

**CITY OF HIBBING, MINNESOTA**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**Year Ended December 31, 2006**

**CITY OF HIBBING, MINNESOTA**

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# **CITY OF HIBBING, MINNESOTA**

## **ORGANIZATION December 31, 2006**

### **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
Clerk/Treasurer	Jeffrey A. Young

### **ADMINISTRATION**

Administrator	Brain J. Redshaw
Finance Director	Sherri Lindstrom

### **APPOINTED**

City Assessor	Bruce Sandberg
City Attorney	Richard K. Sellman

## **FINANCIAL SECTION**



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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**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, 2006, 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, 2006, 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 July 23, 2007, 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, and infrastructure condition data as listed in the table of contents 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 combining and individual fund financial statements and schedules, and the Hibbing Economic Development Authority's (a component unit) combining financial statements and schedule 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, Hironaka & Hironaka, Ltd.*

July 23, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## CITY OF HIBBING, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2006

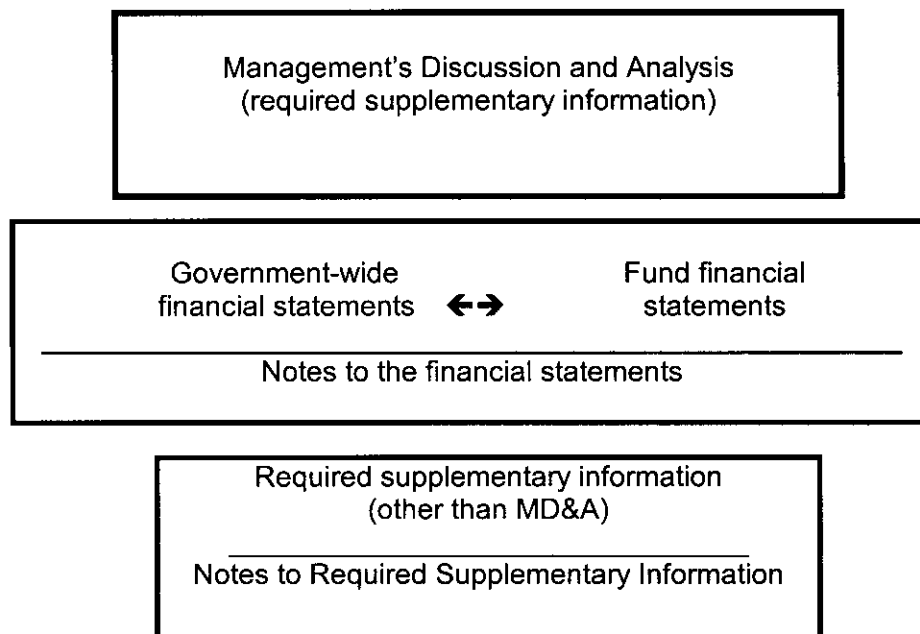
The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2006. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Hibbing, Minnesota's financial statements.

#### FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$32,879,565, of which \$21,005,399 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$12,119,385. Invested in capital assets, net of related debt represents \$15,553,609 of the total.
- The Hibbing Economic Development Authority (EDA) has total net assets of \$580,642. Invested in capital assets, net of related debt represents \$(666,908) of the total.
- The City of Hibbing's primary government's net assets increased by \$2,472,006 for the year ended December 31, 2006. The governmental activities' net assets increased \$2,138,044 and the business-type activities' net assets increased by \$333,962.
- The EDA's net assets increased by \$429,910.
- The net cost of governmental activities was \$12,036,822 for the current year. The net cost was funded by general revenues and other items totaling \$14,174,866.
- Governmental funds' fund balances increased by \$188,236.

#### 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, 2006**

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, 19<sup>th</sup> Street and East 6<sup>th</sup> 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, 2006

- 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 \$42,526,944 to \$44,998,950. 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 16,669,911	\$ 16,057,929	\$ (2,603,744)	\$ 1,490,663	\$ 14,066,167	\$ 17,548,592
Capital assets	24,365,340	23,813,113	24,198,548	23,064,109	48,563,888	46,877,222
Total assets	<u>41,035,251</u>	<u>39,871,042</u>	<u>21,594,804</u>	<u>24,554,772</u>	<u>62,630,055</u>	<u>64,425,814</u>
Long-term debt outstanding	4,979,717	6,126,715	8,609,019	9,053,000	13,588,736	15,179,715
Other liabilities	3,175,969	3,002,806	866,400	3,716,349	4,042,369	6,719,155
Total liabilities	<u>8,155,686</u>	<u>9,129,521</u>	<u>9,475,419</u>	<u>12,769,349</u>	<u>17,631,105</u>	<u>21,898,870</u>
Net assets						
Invested in capital assets, net of debt	21,005,399	19,959,860	15,553,609	13,954,226	36,559,008	33,914,086
Restricted	2,277,764	2,320,990	-	-	2,277,764	2,320,990
Unrestricted	<u>9,596,402</u>	<u>8,460,671</u>	<u>(3,434,224)</u>	<u>(2,168,803)</u>	<u>6,162,178</u>	<u>6,291,868</u>
Total net assets	<u>\$ 32,879,565</u>	<u>\$ 30,741,521</u>	<u>\$ 12,119,385</u>	<u>\$ 11,785,423</u>	<u>\$ 44,998,950</u>	<u>\$ 42,526,944</u>

Net assets of the City's governmental activities increased seven percent (\$32,879,565 compared to \$30,741,521). 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 \$8,460,671 at December 31, 2005, to \$9,596,402 at the end of 2006.

Net assets of the City's business-type activities increased three percent (\$12,119,385 compared to \$11,785,423) in 2006.

**CITY OF HIBBING, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2006**

**Table 2**  
**Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,244,385	\$ 2,101,872	\$ 4,474,009	\$ 4,276,923	\$ 6,718,394	\$ 6,378,795
Operating grants and contributions	1,259,961	1,447,544	-	-	1,259,961	1,447,544
Capital grants and contributions	905,671	688,875	70,000	207,958	975,671	896,833
General revenues:						
Taxes	5,993,429	5,858,353	-	-	5,993,429	5,858,353
Intergovernmental	7,884,699	7,425,004	-	-	7,884,699	7,425,004
Other general revenues	296,738	488,493	23,405	20,065	320,143	508,558
Total revenues	<u>18,584,883</u>	<u>18,010,141</u>	<u>4,567,414</u>	<u>4,504,946</u>	<u>23,152,297</u>	<u>22,515,087</u>
Program expenses:						
General government	3,759,759	3,507,405	-	-	3,759,759	3,507,405
Public safety	5,390,161	4,733,520	-	-	5,390,161	4,733,520
Public works	3,779,386	3,376,934	-	-	3,779,386	3,376,934
Culture and recreation	2,930,617	2,639,533	-	-	2,930,617	2,639,533
Other	403,002	505,779	-	-	403,002	505,779
Interest	183,914	207,010	-	-	183,914	207,010
Garbage and refuse collection	-	-	2,289,401	2,188,345	2,289,401	2,188,345
Sewer operating and maintenance	-	-	1,942,033	1,959,172	1,942,033	1,959,172
Memorial building concessions	-	-	2,018	4,171	2,018	4,171
Total program expenses	<u>16,446,839</u>	<u>14,970,181</u>	<u>4,233,452</u>	<u>4,151,688</u>	<u>20,680,291</u>	<u>19,121,869</u>
Increase in net assets	\$ <u>2,138,044</u>	\$ <u>3,039,960</u>	\$ <u>333,962</u>	\$ <u>353,258</u>	\$ <u>2,472,006</u>	\$ <u>3,393,218</u>

