loans receivables	-	131,499	181,977	-	-
TOTAL ASSETS	<u>\$ 43,378</u>	<u>\$ 153,760</u>	<u>\$ 304,847</u>	<u>\$ -</u>	<u>\$ 115,405</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 403
Due to other governments	-	-	-	-	-
Contracts payable	-	-	-	-	-
Deferred revenue	-	131,499	181,977	-	-
TOTAL LIABILITIES	<u>-</u>	<u>131,499</u>	<u>181,977</u>	<u>-</u>	<u>403</u>
FUND BALANCES					
Reserved for					
Encumbrances	-	-	-	-	-
Community capital fund contributions	-	-	50,000	-	-
Unreserved, designated for debt service	-	-	-	-	115,002
Unreserved, undesignated	43,378	22,261	72,870	-	-
TOTAL FUND BALANCES	<u>43,378</u>	<u>22,261</u>	<u>122,870</u>	<u>-</u>	<u>115,002</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 43,378</u>	<u>\$ 153,760</u>	<u>\$ 304,847</u>	<u>\$ -</u>	<u>\$ 115,405</u>

2002 G.O. Refunding Bonds Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 314,347	\$ 992,724	\$ 155,755	\$ 93,667	\$ 982,248	\$ 18,736	\$ 2,810,577
737	356	-	-	3,261	-	5,168
-	-	116,563	-	-	-	116,563
-	20,000	-	1,500	-	-	71,500
-	1,128	-	-	14,678	-	15,806
-	-	-	-	-	-	313,476
<u>\$ 315,084</u>	<u>\$ 1,014,208</u>	<u>\$ 272,318</u>	<u>\$ 95,167</u>	<u>\$ 1,000,187</u>	<u>\$ 18,736</u>	<u>\$ 3,333,090</u>
\$ 403	\$ -	\$ -	\$ -	\$ 401,472	\$ -	\$ 402,278
-	-	55,246	-	-	-	55,246
-	58,269	330	-	20,138	-	78,737
-	-	115,340	-	-	-	428,816
<u>403</u>	<u>58,269</u>	<u>170,916</u>	<u>-</u>	<u>421,610</u>	<u>-</u>	<u>965,077</u>
-	-	-	-	331,635	-	331,635
-	-	-	-	-	-	50,000
314,681	-	-	-	-	-	429,683
-	955,939	101,402	95,167	246,942	18,736	1,556,695
<u>314,681</u>	<u>955,939</u>	<u>101,402</u>	<u>95,167</u>	<u>578,577</u>	<u>18,736</u>	<u>2,368,013</u>
<u>\$ 315,084</u>	<u>\$ 1,014,208</u>	<u>\$ 272,318</u>	<u>\$ 95,167</u>	<u>\$ 1,000,187</u>	<u>\$ 18,736</u>	<u>\$ 3,333,090</u>

CITY OF HIBBING, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2005

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	In Fill Housing Special Revenue Fund	1990 G.O. Taxable Pension Bond Debt Service Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 191,943
Special assessments	-	-	-	-	-
Intergovernmental	-	-	-	5,422	36,955
Charges for services	-	-	-	-	-
Gifts and contributions	-	-	-	-	-
Interest	1,124	564	2,416	-	-
Miscellaneous	-	7,644	76,054	-	-
TOTAL REVENUES	<u>1,124</u>	<u>8,208</u>	<u>78,470</u>	<u>5,422</u>	<u>228,898</u>
EXPENDITURES					
Current					
Economic development	-	53,257	-	9,961	-
Miscellaneous	-	-	77,695	-	-
Debt Service					
Principal	-	-	-	-	200,000
Interest and other charges	-	-	-	-	17,099
Capital Outlay					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Economic development	-	-	-	-	-
Miscellaneous	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>53,257</u>	<u>77,695</u>	<u>9,961</u>	<u>217,099</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,124</u>	<u>(45,049)</u>	<u>775</u>	<u>(4,539)</u>	<u>11,799</u>
OTHER FINANCING SOURCES					
Transfers in	-	-	-	1,875	-
Debt issuance	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,875</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	1,124	(45,049)	775	(2,664)	11,799
FUND BALANCES - JANUARY 1	<u>42,254</u>	<u>67,310</u>	<u>122,095</u>	<u>2,664</u>	<u>103,203</u>
FUND BALANCES - DECEMBER 31	<u>\$ 43,378</u>	<u>\$ 22,261</u>	<u>\$ 122,870</u>	<u>\$ -</u>	<u>\$ 115,002</u>

2002 G.O. Refunding Bonds Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 173,840	\$ 83,828	\$ -	\$ -	\$ 769,094	\$ -	\$ 1,218,705
-	-	26,664	-	-	-	26,664
33,514	823,874	-	-	231,207	-	1,130,972
-	-	-	9,750	-	-	9,750
-	-	-	-	53,178	-	53,178
-	34,111	3,391	2,285	5,812	475	50,178
-	20,000	-	-	1,500	-	105,198
<u>207,354</u>	<u>961,813</u>	<u>30,055</u>	<u>12,035</u>	<u>1,060,791</u>	<u>475</u>	<u>2,594,645</u>
-	-	-	-	-	-	63,218
-	-	-	-	-	-	77,695
165,000	-	-	-	392,874	-	757,874
32,114	-	-	-	60,582	-	109,795
-	-	-	-	28,946	-	28,946
-	-	-	-	520,418	-	520,418
-	924,570	6,592	-	242,307	-	1,173,469
-	-	-	-	213,764	-	213,764
-	20,000	-	-	-	-	20,000
-	-	-	-	23,249	-	23,249
<u>197,114</u>	<u>944,570</u>	<u>6,592</u>	<u>-</u>	<u>1,482,140</u>	<u>-</u>	<u>2,988,428</u>
<u>10,240</u>	<u>17,243</u>	<u>23,463</u>	<u>12,035</u>	<u>(421,349)</u>	<u>475</u>	<u>(393,783)</u>
-	-	-	-	29,622	-	31,497
-	-	-	-	565,000	-	565,000
-	-	-	-	8,000	-	8,000
-	-	-	-	602,622	-	604,497
10,240	17,243	23,463	12,035	181,273	475	210,714
304,441	938,696	77,939	83,132	397,304	18,261	2,157,299
<u>\$ 314,681</u>	<u>\$ 955,939</u>	<u>\$ 101,402</u>	<u>\$ 95,167</u>	<u>\$ 578,577</u>	<u>\$ 18,736</u>	<u>\$ 2,368,013</u>