The City's total revenues increased by 3% (\$637,210). The total cost of all programs and services increased by 8% (\$1,558,422). 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 3% (\$574,742 while total expenses increased by 10% (\$1,476,658). The increase in net assets for governmental activities was \$2,138,044 in 2006.

The cost of all governmental activities this year was \$16,446,839. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs (\$2,244,385) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,050,331). Our taxpayers paid \$5,993,429 in taxes in 2006.

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, 2006

**Table 3**  
**Governmental Activities**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Public safety	\$ 5,390,161	\$ 4,733,520	\$ 3,099,371	\$ 2,438,058
Public works	3,779,386	3,376,934	2,764,889	2,515,925
General government	3,759,759	3,507,405	3,402,170	3,071,206
Culture and recreation	2,930,617	2,639,533	2,456,667	2,188,179
Other	403,002	505,779	129,811	311,512
Interest	183,914	207,010	183,914	207,010
<b>Totals</b>	<b><u>\$ 16,446,839</u></b>	<b><u>\$ 14,970,181</u></b>	<b><u>\$ 12,036,822</u></b>	<b><u>\$ 10,731,890</u></b>

#### **Business-Type Activities**

Revenues of the City's business-type activities were \$4,567,414 and expenses were \$4,233,452 (see Table 2). There was an increase in net assets of \$333,962 during the year ended December 31, 2006. The factors driving these results include:

- Operations produced \$343,008 of income for the year ended December 31, 2006.
- The City received capital grants totaling \$70,000 for the year.

#### **EDA Component Unit Activity**

The EDA had a net increase in net assets of \$429,910 for the year ended December 31, 2006. General revenues such as taxes and grants not restricted to specific programs accounted for \$284,762 of this, with net program revenues over expenses of \$(145,148).

#### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed the year, its governmental funds reported a combined fund balance of \$12,939,423 which is over last year's total of \$12,751,187. Included in this year's total fund balance is a surplus of \$10,597,926 in the City's general fund. The general fund had an increase of \$204,616. The Capital Equipment and Improvement Capital Projects Fund recorded a decrease of \$94,548 in fund balance. The largest increase in other governmental funds was for \$41,367 in the Permanent Improvement Capital Projects Fund.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual charges to appropriations (expenditures) were \$338,096 below the final budget amounts. The most significant positive variance (\$241,019) occurred in the City's public works program. 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, 2006

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of 2006, the City had \$48,563,888 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 \$1,686,666 over last year.

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

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land, improvements, artwork, gravel roads	\$ 6,321,283	\$ 6,307,583	\$ 130,057	\$ 130,057	\$ 6,451,340	\$ 6,437,640
Buildings and improvements	7,345,013	7,662,646	19,749,709	19,891,168	27,094,722	27,553,814
Infrastructure	6,771,058	6,968,284	-	-	6,771,058	6,968,284
Equipment, machinery, and furniture	2,388,967	2,104,491	345,835	360,438	2,734,802	2,464,929
Construction in progress	<u>1,539,019</u>	<u>770,109</u>	<u>3,972,947</u>	<u>2,682,446</u>	<u>5,511,966</u>	<u>3,452,555</u>
Totals	<u>\$ 24,365,340</u>	<u>\$ 23,813,113</u>	<u>\$ 24,198,548</u>	<u>\$ 23,064,109</u>	<u>\$ 48,563,888</u>	<u>\$ 46,877,222</u>

This year's major additions included:

➤ Major repairs to City Hall	\$ 129,149
➤ Fire hall Addition	370,664
➤ Fire SCBA's	194,673
➤ Cat with tractor/brusher	262,133
➤ Two police cars	43,263
➤ Wastewater treatment improvements	1,851,774
➤ Urban street work and sidewalks	522,864
➤ Engineer's vehicle	22,164
➤ Public works heated storage garage	429,500
➤ Band saw	11,269
➤ Parks and recreation improvements	222,796
➤ Parks pickup truck	20,957
➤ Golf course mower	32,365
➤ Memorial building improvements	80,630
➤ Library air conditioning project	32,313
➤ Cemetery loader, mower and pickup	85,716

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 \$17,980,005 in long-term debt outstanding versus \$19,958,313 last year—as shown in Table 5.

**CITY OF HIBBING, MINNESOTA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2006**

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>EDA Component Unit</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation bonds (backed by the City)	\$ 320,000	\$ 690,000	\$ -	\$ -	\$ 4,391,269	\$ 4,778,598
Certificates of indebtedness	1,160,000	915,000	-	-	-	-
Capital leases	1,879,941	2,248,253	-	-	-	-
Police and Fire indebtedness	1,314,598	1,971,897	-	-	-	-
General obligation revenue notes	-	-	8,591,000	9,053,000	-	-
Compensated absences	305,178	301,565	18,019	-	-	-
Total	<u>\$ 4,979,717</u>	<u>\$ 6,126,715</u>	<u>\$ 8,609,019</u>	<u>\$ 9,053,000</u>	<u>\$ 4,391,269</u>	<u>\$ 4,778,598</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 \$320,000 is significantly below the \$11,866,204 State-imposed limit.

The City had one new debt issue during the year for a capital equipment certificate of indebtedness for \$455,000.

#### **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 \$125,000 as compared to the actual costs during the current year of \$141,244.

## **CITY OF HIBBING, MINNESOTA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**December 31, 2006**

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the 2007 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 2007 are budgeted to increase 4.6% over the 2006 budget.
- Property taxes levies will increase 3.35% for 2007.
- Consistent with the national and global economy, rising health care and fuel costs significantly impact the City's budgets.

The City's 2007 capital budget calls for it to spend another \$1,592,800 for capital projects, principally for the following:

• Public works	\$ 820,000
• Public safety	175,800
• Parks and recreation - arena	114,000
• Library	81,000
• Other	402,000

#### **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. 21<sup>st</sup> Street, Hibbing, Minnesota 55746.



## **BASIC FINANCIAL STATEMENTS**

## CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS  
December 31, 2006

	Primary Government			Component Units	
	Governmental Activities	Business- type Activities	Total	EDA	PUC
<b>ASSETS</b>					
Cash and cash equivalents	\$ 8,641,729	\$ 453,104	\$ 9,094,833	\$ 1,312,897	\$ 628,916
Investments	1,675,003	-	1,675,003	402,165	2,000,000
Taxes receivable	237,526	-	237,526	98,960	-
Special assessments receivable	155,891	194,061	349,952	-	-
Accounts receivable	636,107	44,829	680,936	23,034	1,779,432
Interest receivable	17,473	-	17,473	-	5,726
Unbilled revenues	-	-	-	-	2,177,500
Internal balances	3,718,904	(3,718,904)	-	-	-
Due from other governments	183,474	91,765	275,239	-	-
Due from other component units	618,241	319,678	937,919	-	-
Due from primary government	-	-	-	156,327	-
Loans receivable	250,835	-	250,835	1,756,490	-
Inventories	-	11,723	11,723	-	925,738
Prepaid expenses	534,728	-	534,728	6,160	439,229
Deferred charges	-	-	-	41,404	-
Equity in joint venture	-	-	-	-	9,081,769
Temporarily restricted assets					
Cash and cash equivalents	-	-	-	1,125,288	1,031,798
Capital assets not being depreciated					
Land, improvements, artwork, gravel roads and construction in progress	7,860,302	4,103,004	11,963,306	9,300	759,379
Capital assets net of accumulated depreciation					
Infrastructure	17,410,517	-	17,410,517	-	-
Buildings and improvements	18,286,515	26,699,462	44,985,977	1,824,699	6,044,042
Equipment, machinery, and furniture	8,426,599	2,091,650	10,518,249	293,594	44,053,834
Transmissions and distribution system	-	-	-	-	42,390,090
Less: accumulated depreciation	(27,618,593)	(8,695,568)	(36,314,161)	(848,232)	(60,668,323)
<b>TOTAL ASSETS</b>	<b>41,035,251</b>	<b>21,594,804</b>	<b>62,630,055</b>	<b>6,202,086</b>	<b>50,649,130</b>
<b>LIABILITIES</b>					
Accounts payable	160,672	96,894	257,566	20,120	2,340,483
Salaries payable	1,132,851	19,377	1,152,228	-	-
Due to other governments	877,349	38,366	915,715	4,933	-
Due to component units	-	156,327	156,327	-	-
Due to primary government	-	-	-	618,241	319,678
Contracts payable	255,052	106,613	361,665	10,000	-
Customer deposits	-	-	-	12,600	171,335
Other accrued liabilities	7,423	27	7,450	2	284,772
Deferred revenues	678,889	193,197	872,086	473,124	17,378
Accrued interest payable	63,733	53,939	117,672	91,155	130,968
Compensated absences	-	201,660	201,660	-	412,372
Long-term liabilities					
Due within one year	1,367,830	470,000	1,837,830	415,000	289,875
Due in more than one year	3,611,887	8,139,019	11,750,906	3,976,269	7,760,852
<b>TOTAL LIABILITIES</b>	<b>8,155,686</b>	<b>9,475,419</b>	<b>17,631,105</b>	<b>5,621,444</b>	<b>11,727,713</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	21,005,399	15,553,609	36,559,008	(666,908)	31,432,022
Restricted for:					
Capital projects	1,697,756	-	1,697,756	-	-
Debt service	403,376	-	403,376	1,201,765	466,762
Other purposes	176,632	-	176,632	51,423	-
Unrestricted	9,596,402	(3,434,224)	6,162,178	(5,638)	7,022,633
<b>TOTAL NET ASSETS</b>	<b>\$ 32,879,565</b>	<b>\$ 12,119,385</b>	<b>\$ 44,998,950</b>	<b>\$ 580,642</b>	<b>\$ 38,921,417</b>

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

## CITY OF HIBBING, MINNESOTA

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>PRIMARY GOVERNMENT</b>				
<b>Governmental activities</b>				
General government	\$ 3,759,759	\$ 351,724	\$ 5,865	\$ -
Public safety	5,390,161	1,273,207	825,539	192,044
Public works	3,779,386	77,249	253,287	683,961
Culture and recreation	2,930,617	431,374	12,910	29,666
Economic development	159,841	81,869	-	-
Transportation	243,161	28,962	162,360	-
Interest on long-term debt	183,914	-	-	-
<b>Total Governmental Activities</b>	<b>16,446,839</b>	<b>2,244,385</b>	<b>1,259,961</b>	<b>905,671</b>
<b>Business-type Activities</b>				
Garbage and refuse collection	2,289,401	2,246,303	-	-
Sewer operating and maintenance	1,942,033	2,221,272	-	70,000
Memorial building concessions	2,018	6,434	-	-
<b>Total Business-type Activities</b>	<b>4,233,452</b>	<b>4,474,009</b>	<b>-</b>	<b>70,000</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 20,680,291</b>	<b>\$ 6,718,394</b>	<b>\$ 1,259,961</b>	<b>\$ 975,671</b>
<b>COMPONENT UNITS</b>				
EDA	\$ 687,960	\$ 657,857	\$ 175,251	\$ -
PUC	21,134,016	21,260,791	-	586,025
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 21,821,976</b>	<b>\$ 21,918,648</b>	<b>\$ 175,251</b>	<b>\$ 586,025</b>

**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

**Total General Revenues****CHANGE IN NET ASSETS****NET ASSETS - JANUARY 1**

Prior period adjustment

**NET ASSETS - DECEMBER 31**

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

**Net (Expense) Revenue and Changes in Net Assets**

<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>EDA</b>	<b>PUC</b>
\$ (3,402,170)	\$ -	\$ (3,402,170)		
(3,099,371)	-	(3,099,371)		
(2,764,889)	-	(2,764,889)		
(2,456,667)	-	(2,456,667)		
(77,972)	-	(77,972)		
(51,839)	-	(51,839)		
(183,914)	-	(183,914)		
<u>(12,036,822)</u>	<u>-</u>	<u>(12,036,822)</u>		
-	(43,098)	(43,098)		
-	349,239	349,239		
-	4,416	4,416		
<u>-</u>	<u>310,557</u>	<u>310,557</u>		
<u>(12,036,822)</u>	<u>310,557</u>	<u>(11,726,265)</u>		
			\$ 145,148	\$ -
			<u>-</u>	<u>712,800</u>
			<u>145,148</u>	<u>712,800</u>
4,332,427	-	4,332,427	-	-
1,529,383	-	1,529,383	85,281	-
131,619	-	131,619	-	-
-	-	-	66,979	-
7,884,699	-	7,884,699	16,722	-
277,348	18,405	295,753	115,780	166,113
19,390	5,000	24,390	-	-
<u>14,174,866</u>	<u>23,405</u>	<u>14,198,271</u>	<u>284,762</u>	<u>166,113</u>
2,138,044	333,962	2,472,006	429,910	878,913
30,718,478	11,870,574	42,589,052	118,965	38,042,504
<u>23,043</u>	<u>(85,151)</u>	<u>(62,108)</u>	<u>31,767</u>	<u>-</u>
<u>\$ 32,879,565</u>	<u>\$ 12,119,385</u>	<u>\$ 44,998,950</u>	<u>\$ 580,642</u>	<u>\$ 38,921,417</u>