CITY OF HIBBING, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2005

REVENUES

TAXES

General property	\$ 1,392,173
Taconite	
Production	720,532
Homestead credit	371,753
Municipal aid	1,425,014
Franchise	131,421
Other	190,389

TOTAL TAXES

4,231,282

LICENSES AND PERMITS

176,427

INTERGOVERNMENTAL

Federal grants	
Federal transportation grant	32,480
Operation night cap	298
Cooperative forestry assistance grant	2,000
Rural access to emergency devices grant	1,458
State grants	
Market value credit	345,328
Local government aid	6,689,124
Police training	9,870
Police aid	461,465
Firemen's aid	507,308
DNR snowmobile grant	1,000
State transportation grant	109,356
PERA rate increase aid	24,366
Community policing	7,500
County grants	
Ambulance	6,368
Safe and sober	3,309
Civil defense	300

TOTAL INTERGOVERNMENTAL

8,201,530

CHARGES FOR SERVICES

General government	
Bus transportation	40,511
Miscellaneous	53,299
Public safety	
Ambulance calls	1,009,048
Fire protection contracts	9,978
Highways and streets	
Miscellaneous	21,978
Culture and recreation	
Rent	124,459
Other	180,261
Cemetery	94,555

TOTAL CHARGES FOR SERVICES

1,534,089

CITY OF HIBBING, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2005**

REVENUES (CONTINUED)

FINES

Court fines	\$ 98,263
Police forfeitures	9,946
Administrative fines	<u>1,475</u>

TOTAL FINES 109,684

GIFTS AND CONTRIBUTIONS 20,837

INTEREST

Interest on investments	160,858
Decrease in fair value of investments	<u>(11,154)</u>

TOTAL INTEREST 149,704

MISCELLANEOUS

Insurance dividends	81,562
Other	<u>24,862</u>

TOTAL MISCELLANEOUS 106,424

TOTAL REVENUES 14,529,977

EXPENDITURES

CURRENT:

GENERAL GOVERNMENT

Mayor and council	176,196
Elections	49,579
City administration	118,952
City clerk	340,385
City hall	124,035
Accounting	37,000
Data processing	35,717
Legal	96,941
Personnel administration	88,742
Zoning and housing	191,593
Assessor	<u>258,893</u>

TOTAL GENERAL GOVERNMENT 1,518,033

PUBLIC SAFETY

Police	2,308,385
Fire	1,342,126
Paid on-call fire	72,062
Ambulance	882,509
Civil defense	<u>5,659</u>

TOTAL PUBLIC SAFETY 4,610,741

PUBLIC WORKS

Highways and streets	
Streets and alleys	1,460,053
Engineering	255,936
Garage	384,004
Street lighting	<u>40,460</u>

TOTAL PUBLIC WORKS 2,140,453

CITY OF HIBBING, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
(CONTINUED)
Year Ended December 31, 2005**

EXPENDITURES (CONTINUED)

CURRENT:

CULTURE AND RECREATION

Recreation	\$ 405,508
Memorial building	652,013
Municipal golf course	104,724
Parks	<u>455,563</u>

TOTAL CULTURE AND RECREATION 1,617,808

ECONOMIC DEVELOPMENT

Administration	<u>99,859</u>
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TRANSPORTATION

Bus	<u>175,522</u>
-----	----------------

MISCELLANEOUS

Cemetery	256,883
Public access	78,344
Unallocated	
Insurance	1,435,523
Donations and contributions	11,805
Other	<u>36,141</u>

TOTAL MISCELLANEOUS 1,818,696

DEBT SERVICE:

Principal	848,399
Interest and agent fees	<u>113,461</u>

TOTAL DEBT SERVICE 961,860

TOTAL EXPENDITURES 12,942,972

**EXCESS OF REVENUES
OVER EXPENDITURES** 1,587,005

OTHER FINANCING SOURCES (USES)

Transfers out	(107,216)
Insurance proceeds	110,000
Sale of capital assets	<u>563,213</u>

**TOTAL OTHER FINANCING
SOURCES (USES)** 565,997

SPECIAL ITEM

Sale of wetland credit	<u>28,983</u>
------------------------	---------------

NET CHANGE IN FUND BALANCE 2,181,985

FUND BALANCE - JANUARY 1 8,154,357

FUND BALANCE - DECEMBER 31 \$ 10,336,342

CITY OF HIBBING, MINNESOTA

**LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2005**

REVENUES

TAXES

General property	\$ 342,870
Taconite homestead credit	98,606
Other	<u>34,070</u>

TOTAL TAXES	<u>475,546</u>
--------------------	----------------

INTERGOVERNMENTAL

Federal grants	1,459
Rural access to emergency devices grant	
State grants	
Market value credit	<u>91,596</u>

TOTAL INTERGOVERNMENTAL	<u>93,055</u>
--------------------------------	---------------

CHARGES FOR SERVICES	<u>58,364</u>
-----------------------------	---------------

GIFTS AND CONTRIBUTIONS	<u>13,101</u>
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TOTAL REVENUES	<u>640,066</u>
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EXPENDITURES

CURRENT:

CULTURE AND RECREATION

Library	
Personal services	506,858
Supplies	111,893
Other services and charges	106,144
Other	<u>1,217</u>

TOTAL EXPENDITURES	<u>726,112</u>
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DEFICIENCY OF REVENUES OVER EXPENDITURES	(86,046)
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OTHER FINANCING SOURCES

Transfers in	<u>75,719</u>
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NET CHANGE IN FUND BALANCE	(10,327)
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FUND BALANCE - JANUARY 1	<u>34,116</u>
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FUND BALANCE - DECEMBER 31	<u><u>\$ 23,789</u></u>
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CITY OF HIBBING, MINNESOTA

SMALL CITIES DEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2005

REVENUES

INTEREST	\$ 564
MISCELLANEOUS	
Principal on loans repayments	7,083
Interest on loans repayments	561
TOTAL MISCELLANEOUS	7,644
TOTAL REVENUES	8,208

EXPENDITURES

CURRENT:

ECONOMIC DEVELOPMENT

Administration	11,325
Loans	41,932

TOTAL EXPENDITURES	53,257
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NET CHANGE IN FUND BALANCE	(45,049)
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FUND BALANCE - JANUARY 1	67,310
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FUND BALANCE - DECEMBER 31	\$ 22,261
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CITY OF HIBBING, MINNESOTA

**MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2005**

REVENUES

INTEREST	\$ 2,416
MISCELLANEOUS	
Principal on loans repayments	70,118
Interest on loans repayments	5,936
TOTAL MISCELLANEOUS	76,054
TOTAL REVENUES	78,470

EXPENDITURES

CURRENT:

MISCELLANEOUS

Repayments to DEED	77,695
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NET CHANGE IN FUND BALANCE	775
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FUND BALANCE - JANUARY 1	122,095
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FUND BALANCE - DECEMBER 31	\$ 122,870
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CITY OF HIBBING, MINNESOTA

**IN FILL HOUSING SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2005**

REVENUES

INTERGOVERNMENTAL

Federal grant	
Community development block grant	\$ 5,422

EXPENDITURES

CURRENT:

ECONOMIC DEVELOPMENT

Community development	9,961
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DEFICIENCY OF REVENUES OVER EXPENDITURES	(4,539)
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OTHER FINANCING SOURCES

Transfers in	1,875
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NET CHANGE IN FUND BALANCE	(2,664)
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FUND BALANCE - JANUARY 1	2,664
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FUND BALANCE - DECEMBER 31	\$ -
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CITY OF HIBBING, MINNESOTA

**DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2005**

	1990 G.O. Taxable Pension Bond	2002 G.O. Refunding Bonds	Totals
REVENUES			
TAXES			
General property	\$ 138,415	\$ 125,295	\$ 263,710
Taconite homestead credit	39,783	36,079	75,862
Other	13,745	12,466	26,211
TOTAL TAXES	191,943	173,840	365,783
INTERGOVERNMENTAL			
State grants			
Market value credit	36,955	33,514	70,469
TOTAL REVENUES	228,898	207,354	436,252
EXPENDITURES			
DEBT SERVICE			
Principal	200,000	165,000	365,000
Interest	16,380	31,337	47,717
Fiscal charges	316	374	690
Bond issue costs	403	403	806
TOTAL EXPENDITURES	217,099	197,114	414,213
NET CHANGE IN FUND BALANCES	11,799	10,240	22,039
FUND BALANCES - JANUARY 1	103,203	304,441	407,644
FUND BALANCES - DECEMBER 31	\$ 115,002	\$ 314,681	\$ 429,683

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2005

	Permanent Improvement	Privately- Financed Capital Projects	Memorial Building	Capital Equipment and Improvement	MDI Maintenance	Total
REVENUES						
TAXES						
General property	\$ 60,403	\$ -	\$ -	\$ 554,480	\$ -	\$ 614,883
Taconite homestead credit	17,410	-	-	159,503	-	176,913
Other	6,015	-	-	55,111	-	61,126
TOTAL TAXES	83,828	-	-	769,094	-	852,922
SPECIAL ASSESSMENTS						
Principal	-	25,949	-	-	-	25,949
Interest and penalties	-	715	-	-	-	715
TOTAL SPECIAL ASSESSMENTS	-	26,664	-	-	-	26,664
INTERGOVERNMENTAL						
Federal grants						
Domestic Preparedness Equipment Grant	-	-	-	75,564	-	75,564
State grants						
Market value credit	16,172	-	-	148,165	-	164,337
MSA maintenance municipal	259,249	-	-	-	-	259,249
MSA construction municipal	548,453	-	-	-	-	548,453
Other	-	-	-	7,478	-	7,478
TOTAL INTERGOVERNMENTAL	823,874	-	-	231,207	-	1,055,081
CHARGES FOR SERVICES						
Rent	-	-	9,750	-	-	9,750
GIFTS AND CONTRIBUTIONS						
	-	-	-	53,178	-	53,178
INTEREST						
	34,111	3,391	2,285	5,812	475	46,074
MISCELLANEOUS						
Insurance recoveries	-	-	-	1,500	-	1,500
Donations	20,000	-	-	-	-	20,000
TOTAL MISCELLANEOUS	20,000	-	-	1,500	-	21,500
TOTAL REVENUES	961,813	30,055	12,035	1,060,791	475	2,065,169

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
Year Ended December 31, 2005

	Permanent Improvement	Privately- Financed Capital Projects	Memorial Building	Capital Equipment and Improvement	MDI Maintenance	Total
EXPENDITURES						
DEBT SERVICE						
Principal	\$ -	\$ -	\$ -	\$ 392,874	\$ -	\$ 392,874
Interest	-	-	-	49,252	-	49,252
Fiscal charges	-	-	-	1,066	-	1,066
Debt issue costs	-	-	-	10,264	-	10,264
TOTAL DEBT SERVICE	-	-	-	453,456	-	453,456
CAPITAL OUTLAY						
General government						
Data processing	-	-	-	7,578	-	7,578
Zoning and housing	-	-	-	21,368	-	21,368
Public safety						
Police	-	-	-	41,393	-	41,393
Fire	-	-	-	360,161	-	360,161
Paid on-call fire	-	-	-	8,056	-	8,056
Ambulance	-	-	-	110,808	-	110,808
Public works						
Streets and alleys	924,570	6,592	-	209,386	-	1,140,548
Engineering	-	-	-	32,921	-	32,921
Culture and recreation						
Recreation	-	-	-	7,964	-	7,964
Memorial building	-	-	-	81,749	-	81,749
Parks	-	-	-	100,733	-	100,733
Library	-	-	-	23,318	-	23,318
Economic development						
Community development	20,000	-	-	-	-	20,000
Miscellaneous						
Cemetery	-	-	-	23,249	-	23,249
TOTAL CAPITAL OUTLAY	944,570	6,592	-	1,028,684	-	1,979,846
TOTAL EXPENDITURES	944,570	6,592	-	1,482,140	-	2,433,302
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	17,243	23,463	12,035	(421,349)	475	(368,133)
OTHER FINANCING SOURCES						
Transfers in	-	-	-	29,622	-	29,622
Debt issuance	-	-	-	565,000	-	565,000
Sale of capital assets	-	-	-	8,000	-	8,000
TOTAL OTHER FINANCING SOURCES	-	-	-	602,622	-	602,622
NET CHANGE IN FUND BALANCES	17,243	23,463	12,035	181,273	475	234,489
FUND BALANCES - JANUARY 1	938,696	77,939	83,132	397,304	18,261	1,515,332
FUND BALANCES - DECEMBER 31	\$ 955,939	\$ 101,402	\$ 95,167	\$ 578,577	\$ 18,736	\$ 1,749,821

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 COMBINING BALANCE SHEET
 GOVERNMENTAL FUNDS
 December 31, 2005

	General Fund	Economic Development Special Revenue Fund	1996 Refunding Bonds	Tax Increment III
ASSETS				
Cash and cash equivalents	\$ 124,547	\$ 788,869	\$ 41,557	\$ 52,182
Investments	-	-	-	-
Taxes receivable				
Unapportioned	327	-	-	-
Delinquent	-	-	82,080	14,624
Loans receivable	-	755,005	-	-
TOTAL ASSETS	<u>\$ 124,874</u>	<u>\$ 1,543,874</u>	<u>\$ 123,637</u>	<u>\$ 66,806</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,941	\$ -	\$ -	\$ -
Due to other funds	2,097	-	-	-
Due to other governments	-	-	-	-
Deferred revenue	-	755,005	82,080	14,624
TOTAL LIABILITIES	<u>4,038</u>	<u>755,005</u>	<u>82,080</u>	<u>14,624</u>
FUND BALANCES				
Unreserved, designated	-	-	41,557	52,182
Unreserved, undesignated	120,836	788,869	-	-
TOTAL FUND BALANCES	<u>120,836</u>	<u>788,869</u>	<u>41,557</u>	<u>52,182</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 124,874</u>	<u>\$ 1,543,874</u>	<u>\$ 123,637</u>	<u>\$ 66,806</u>

Debt Service Funds

Tax Increment VI	Tax Increment VII	Tax Increment XI	Central Range Public Works
\$ -	\$ -	\$ -	\$ 34,536
-	-	-	-
-	-	-	-
6,477	-	-	-
-	-	-	-
<u>\$ 6,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,536</u>

\$ -	\$ -	\$ -	\$ 403
-	-	-	-
-	-	-	-
6,477	-	-	-
<u>6,477</u>	<u>-</u>	<u>-</u>	<u>403</u>

-	-	-	34,133
-	-	-	-
-	-	-	34,133
<u>\$ 6,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,536</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 COMBINING BALANCE SHEET
 GOVERNMENTAL FUNDS (CONTINUED)
 December 31, 2005

	Capital Projects Funds				
	Storefront Renovation Project	District III Tax Increment	District VI Tax Increment	District VII Tax Increment	District VIII Tax Increment
ASSETS					
Cash and cash equivalents	\$ 33,785	\$ 17,560	\$ -	\$ 2,361	\$ 26,267
Investments	-	-	-	-	-
Taxes receivable					
Unapportioned	-	-	-	-	-
Delinquent	-	-	-	54,182	-
Loans receivable	669	-	-	-	461,924
TOTAL ASSETS	<u>\$ 34,454</u>	<u>\$ 17,560</u>	<u>\$ -</u>	<u>\$ 56,543</u>	<u>\$ 488,191</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 524	\$ -	\$ -	\$ -	\$ 13,998
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	3,560	-
Deferred revenue	669	-	-	54,182	461,924
TOTAL LIABILITIES	<u>1,193</u>	<u>-</u>	<u>-</u>	<u>57,742</u>	<u>475,922</u>
FUND BALANCES					
Unreserved, designated	-	-	-	-	-
Unreserved, undesignated	33,261	17,560	-	(1,199)	12,269
TOTAL FUND BALANCES	<u>33,261</u>	<u>17,560</u>	<u>-</u>	<u>(1,199)</u>	<u>12,269</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 34,454</u>	<u>\$ 17,560</u>	<u>\$ -</u>	<u>\$ 56,543</u>	<u>\$ 488,191</u>

<u>District X</u> <u>Tax</u> <u>Increment</u>	<u>District XI</u> <u>Tax</u> <u>Increment</u>	<u>Public</u> <u>Works</u>	<u>Tax</u> <u>Abatement</u>	<u>Totals</u>
\$ 8,351	\$ -	\$ -	\$ 30,055	\$ 1,160,070
-	-	395,431	-	395,431
-	-	-	34	361
5,701	6,182	-	-	169,246
-	-	-	-	1,217,598
<u>\$ 14,052</u>	<u>\$ 6,182</u>	<u>\$ 395,431</u>	<u>\$ 30,089</u>	<u>\$ 2,942,706</u>