## CITY OF HIBBING, MINNESOTA

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2006**

	<b>General Fund</b>	<b>Library Special Revenue Fund</b>	<b>Capital Equipment and Improvement Capital Projects Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 6,198,774	\$ 106,290	\$ 331,734	\$ 1,830,653	\$ 8,467,451
Investments	1,675,003	-	-	-	1,675,003
Taxes receivable	215,449	7,213	8,567	6,297	237,526
Special assessments receivable	-	-	-	155,891	155,891
Accounts receivable	345,781	130	236,385	51,469	633,765
Interest receivable	17,473	-	-	-	17,473
Due from other funds	3,718,904	-	-	-	3,718,904
Due from component unit	618,241	-	-	-	618,241
Due from other governments	42,515	-	88,928	52,031	183,474
Loans receivables	-	-	-	250,835	250,835
Prepaid items	534,728	-	-	-	534,728
<b>TOTAL ASSETS</b>	<b>\$ 13,366,868</b>	<b>\$ 113,633</b>	<b>\$ 665,614</b>	<b>\$ 2,347,176</b>	<b>\$ 16,493,291</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 119,359	\$ 11,583	\$ 3,646	\$ -	\$ 134,588
Salaries payable	1,058,727	74,124	-	-	1,132,851
Due to other governments	840,232	3,426	-	33,691	877,349
Contracts payable	-	-	177,302	77,750	255,052
Deferred revenue	743,211	-	637	402,757	1,146,605
Other accrued liabilities	7,413	10	-	-	7,423
<b>TOTAL LIABILITIES</b>	<b>2,768,942</b>	<b>89,143</b>	<b>181,585</b>	<b>514,198</b>	<b>3,553,868</b>
<b>FUND BALANCES</b>					
Reserved for					
Encumbrances	-	-	440,405	-	440,405
Prepaid items	534,728	-	-	-	534,728
Other purposes	35,864	-	-	50,000	85,864
Unreserved, designated	7,414,698	-	-	467,109	7,881,807
Unreserved, undesignated, reported in					
General Fund	2,612,636	-	-	-	2,612,636
Special revenue funds	-	24,490	-	102,142	126,632
Capital projects funds	-	-	43,624	1,213,727	1,257,351
<b>TOTAL FUND BALANCES</b>	<b>10,597,926</b>	<b>24,490</b>	<b>484,029</b>	<b>1,832,978</b>	<b>12,939,423</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 13,366,868</b>	<b>\$ 113,633</b>	<b>\$ 665,614</b>	<b>\$ 2,347,176</b>	<b>\$ 16,493,291</b>

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, 2006**

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>	<b>\$ 12,939,423</b>
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	24,365,340
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements	467,716
A portion of assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets.	150,536
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(63,733)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(4,979,717)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 32,879,565</u></b>

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, 2006**

	<b>General Fund</b>	<b>Library Special Revenue Fund</b>	<b>Capital Equipment and Improvement Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$ 4,416,120	\$ 514,486	\$ 610,639	\$ 448,484	\$ 5,989,729
Special assessments	-	-	-	36,645	36,645
Licenses and permits	247,005	-	-	-	247,005
Intergovernmental	8,504,858	100,473	466,057	891,128	9,962,516
Charges for services	1,543,885	67,441	-	16,000	1,627,326
Fines	121,816	-	-	-	121,816
Gifts and contributions	17,231	12,910	51,300	-	81,441
Interest	200,483	81	4,275	72,507	277,346
Miscellaneous	71,323	-	-	52,824	124,147
<b>TOTAL REVENUES</b>	<b>15,122,721</b>	<b>695,391</b>	<b>1,132,271</b>	<b>1,517,588</b>	<b>18,467,971</b>
<b>EXPENDITURES</b>					
<b>Current</b>					
General government	1,700,186	-	-	-	1,700,186
Public safety	5,246,616	-	-	-	5,246,616
Public works	2,321,988	-	-	-	2,321,988
Culture and recreation	1,758,651	767,049	-	-	2,525,700
Economic development	100,489	-	-	31,740	132,229
Transportation	208,794	-	-	-	208,794
Miscellaneous	1,862,702	-	-	29,558	1,892,260
<b>Debt Service</b>					
Principal	860,099	-	375,512	370,000	1,605,611
Interest and other charges	101,447	-	60,719	28,827	190,993
<b>Capital Outlay</b>					
General government	-	-	129,149	-	129,149
Public safety	-	-	608,601	-	608,601
Public works	-	-	725,067	989,674	1,714,741
Culture and recreation	-	-	389,061	2,480	391,541
Economic development	-	-	85,716	-	85,716
<b>TOTAL EXPENDITURES</b>	<b>14,160,972</b>	<b>767,049</b>	<b>2,373,825</b>	<b>1,452,279</b>	<b>18,754,125</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>961,749</b>	<b>(71,658)</b>	<b>(1,241,554)</b>	<b>65,309</b>	<b>(286,154)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	74,517	702,616	30,000	807,133
Transfers out	(757,133)	-	(30,000)	(20,000)	(807,133)
Debt issuance	-	-	455,000	-	455,000
Sale of capital assets	-	-	19,390	-	19,390
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(757,133)</b>	<b>74,517</b>	<b>1,147,006</b>	<b>10,000</b>	<b>474,390</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>204,616</b>	<b>2,859</b>	<b>(94,548)</b>	<b>75,309</b>	<b>188,236</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>10,336,342</b>	<b>23,789</b>	<b>578,577</b>	<b>1,789,436</b>	<b>12,728,144</b>
Prior period adjustment	56,968	(2,158)	-	(31,767)	23,043
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 10,597,926</b>	<b>\$ 24,490</b>	<b>\$ 484,029</b>	<b>\$ 1,832,978</b>	<b>\$ 12,939,423</b>

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, 2006**

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** **\$ 188,236**

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	2,525,590	
Less current year depreciation	<u>(1,973,363)</u>	
Net capital assets		552,227

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	47,925	
Change in deferred revenue - special assessments	20,552	
Change in deferred revenue - loans receivable	<u>29,045</u>	
		97,522

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

Debt issued	455,000	
Principal repaid	<u>(1,605,611)</u>	
		1,150,611

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	7,079	
Change in long-term compensated absences	<u>(3,613)</u>	
		3,466

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.

145,982

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES**

**\$ 2,138,044**

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



## CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2006

	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	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 259,297	\$ -	\$ 135,714	\$ 395,011	\$ 232,371
Special assessments receivable	864	193,197	-	194,061	-
Accounts receivable	42,882	1,166	-	44,048	3,123
Due from component unit	140,579	179,099	-	319,678	-
Due from other governments	-	91,765	-	91,765	-
Inventories	11,723	-	-	11,723	-
<b>TOTAL CURRENT ASSETS</b>	<b>455,345</b>	<b>465,227</b>	<b>135,714</b>	<b>1,056,286</b>	<b>235,494</b>
<b>NONCURRENT ASSETS</b>					
Capital assets					
Land and improvements	-	130,057	-	130,057	-
Construction in progress	-	3,972,947	-	3,972,947	-
Buildings	94,976	26,604,486	-	26,699,462	-
Machinery and equipment	1,689,992	377,298	24,360	2,091,650	-
Less accumulated depreciation	(1,403,738)	(7,267,629)	(24,201)	(8,695,568)	-
<b>TOTAL NONCURRENT ASSETS</b>	<b>381,230</b>	<b>23,817,159</b>	<b>159</b>	<b>24,198,548</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>836,575</b>	<b>24,282,386</b>	<b>135,873</b>	<b>25,254,834</b>	<b>235,494</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	63,788	24,223	188	88,199	34,779
Salaries payable	9,899	9,478	-	19,377	-
Accrued interest payable	-	53,939	-	53,939	-
Due to other funds	-	3,718,904	-	3,718,904	-
Due to component unit	-	156,327	-	156,327	-
Due to other governments	33,436	4,930	-	38,366	-
Other accrued expenses	17	10	-	27	-
Deferred revenue	-	193,197	-	193,197	-
Compensated absences	101,753	99,907	-	201,660	-
Contracts payable	-	106,613	-	106,613	-
Bonds, notes and loans payable - current	-	470,000	-	470,000	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>208,893</b>	<b>4,837,528</b>	<b>188</b>	<b>5,046,609</b>	<b>34,779</b>
<b>NONCURRENT LIABILITIES</b>					
Compensated absences	18,019	-	-	18,019	-
Bonds, notes and loans payable	-	8,121,000	-	8,121,000	-
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>18,019</b>	<b>8,121,000</b>	<b>-</b>	<b>8,139,019</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>226,912</b>	<b>12,958,528</b>	<b>188</b>	<b>13,185,628</b>	<b>34,779</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	381,230	15,172,220	159	15,553,609	-
Unrestricted	228,433	(3,848,362)	135,526	(3,484,403)	200,715
<b>TOTAL NET ASSETS</b>	<b>\$ 609,663</b>	<b>\$ 11,323,858</b>	<b>\$ 135,685</b>	<b>\$ 12,069,206</b>	<b>\$ 200,715</b>

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the Business Activities of the Statement of Net Assets.

50,179

Total net assets per government-wide financial statements

\$ 12,119,385

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

## CITY OF HIBBING, MINNESOTA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2006**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Garbage and Refuse Collection Enterprise Fund</b>	<b>Sewer Operating and Maintenance Enterprise Fund</b>	<b>Other Enterprise Fund- Memorial Building Concessions</b>	<b>Totals</b>	<b>Governmental Activities - Insurance Internal Service Fund</b>
<b>OPERATING REVENUES</b>					
Charges for services	\$ 2,244,110	\$ 2,108,794	\$ 6,434	\$ 4,359,338	\$ -
Premiums	-	-	-	-	3,305,671
Sewer connect fees	-	7,478	-	7,478	-
Miscellaneous	2,193	105,000	-	107,193	-
<b>TOTAL OPERATING REVENUES</b>	<b>2,246,303</b>	<b>2,221,272</b>	<b>6,434</b>	<b>4,474,009</b>	<b>3,305,671</b>
<b>OPERATING EXPENSES</b>					
Personal services	750,990	613,620	-	1,364,610	-
Contractual services	1,164,877	89,609	-	1,254,486	-
Administration	1,884	-	-	1,884	-
Utilities	78,710	174,516	-	253,226	-
Repairs and maintenance	4,698	56,745	664	62,107	-
Other supplies and expenses	160,138	130,094	-	290,232	-
Claims and judgments	-	-	-	-	324,898
Insurance claims and expenses	45,912	30,419	-	76,331	2,794,284
Depreciation	108,382	712,525	1,117	822,024	-
Miscellaneous	1,060	4,804	237	6,101	-
<b>TOTAL OPERATING EXPENSES</b>	<b>2,316,651</b>	<b>1,812,332</b>	<b>2,018</b>	<b>4,131,001</b>	<b>3,119,182</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(70,348)</b>	<b>408,940</b>	<b>4,416</b>	<b>343,008</b>	<b>186,489</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	7,683	3,919	6,803	18,405	8,154
Interest expense	-	(151,112)	-	(151,112)	-
Gain on sale of capital assets	5,000	-	-	5,000	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>12,683</b>	<b>(147,193)</b>	<b>6,803</b>	<b>(127,707)</b>	<b>8,154</b>
<b>INCOME (LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>(57,665)</b>	<b>261,747</b>	<b>11,219</b>	<b>215,301</b>	<b>194,643</b>
Capital grants and contributions	-	70,000	-	70,000	-
<b>CHANGE IN NET ASSETS</b>	<b>(57,665)</b>	<b>331,747</b>	<b>11,219</b>	<b>285,301</b>	<b>194,643</b>
<b>TOTAL NET ASSETS - JANUARY 1</b>	<b>730,142</b>	<b>11,014,448</b>	<b>124,466</b>	<b>11,869,056</b>	<b>6,072</b>
Prior period adjustment	(62,814)	(22,337)	-	(85,151)	-
<b>TOTAL NET ASSETS - DECEMBER 31</b>	<b>\$ 609,663</b>	<b>\$ 11,323,858</b>	<b>\$ 135,685</b>	<b>\$ 12,069,206</b>	<b>\$ 200,715</b>
Change in net assets, per above				\$ 285,301	
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.				48,661	
Change in business-type activities in net assets per government-wide financial statements				<u>\$ 333,962</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, 2006