\$ 3,367	\$ -	\$ -	\$ 3,558	\$ 23,791
-	-	-	-	2,097
-	-	-	-	3,560
5,701	6,182	-	-	1,386,844
<u>9,068</u>	<u>6,182</u>	<u>-</u>	<u>3,558</u>	<u>1,416,292</u>
-	-	-	-	127,872
4,984	-	395,431	26,531	1,398,542
<u>4,984</u>	<u>-</u>	<u>395,431</u>	<u>26,531</u>	<u>1,526,414</u>
<u>\$ 14,052</u>	<u>\$ 6,182</u>	<u>\$ 395,431</u>	<u>\$ 30,089</u>	<u>\$ 2,942,706</u>

CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2005**

	<u>General Fund</u>	<u>Economic Development Special Revenue Fund</u>	<u>1996 Refunding Bonds</u>	<u>Tax Increment III</u>
REVENUES				
TAXES				
General	\$ 55,607	\$ -	\$ -	\$ 16,211
Taconite homestead credit	16,002	-	-	-
Other	5,529	-	-	-
INTERGOVERNMENTAL				
State grants				
Market value credit	14,865	-	-	-
CHARGES FOR SERVICES	1,000	-	-	-
INTEREST	2,207	21,055	-	-
MISCELLANEOUS				
Principal on loan repayments	-	77,028	-	-
Interest on loan repayments	-	32,507	-	-
TOTAL REVENUES	<u>95,210</u>	<u>130,590</u>	<u>-</u>	<u>16,211</u>
EXPENDITURES				
CURRENT				
Economic development				
Community development	1,063	-	-	-
Administration	20,184	6	-	-
Professional services	8,253	-	-	-
Loans	-	110,594	-	-
Tax increment projects	-	-	-	-
DEBT SERVICE				
Principal	-	-	30,000	11,753
Interest	-	-	2,250	705
Fiscal charges	-	-	421	-
TOTAL EXPENDITURES	<u>29,500</u>	<u>110,600</u>	<u>32,671</u>	<u>12,458</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>65,710</u>	<u>19,990</u>	<u>(32,671)</u>	<u>3,753</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	(19,773)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(19,773)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	45,937	19,990	(32,671)	3,753
FUND BALANCES - JANUARY 1	74,899	768,879	74,228	48,429
FUND BALANCES - DECEMBER 31	<u>\$ 120,836</u>	<u>\$ 788,869</u>	<u>\$ 41,557</u>	<u>\$ 52,182</u>

Debt Service Funds			
Tax Increment VI	Tax Increment VII	Tax Increment XI	Central Range Public Works
\$ 35,696	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	393,463
-	-	-	-
-	-	-	-
-	-	-	-
35,696	-	-	393,463
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
40,000	10,000	5,000	245,000
9,488	21,375	11,048	145,463
-	374	-	3,403
49,488	31,749	16,048	393,866
(13,792)	(31,749)	(16,048)	(403)
13,792	31,749	16,048	3,736
-	-	-	-
13,792	31,749	16,048	3,736
-	-	-	3,333
-	-	-	30,800
\$ -	\$ -	\$ -	\$ 34,133

CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
Year Ended December 31, 2005**

	Storefront Renovation Project	District III Tax Increment	District VI Tax Increment	Capital Projects Funds District VII Tax Increment	District VIII Tax Increment
REVENUES					
TAXES					
General	\$ -	\$ -	\$ -	\$ 39,999	\$ 15,497
Taconite homestead credit	-	-	-	-	-
Other	-	-	-	-	-
INTERGOVERNMENTAL					
State grants					
Market value credit	-	-	-	-	-
CHARGES FOR SERVICES	-	-	-	-	-
INTEREST	81	445	163	233	382
MISCELLANEOUS					
Principal on loan repayments	19,398	-	-	-	-
Interest on loan repayments	1,191	-	-	-	-
TOTAL REVENUES	<u>20,670</u>	<u>445</u>	<u>163</u>	<u>40,232</u>	<u>15,879</u>
EXPENDITURES					
CURRENT					
Economic development					
Community development	-	-	-	-	-
Administration	-	-	-	3,684	-
Professional services	-	-	-	-	-
Loans	-	-	-	-	-
Tax increment projects	-	-	-	-	13,997
DEBT SERVICE					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Fiscal charges	-	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,684</u>	<u>13,997</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>20,670</u>	<u>445</u>	<u>163</u>	<u>36,548</u>	<u>1,882</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	(6,452)	(31,749)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(6,452)</u>	<u>(31,749)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>20,670</u>	<u>445</u>	<u>(6,289)</u>	<u>4,799</u>	<u>1,882</u>
FUND BALANCES - JANUARY 1	<u>12,591</u>	<u>17,115</u>	<u>6,289</u>	<u>(5,998)</u>	<u>10,387</u>
FUND BALANCES - DECEMBER 31	<u>\$ 33,261</u>	<u>\$ 17,560</u>	<u>\$ -</u>	<u>\$ (1,199)</u>	<u>\$ 12,269</u>