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities - Insurance Internal Service Fund</b>
	<b>Garbage and Refuse Collection Enterprise Fund</b>	<b>Sewer Operating and Maintenance Enterprise Fund</b>	<b>Other Enterprise Fund - Memorial Building Concessions</b>	
			<b>Totals</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,249,293	\$ 2,686,907	\$ 7,646	\$ 3,317,763
Cash paid to suppliers	(1,752,920)	(720,918)	(713)	(2,902,530)
Cash paid to employees	(525,060)	(423,803)	-	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(28,687)</u>	<u>1,542,186</u>	<u>6,933</u>	<u>415,233</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund financing of cash deficit	-	3,718,904	-	-
Prior year cash deficit payment	-	(2,599,617)	-	(191,016)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>-</u>	<u>1,119,287</u>	<u>-</u>	<u>(191,016)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase or construction of capital assets	(120,374)	(2,119,336)	-	-
Principal paid on long-term debt	-	(462,000)	-	-
Interest paid on long-term debt	-	(154,056)	-	-
Capital grants and contributions	-	70,000	-	-
Sale of fixed assets	5,000	-	-	-
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(115,374)</u>	<u>(2,665,392)</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	<u>7,683</u>	<u>3,919</u>	<u>6,803</u>	<u>8,154</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(136,378)</u>	<u>-</u>	<u>13,736</u>	<u>232,371</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>395,675</u>	<u>-</u>	<u>121,978</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u><u>\$ 259,297</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 135,714</u></u>	<u><u>\$ 232,371</u></u>

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

## CITY OF HIBBING, MINNESOTA

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (CONTINUED)**  
Year Ended December 31, 2006

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities - Insurance Internal Service Fund</b>
	<b>Garbage and Refuse Collection Enterprise Fund</b>	<b>Sewer Operating and Maintenance Enterprise Fund</b>	<b>Other Enterprise Fund - Memorial Building Concessions</b>	<b>Totals</b>	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ (70,348)	\$ 408,940	\$ 4,416	\$ 343,008	\$ 186,489
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	108,382	712,525	1,117	822,024	-
(Increase) decrease in:					
Special assessments receivable - unapportioned	(422)	(156,677)	-	(157,099)	-
Accounts receivable	10,819	105,583	1,212	117,614	12,092
Due from component unit	(7,407)	(15,739)	-	(23,146)	-
Due from other governments	-	323,843	-	323,843	-
Inventories	23,588	-	-	23,588	-
Prepaid expenses	-	-	-	-	181,873
Increase (decrease) in:					
Accounts payable	(108,552)	(54,670)	188	(163,034)	34,779
Salaries payable	(963)	1,612	-	649	-
Other accrued expenses	17	10	-	27	-
Compensated absences - current	(922)	4,412	-	3,490	-
Due to other component unit	-	156,327	-	156,327	-
Due to other governments	(898)	3,722	-	2,824	-
Deferred revenue	-	52,298	-	52,298	-
Compensated absences - long-term	18,019	-	-	18,019	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (28,687)</b>	<b>\$ 1,542,186</b>	<b>\$ 6,933</b>	<b>\$1,520,432</b>	<b>\$ 415,233</b>

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, 2006**

#### **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, 2006.

#### **A. Financial Reporting Entity**

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

##### **Blended Component Units**

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

Currently the City has no blended component units.

##### **Discretely Presented Component Units**

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

**CITY OF HIBBING, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**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, 19<sup>th</sup> Street and East 6<sup>th</sup> 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 on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by the given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial 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, 2006**

**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.

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

**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.



**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**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.

# CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

### 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 \$66,000 for 2006.

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

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are no longer needed by the City, such assets are either disposed of if it is determined there is no value, or sold for an immaterial amount. Useful lives vary from 20 to 40 years for improvements and buildings, 20 to 40 years for infrastructure, and 5 to 10 years for machinery, equipment and vehicles. Capital assets not being depreciated include land, artwork, 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 because they are not available to finance the current year operations of the City.
- 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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 payable 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

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

- 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.

# CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2006

### 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, 2006:

Primary Government	
Sewer Operating and Maintenance Enterprise	
Fund – Unrestricted net assets	\$ 3,848,362

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	
Student Housing Enterprise Fund	\$ 148,472

The deficit occurred because 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 of the City functions essentially as a demand account for all participating funds. Each fund's portion of this pool is displayed on the financial statements as "cash and cash equivalents" and "restricted cash and cash equivalents". Several funds and the component unit hold cash and investments separate from the cash and investment pool.

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

	Primary Government	Component Units		Total
		EDA	PUC	
Cash and cash equivalents				
Petty cash	\$ 1,735	\$ 50	\$ -	\$ 1,785
Deposits	9,093,098	1,312,847	1,660,714	12,066,659
Total cash and cash equivalents	<u>9,094,833</u>	<u>1,312,897</u>	<u>1,660,714</u>	<u>12,068,444</u>
Investments				
Certificates of deposit	96,848	-	2,000,000	2,096,848
Other	1,578,155	1,527,453	-	3,105,608
Total Investments	<u>1,675,003</u>	<u>1,527,453</u>	<u>2,000,000</u>	<u>5,202,456</u>
Total	<u>\$10,769,836</u>	<u>\$ 2,840,350</u>	<u>\$ 3,660,714</u>	<u>\$17,270,900</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.

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

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 \$10,502,793; the bank balance was \$11,133,124. At December 31, 2006, the carrying amount of Hibbing Public Utility Commission's deposits was \$1,652,714 and the bank balance was \$2,684,293. As of December 31, 2006 the Commission invested \$2,000,000 in bank certificates of deposit. At year end, the City's bank balances were entirely insured, or collateralized with securities held by the pledging financial institution's agent in the City's name as required by Minnesota Statute §118A.03. At year end, the Hibbing Public Utility Commission's bank balances were fully covered by depository insurance or by collateral held in the Commission's name by the pledging financial institution's correspondent bank.

**Investments**

*Custodial Credit Risk – Investments*

For 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.

As of December 31, 2006, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Multi Bank Money Market	\$ 4,095	Not Rated
Minnesota Municipal Money Market (4M) Fund	1,141	Not Rated
Federal Home Loan Bank Step-up Bonds	1,572,919	AAA (S&P and Moody's)
1 <sup>st</sup> American Corporation Trust Government Fund	1,125,288	Not applicable
Wells Fargo Government Advantage Money Market Fund	<u>402,165</u>	Not applicable
Total Fair Value	<u>\$ 3,105,608</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.

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

*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.

As of December 31, 2006, the Public Utilities Commission did not hold any forms of investments subject to GASB 40 risk disclosures.

**NOTE 4 - CAPITAL ASSETS**

**Primary Government**

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
<b>Governmental activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ 1,590,733	\$ 13,700	\$ -	\$ -	\$ 1,604,433
Artwork	1,807,350	-	-	-	1,807,350
Gravel roads	2,909,500	-	-	-	2,909,500
Construction in progress	770,109	1,436,825	-	(667,915)	1,539,019
<b>Total capital assets, not being depreciated</b>	<u>7,077,692</u>	<u>1,450,525</u>	<u>-</u>	<u>(667,915)</u>	<u>7,860,302</u>
<b>Capital assets, being depreciated:</b>					
Buildings and improvements	18,064,371	282,655	-	(60,511)	18,286,515
Equipment, machinery, and furniture	8,029,360	721,922	(420,416)	95,733	8,426,599
Infrastructure	16,707,336	70,488	-	632,693	17,410,517
<b>Total capital assets, being depreciated</b>	<u>42,801,067</u>	<u>1,075,065</u>	<u>(420,416)</u>	<u>667,915</u>	<u>44,123,631</u>
<b>Less accumulated depreciation for:</b>					
Buildings and improvements	(10,401,725)	(539,777)	-	-	(10,941,502)
Equipment, machinery, and furniture	(5,924,869)	(533,179)	420,416	-	(6,037,632)
Infrastructure	(9,739,052)	(900,407)	-	-	(10,639,459)
<b>Total accumulated depreciation</b>	<u>(26,065,646)</u>	<u>(1,973,363)</u>	<u>420,416</u>	<u>-</u>	<u>(27,618,593)</u>
<b>Total capital assets, being depreciated, net</b>	<u>16,735,421</u>	<u>(898,298)</u>	<u>-</u>	<u>667,915</u>	<u>16,505,038</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 23,813,113</u>	<u>\$ 552,227</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,365,340</u>
<b>Business-type activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ 130,057	\$ -	\$ -	\$ -	\$ 130,057
Construction in progress	2,682,446	1,565,895	-	(275,394)	3,972,947
<b>Total capital assets, not being depreciated</b>	<u>2,812,503</u>	<u>1,565,895</u>	<u>-</u>	<u>(275,394)</u>	<u>4,103,004</u>
<b>Capital assets, being depreciated:</b>					
Buildings and improvements	26,166,805	283,591	(26,328)	275,394	26,699,462
Equipment, machinery, and furniture	2,044,126	106,977	(59,453)	-	2,091,650
<b>Total capital assets, being depreciated</b>	<u>28,210,931</u>	<u>390,568</u>	<u>(85,781)</u>	<u>275,394</u>	<u>28,791,112</u>
<b>Less accumulated depreciation for:</b>					
Buildings and improvements	(6,275,637)	(700,444)	26,328	-	(6,949,753)
Equipment, machinery, and furniture	(1,683,688)	(121,580)	59,453	-	(1,745,815)
<b>Total accumulated depreciation</b>	<u>(7,959,325)</u>	<u>(822,024)</u>	<u>85,781</u>	<u>-</u>	<u>(8,695,568)</u>
<b>Total capital assets, being depreciated, net</b>	<u>20,251,606</u>	<u>(431,456)</u>	<u>-</u>	<u>275,394</u>	<u>20,095,544</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 23,064,109</u>	<u>\$ 1,134,439</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,198,548</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities**

General government	\$ 250,316
Public safety	210,239
Public works	1,170,024
Culture and recreation	308,418
Transportation	<u>34,366</u>
Total depreciation expense- governmental activities	<u><b>\$1,973,363</b></u>

**Business-type activities**

Garbage and refuse collection	\$ 108,382
Sewer operating and maintenance	712,525
Memorial building concessions	<u>1,117</u>
Total depreciation expense - business-type activities	<u><b>\$ 822,024</b></u>

**Discretely presented component units**

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ <u>9,300</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>9,300</u>
<b>Total capital assets, not being depreciated</b>	<u>9,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,300</u>
<b>Capital assets, being depreciated:</b>					
Buildings and improvements	1,824,699	-	-	-	1,824,699
Equipment, machinery, and furniture	<u>283,789</u>	<u>9,805</u>	<u>-</u>	<u>-</u>	<u>293,594</u>
<b>Total capital assets, being depreciated</b>	<u>2,108,488</u>	<u>9,805</u>	<u>-</u>	<u>-</u>	<u>2,118,293</u>
<b>Less accumulated depreciation for:</b>					
Buildings and improvements	(521,009)	(46,813)	-	-	(567,822)
Equipment, machinery, and furniture	<u>(276,229)</u>	<u>(4,181)</u>	<u>-</u>	<u>-</u>	<u>(280,410)</u>
<b>Total accumulated depreciation</b>	<u>(797,238)</u>	<u>(50,994)</u>	<u>-</u>	<u>-</u>	<u>(848,232)</u>
<b>Total capital assets, being depreciated, net</b>	<u>1,311,250</u>	<u>(41,189)</u>	<u>-</u>	<u>-</u>	<u>1,270,061</u>
<b>Hibbing Economic Development Authority capital assets, net</b>	<u><b>\$ 1,320,550</b></u>	<u><b>\$ (41,189)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 1,279,361</b></u>



**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
<b>Capital assets, not being depreciated:</b>					
Construction in progress	\$ 412,931	\$ 346,448	\$ -	\$ -	\$ 759,379
<b>Capital assets, being depreciated:</b>					
Buildings and grounds	5,901,565	142,477	-	-	6,044,042
Transmission and distribution system	42,256,977	1,336,280	(1,203,167)	-	42,390,090
Equipment, machinery, and furniture	42,743,700	2,436,231	(1,126,097)	-	44,053,834
<b>Total capital assets, being depreciated</b>	<b>90,902,242</b>	<b>3,914,988</b>	<b>(2,329,264)</b>	<b>-</b>	<b>92,487,966</b>
<b>Less total accumulated depreciation</b>	<b>(60,568,562)</b>	<b>(2,429,025)</b>	<b>2,329,264</b>	<b>-</b>	<b>(60,668,323)</b>
<b>Total capital assets, being depreciated, net</b>	<b>30,333,680</b>	<b>1,485,963</b>	<b>-</b>	<b>-</b>	<b>31,819,643</b>
<b>Hibbing Public Utilities Commission capital assets, net</b>	<b>\$ 30,746,611</b>	<b>\$ 1,832,411</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 32,579,022</b>

**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, 2006. The future payments for this lease are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2007	\$ 74,728
2008	74,728
2009	74,728
2010	74,728
2011	74,728
2012	74,728
	<u>\$ 448,368</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, 2006**