District X Tax Increment	District XI Tax Increment	Public Works	Tax Abatement	Totals
\$ 13,841	\$ 7,756	\$ -	\$ 6,125	\$ 190,732
-	-	-	1,703	17,705
-	-	-	589	6,118
-	-	-	1,583	16,448
-	-	-	-	394,463
145	54	10,222	548	35,535
-	-	-	-	96,426
-	-	-	-	33,698
13,986	7,810	10,222	10,548	791,125
-	-	-	3,174	4,237
-	-	-	-	23,874
-	-	-	-	8,253
-	-	-	-	110,594
11,727	-	-	-	25,724
-	-	-	-	341,753
-	-	-	-	190,329
-	-	-	-	4,198
11,727	-	-	3,174	708,962
2,259	7,810	10,222	7,374	82,163
-	-	-	-	65,325
-	(7,810)	(3,736)	-	(69,520)
-	(7,810)	(3,736)	-	(4,195)
2,259	-	6,486	7,374	77,968
2,725	-	388,945	19,157	1,448,446
\$ 4,984	\$ -	\$ 395,431	\$ 26,531	\$ 1,526,414

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 COMBINING STATEMENT OF NET ASSETS
 ENTERPRISE FUNDS
 December 31, 2005

	Student Housing	Family Center	Totals
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 50	\$ 112,915	\$ 112,965
Accounts receivable	18,183	150	18,333
Due from other funds	2,097	-	2,097
Loans receivable	-	703,595	703,595
Prepaid items	6,000	-	6,000
TOTAL CURRENT ASSETS	26,330	816,660	842,990
NONCURRENT ASSETS			
Restricted cash and pooled investments	972,212	-	972,212
Deferred debt issue costs	43,286	-	43,286
Capital assets			
Land	9,300	-	9,300
Other improvements	36,905	-	36,905
Buildings	1,787,794	-	1,787,794
Furniture and equipment	283,789	-	283,789
Less Accumulated depreciation	(797,238)	-	(797,238)
Total capital assets (net of accumulated depreciation)	1,320,550	-	1,320,550
TOTAL NONCURRENT ASSETS	2,336,048	-	2,336,048
TOTAL ASSETS	2,362,378	816,660	3,179,038
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	10,936	-	10,936
Contracts payable	11,178	-	11,178
Due to primary government	451,355	-	451,355
Interest payable	25,721	-	25,721
Customer deposits	27,293	-	27,293
Bonds, notes and loans payable	55,000	-	55,000
TOTAL CURRENT LIABILITIES	581,483	-	581,483
NONCURRENT LIABILITIES			
Bonds, notes and loans payable	1,923,598	-	1,923,598
TOTAL LIABILITIES	2,505,081	-	2,505,081
NET ASSETS			
Invested in capital assets, net of related debt	(658,047)	-	(658,047)
Restricted for debt	946,490	-	946,490
Unrestricted	(431,146)	816,660	385,514
TOTAL NET ASSETS	\$ (142,703)	\$ 816,660	\$ 673,957

CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
ENTERPRISE FUNDS
Year Ended December 31, 2005**

	Student Housing	Family Center	Total
OPERATING REVENUES			
Charges for services	\$ 283,786	\$ 102,266	\$ 386,052
Miscellaneous	7,170	-	7,170
TOTAL OPERATING REVENUES	<u>290,956</u>	<u>102,266</u>	<u>393,222</u>
OPERATING EXPENSES			
Personal services	-	2,031	2,031
Supplies	7,027	1,932	8,959
Maintenance and repairs	3,483	13,666	17,149
Contracted services	84,664	-	84,664
Communications	-	628	628
Utilities	52,962	12,379	65,341
Insurance	12,445	3,196	15,641
Depreciation	51,258	37,877	89,135
TOTAL OPERATING EXPENSES	<u>211,839</u>	<u>71,709</u>	<u>283,548</u>
OPERATING INCOME	<u>79,117</u>	<u>30,557</u>	<u>109,674</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	22,091	2,253	24,344
Interest on notes	-	6,485	6,485
Insurance recoveries	9,613	-	9,613
Interest expense	(127,806)	(2,840)	(130,646)
Amortization	(1,882)	-	(1,882)
Facility sale expense	-	(5,281)	(5,281)
Loss on disposal of family center facility	-	(276,370)	(276,370)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(97,984)</u>	<u>(275,753)</u>	<u>(373,737)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(18,867)</u>	<u>(245,196)</u>	<u>(264,063)</u>
TRANSFERS IN	18,867	-	18,867
TRANSFERS OUT	<u>-</u>	<u>(14,672)</u>	<u>(14,672)</u>
CHANGE IN NET ASSETS	<u>-</u>	<u>(259,868)</u>	<u>(259,868)</u>
TOTAL NET ASSETS - JANUARY 1	<u>(142,703)</u>	<u>1,076,528</u>	<u>933,825</u>
TOTAL NET ASSETS - DECEMBER 31	<u>\$ (142,703)</u>	<u>\$ 816,660</u>	<u>\$ 673,957</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended December 31, 2005

	Student Housing	Family Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 280,849	\$ 139,872	\$ 420,721
Cash paid to suppliers	(166,987)	(38,916)	(205,903)
Cash paid to employees	-	(2,031)	(2,031)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>113,862</u>	<u>98,925</u>	<u>212,787</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer in from other funds	20,056	-	20,056
Transfer out to other funds	-	(14,672)	(14,672)
Insurance recoveries	9,613	-	9,613
Interfund financing of cash deficit	143,488	-	143,488
Principal received on note	-	5,196	5,196
Interest received on note	-	6,485	6,485
Interest on customer deposits	(598)	-	(598)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>172,559</u>	<u>(2,991)</u>	<u>169,568</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase or construction of fixed assets	(9,148)	-	(9,148)
Principal paid on long-term debt	(55,000)	(17,888)	(72,888)
Interest paid on long-term debt	(105,086)	(2,840)	(107,926)
Facility sale costs	-	(5,281)	(5,281)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(169,234)</u>	<u>(26,009)</u>	<u>(195,243)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	<u>22,091</u>	<u>2,253</u>	<u>24,344</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	139,278	72,178	211,456
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>832,984</u>	<u>40,737</u>	<u>873,721</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 972,262</u>	<u>\$ 112,915</u>	<u>\$ 1,085,177</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Mortgage note receivable for facility sale	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 750,000</u>
Loans paid as part of facility sale	<u>\$ -</u>	<u>\$ (41,209)</u>	<u>\$ (41,209)</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 79,117	\$ 30,557	\$ 109,674
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	51,258	37,877	89,135
(Increase) decrease in:			
Accounts receivable	(13,372)	18,220	4,848
Due from other governments	1,677	19,386	21,063
Prepaid items	(6,000)	-	(6,000)
Increase (decrease) in:			
Accounts payable	(406)	(7,115)	(7,521)
Customer deposits	1,588	-	1,588
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 113,862</u>	<u>\$ 98,925</u>	<u>\$ 212,787</u>

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
TAX INCREMENT FINANCING DISTRICTS III, VI, VII, VIII, X, AND XI
Year Ended December 31, 2005

	<u>Tax Increment District III</u>		<u>Tax Increment District VI</u>	
District type	Redevelopment		Redevelopment	
Authorized under Minn. Stat. ch. #	469		469	
Established in	1985		1992	
Planned completion in	2017		2018	
Original net tax capacity	\$ 7,424		\$ 12,950	
Current net tax capacity	<u>22,335</u>		<u>39,414</u>	
Captured Net Tax Capacity Retained by the City	<u>\$ 14,911</u>		<u>\$ 26,464</u>	
	Accounted for in	Current	Accounted for in	Current
	Prior Years	Year	Prior Years	Year
SOURCES OF FUNDS				
Bond proceeds	\$ 225,630	\$ -	\$ 726,091	\$ -
Note proceeds	121,000	-	-	-
Tax increments received	658,781	16,211	501,460	35,696
General property taxes received	17,921	-	-	-
Interest on invested funds	13,004	445	18,978	163
Grants	17,602	-	-	-
Local contributions	-	-	-	-
Miscellaneous	26,528	-	-	-
TOTAL SOURCES OF FUNDS	<u>1,080,466</u>	<u>16,656</u>	<u>1,246,529</u>	<u>35,859</u>
USES OF FUNDS				
Building acquisition	-	-	-	-
Other public improvements	295,796	-	325,000	-
Bond payments				
Principal	339,247	11,753	545,000	40,000
Interest and fiscal charges	168,061	705	279,228	9,488
Professional services	3,315	-	2,994	-
Administrative costs	19,980	-	87,092	-
TOTAL USES OF FUNDS	<u>826,399</u>	<u>12,458</u>	<u>1,239,314</u>	<u>49,488</u>
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS BEFORE TRANSFERS	<u>254,067</u>	<u>4,198</u>	<u>7,215</u>	<u>(13,629)</u>
TRANSFERS				
Transfers to other districts	-	-	(926)	-
Transfers to other funds	(359,013)	-	-	-
Transfers from other districts	140,000	-	-	-
Transfers from other funds	30,490	-	-	7,340
TOTAL TRANSFERS	<u>(188,523)</u>	<u>-</u>	<u>(926)</u>	<u>7,340</u>
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS AND TRANSFERS	<u>\$ 65,544</u>	<u>4,198</u>	<u>\$ 6,289</u>	<u>(6,289)</u>
DISTRICT BALANCE - JANUARY 1		<u>65,544</u>		<u>6,289</u>
DISTRICT BALANCE - DECEMBER 31		<u>\$ 69,742</u>		<u>\$ -</u>

Tax Increment District VII		Tax Increment District VIII		Tax Increment District X		Tax Increment District XI	
Redevelopment 469 1993 2019		Qualified Housing 469 1993 2020		Economic Development 469 1999 2009		Redevelopment 469 1999 2025	
\$ 3,412		\$ -		\$ 671		\$ 525	
39,159		11,489		8,272		7,448	
<u>\$ 35,747</u>		<u>\$ 11,489</u>		<u>\$ 7,601</u>		<u>\$ 6,923</u>	
Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year
\$ 320,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,000	\$ -
-	-	-	-	-	-	-	-
386,805	39,999	117,379	15,497	34,603	13,841	42,010	7,756
-	-	-	-	-	-	-	-
9,164	233	3,389	382	35	145	1,477	54
299,999	-	385,000	-	-	-	-	-
8,251	-	-	-	64,350	-	67,786	-
19,619	-	18,670	-	-	-	2,786	-
<u>1,043,838</u>	<u>40,232</u>	<u>524,438</u>	<u>15,879</u>	<u>98,988</u>	<u>13,986</u>	<u>279,059</u>	<u>7,810</u>
-	-	555,095	-	-	-	-	-
721,672	-	14,777	13,997	103,346	11,727	253,248	-
30,000	10,000	-	-	-	-	15,000	5,000
166,661	21,749	-	-	-	-	58,046	11,048
26,945	-	5,371	-	16,832	-	27,014	-
104,558	3,684	30,205	-	-	-	-	-
<u>1,049,836</u>	<u>35,433</u>	<u>605,448</u>	<u>13,997</u>	<u>120,178</u>	<u>11,727</u>	<u>353,308</u>	<u>16,048</u>
<u>(5,998)</u>	<u>4,799</u>	<u>(81,010)</u>	<u>1,882</u>	<u>(21,190)</u>	<u>2,259</u>	<u>(74,249)</u>	<u>(8,238)</u>
-	-	-	-	-	-	-	-
-	-	(4,926)	-	-	-	-	-
-	-	-	-	9,459	-	13,654	-
-	-	96,323	-	14,456	-	60,595	8,238
-	-	<u>91,397</u>	<u>-</u>	<u>23,915</u>	<u>-</u>	<u>74,249</u>	<u>8,238</u>
<u>\$ (5,998)</u>	<u>4,799</u>	<u>\$ 10,387</u>	<u>1,882</u>	<u>\$ 2,725</u>	<u>2,259</u>	<u>\$ -</u>	<u>-</u>
	<u>(5,998)</u>		<u>10,387</u>		<u>2,725</u>		<u>-</u>
	<u>\$ (1,199)</u>		<u>\$ 12,269</u>		<u>\$ 4,984</u>		<u>\$ -</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Trough Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Minnesota Department of Natural Resources: Cooperative Forestry Assistance Grant	10.664	A-70123	\$ 2,000
U.S. DEPARTMENT OF DEFENSE			
Direct Award: U.S. Army Corp of Engineers - Environmental Assistance Grant - 569	12.113	-	7,958
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through St. Louis County, Minnesota: Community Development Block Grant	14.218	200511	205,422
U.S. DEPARTMENT OF TRANSPORTATION			
Passed Through Minnesota Department of Transportation: Public Transportation for Non-Urbanized Areas	20.509	87282	32,480
Passed Through Minnesota Department of Public Safety: Operation Night Cap	20.601	-	298
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			32,778
ENVIRONMENTAL PROTECTION AGENCY			
Passed Through Minnesota Public Facilities Authority: Capitalization Grants for State Revolving Funds	66.458	MPFA-98-0030- R-FY03	417,792
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Minnesota Department of Emergency Services: Regulatory Board Rural Access to Emergency Devices Grant	93.259	A-71749	2,917
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct Award: Domestic Preparedness Equipment Grant - Assistance to Firefighters	97.044	EMW-2004-FG- 11917	75,564
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 744,431

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activity of the City of Hibbing, Minnesota, and is prepared on the modified accrual basis of accounting. However, the City records its federal grant expenditures in its proprietary funds on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - CAPITALIZATION GRANT/REVOLVING LOAN

The outstanding loan balance as of December 31, 2005 is \$9,053,000 and includes \$382,498 due from other governmental units.



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

To the City Council
City of Hibbing, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated June 20, 2006. We did not audit the financial statements of the Public Utilities Commission component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Hibbing, Minnesota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Hibbing, Minnesota's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hibbing, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also conducted our audit in accordance with the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the City of Hibbing, Minnesota, complied with the material terms and conditions of applicable legal provisions, except as described in the accompanying schedule of findings and questioned costs as item 2005-2.

We also noted certain additional matters that we reported to management of City of Hibbing, Minnesota in a separate letter dated June 20, 2006, included under this cover.

This report is intended solely for the information and use of the City Council, management, the State of Minnesota, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Walker, Kivney & Helms, P.C.

June 20, 2006



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council
City of Hibbing, Minnesota

Compliance

We have audited the compliance of City of Hibbing, Minnesota, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2005. City of Hibbing, Minnesota's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of City of Hibbing, Minnesota's management. Our responsibility is to express an opinion on City of Hibbing, Minnesota's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Hibbing, Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Hibbing, Minnesota's compliance with those requirements.

In our opinion, City of Hibbing, Minnesota complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of City of Hibbing, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Hibbing, Minnesota's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City of Hibbing, Minnesota's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the City Council, management, State of Minnesota, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Walker, Hursey & Halvorsen, Ltd.

June 20, 2006

CITY OF HIBBING, MINNESOTA

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2005**

2004 – Finding No. 1:

Environmental Assistance Grant, CFDA No. 12.113
Capitalization Grants for State Revolving Funds, CFDA No. 66.458

Condition

This finding was a reportable condition stating that due to the limited staff, the segregation of accounting functions necessary to ensure adequate internal control is not possible.

Recommendation

The auditor recommended that the City's officials and management attempt to segregate duties as much as possible and provide oversight to partially compensate for this deficiency.

Current Status

The City's finance director has been monitoring transactions and reviewing the duties of office personnel. This Finding was again reported in the 2005 Schedule of Findings and Questioned Costs.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Hibbing, Minnesota.
2. One reportable condition disclosed during the audit of the financial statements is reported in the 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*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of City of Hibbing, Minnesota, were disclosed during the audit.
4. A reportable condition in internal control over major federal award programs disclosed during the audit is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133. The condition is not reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for City of Hibbing, Minnesota, expresses an unqualified opinion on all major federal programs.
6. The audit finding that is required to be reported in accordance with Section 510(a) of OMB Circular A-133 is reported in this Schedule.
7. The program tested as a major program was Capitalization Grants for State Revolving Funds, CFDA No. 66.458.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Hibbing, Minnesota, did qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITION

2005-1. SEGREGATION OF DUTIES

Condition

Due to the limited number of personnel within the City's business office, the segregation of accounting functions necessary to ensure adequate internal accounting control is not possible.

Criteria

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

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2005

Effect

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

Cause

This occurred because of staffing limitation caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The finance director will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.
3. Official Responsible for Ensuring CAP
Sherri Lindstrom, Finance Director, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
The City's finance director has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.
5. Plan to Monitor Completion of CAP
The City Council recognizes the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

ENVIRONMENTAL PROTECTION AGENCY

Capitalization Grants for State Revolving Funds – CFDA No. 66.458 – Grant Period – Year ended December 31, 2005 – Passed through State of Minnesota

The reportable condition of lack of segregation of duties, as discussed at B.2005-1, also applies to this grant.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2005

D. OTHER FINDINGS

MINNESOTA LEGAL COMPLIANCE

2005-2. COLLATERAL FOR BANK DEPOSITS

Condition

If a government entity desires to deposit an amount in excess of deposit insurance, it must 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.

Criteria

The Public Utilities Commission must comply with this statutory requirement to assure that all of its deposits are adequately collateralized.

Effect

The Public Utilities Commission's deposits would be at risk should the bank holdings it's under collateralized deposits fail.

Recommendation

The Public Utilities Commission should work with its bank depositories to assure that adequate collateral is secured throughout the year.

Public Utilities Commission's Response:

We are aware of the issue and will monitor the collateral to assure that it is adequate to cover the Public Utilities deposits.