**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>
<b>Primary Government</b>					
<b>Governmental Activities</b>					
General obligation refunding bonds					
2002 Taxable Refunding Bonds	01/15/2002	5.00-5.75%	\$ 980,000	02/1/2008	\$ <u>320,000</u>
Certificates of indebtedness					
Series 2003A	12/01/2003	3.75%	\$ 130,000	12/1/2008	55,000
Series 2004A	11/01/2004	1.55-2.65%	\$ 265,000	08/1/2009	165,000
Series 2005A	12/01/2005	4.68%	\$ 565,000	08/1/2015	485,000
Series 2006A	11/01/2006	4.21%	\$ 455,000	11/1/2016	<u>455,000</u>
Total certificates of indebtedness					<u>1,160,000</u>
Lease purchase obligations					
Various	-	4.42-6.40%	various	12/30/2012	1,879,941
Police and Fire Indebtedness	06/30/1999	-	\$6,572,990	06/30/2008	1,314,598
Compensated absences payable					<u>305,178</u>
<b>Governmental Activities Long-term Liabilities</b>					<u><b>4,979,717</b></u>
<b>Business-type Activities</b>					
General obligation revenue					
2005 Sewer Notes	01/29/2005	1.74%	\$9,847,450	08/20/2022	8,591,000
Compensated absences payable					<u>18,019</u>
<b>Business-type Activities Long-term Liabilities</b>					<u><b>8,609,019</b></u>
<b>Total Primary Government Long-Term Liabilities</b>					<u><b>13,588,736</b></u>
<b>Discretely Presented Component Units</b>					
<b>EDA</b>					
Bonds and notes payable					
1997 Public Project					
Revenue Bonds	3/5/1997	5.40-6.40%	\$ 3,850,000	2/1/2012	1,935,000
2002A General Obligation					
Taxable Refunding Bonds	1/15/2002	5.00-5.75%	\$ 270,000	2/1/2008	105,000
1997B General Obligation					
Tax Increment Bonds	8/1/1997	7.50%	\$ 320,000	2/1/2017	270,000
1999A General Obligation					
Tax Increment Bonds	8/1/1999	7.49%	\$ 165,000	2/1/2016	135,000
1998A General Obligation Housing					
Development Refunding Bonds	10/1/1998	4.00-4.75%	\$ 2,075,585	10/1/2028	<u>1,946,269</u>
<b>Total EDA-Component Unit Long-Term Liabilities</b>					<u><b>4,391,269</b></u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**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>
<b>PUC</b>					
Bonds and notes payable					\$ 7,090,627
Compensated absences payable					<u>960,100</u>
<b>Total PUC-Component Unit Long-Term Liabilities</b>					<u>8,050,727</u>
<b>Total Reporting Entity</b>					<u>\$ 26,030,732</u>

Long-term liability activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Primary Government</b>					
<b>Governmental Activities</b>					
General obligation bonds payable	\$ 690,000	\$ -	\$ (370,000)	\$ 320,000	\$ 160,000
Certificates of indebtedness	915,000	455,000	(210,000)	1,160,000	217,000
Leases payable	2,248,253	-	(368,312)	1,879,941	333,531
Police and fire indebtedness	1,971,897	-	(657,299)	1,314,598	657,299
Compensated absences payable	<u>301,565</u>	<u>726,182</u>	<u>(722,569)</u>	<u>305,178</u>	<u>-</u>
<b>Governmental Activities - Long-term Liabilities</b>	<u>6,126,715</u>	<u>1,181,182</u>	<u>(2,328,180)</u>	<u>4,979,717</u>	<u>1,367,830</u>
<b>Business-type Activities</b>					
GO revenue notes payable	9,053,000	-	(462,000)	8,591,000	470,000
Compensated absences payable	<u>-</u>	<u>216,189</u>	<u>(198,170)</u>	<u>18,019</u>	<u>-</u>
<b>Business-type Activities - Long-term Liabilities</b>	<u>9,053,000</u>	<u>216,189</u>	<u>(660,170)</u>	<u>8,609,019</u>	<u>470,000</u>
<b>Total Primary Government</b>	<u>\$15,179,715</u>	<u>\$ 1,397,371</u>	<u>\$ (2,988,350)</u>	<u>\$13,588,736</u>	<u>\$ 1,837,830</u>
<b>Discretely Presented Component Units</b>					
<b>EDA</b>					
Bonds payable	\$ 4,778,598	\$ -	\$ (387,329)	\$ 4,391,269	\$ 415,000
Loans payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EDA-Component Unit Long-term Liabilities</b>	<u>\$ 4,778,598</u>	<u>\$ -</u>	<u>\$ (387,329)</u>	<u>\$ 4,391,269</u>	<u>\$ 415,000</u>
<b>PUC</b>					
Bonds and notes payable	\$ 5,214,233	\$ 2,000,000	\$ (123,606)	\$ 7,090,627	\$ 289,875
Compensated absences payable	<u>953,062</u>	<u>404,420</u>	<u>(397,382)</u>	<u>960,100</u>	<u>-</u>
<b>PUC-Component Unit Long-term Liabilities</b>	<u>\$ 6,167,295</u>	<u>\$ 2,404,420</u>	<u>\$ (520,988)</u>	<u>\$ 8,050,727</u>	<u>\$ 289,875</u>
<b>Totals</b>	<u>\$26,125,608</u>	<u>\$ 3,801,791</u>	<u>\$ (3,896,667)</u>	<u>\$26,030,732</u>	<u>\$ 2,542,705</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**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
2007	\$ 1,367,830	\$ 167,740	\$ 470,000	\$ 149,483	\$ 1,837,830	\$ 317,223
2008	1,358,423	130,984	478,000	141,306	1,836,423	272,290
2009	496,719	98,823	487,000	132,988	983,719	231,811
2010	463,135	72,032	495,000	124,514	958,135	196,546
2011	406,164	45,753	504,000	115,902	910,164	161,655
2012-2016	582,268	43,364	2,655,000	444,831	3,237,268	488,195
2017-2021	-	-	2,893,000	205,720	2,893,000	205,720
2022-2026	-	-	609,000	10,597	609,000	10,597
2029-2031	-	-	-	-	-	-
Total	<u>\$ 4,674,539</u>	<u>\$ 558,696</u>	<u>\$ 8,591,000</u>	<u>\$ 1,325,341</u>	<u>\$13,265,539</u>	<u>\$ 1,884,037</u>

Year Ending December 31	Component Units			
	EDA		PUC	
	Principal	Interest	Principal	Interest
2007	\$ 415,000	\$ 248,323	\$ 289,875	\$ 372,944
2008	417,329	223,425	349,671	261,456
2009	377,329	198,371	359,191	248,247
2010	407,329	173,068	378,978	234,510
2011	437,329	145,897	389,041	222,420
2012-2016	873,974	469,654	2,170,542	868,014
2017-2021	502,979	297,775	2,503,582	428,013
2022-2026	655,000	166,110	649,747	76,918
2027-2031	305,000	21,620	-	-
Total	<u>\$ 4,391,269</u>	<u>\$ 1,944,243</u>	<u>\$ 7,090,627</u>	<u>\$ 2,712,522</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, 2006**

**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 five issues outstanding. The aggregate amount payable at December 31, 2006, is \$5,435,719. 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, 2006, 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 Component Units</u>
<b>Primary Government</b>				
General Fund	\$ <u>3,718,904</u>	\$ <u>618,241</u>	\$ <u>-</u>	\$ <u>-</u>
<b>Enterprise Funds</b>				
Garbage and Refuse Collection	-	140,579	-	-
Sewer Operating and Maintenance	-	179,099	3,718,904	156,327
Total Enterprise Funds	-	319,678	3,718,904	156,327
Total Primary Government	<u>3,718,904</u>	<u>937,919</u>	<u>3,718,904</u>	<u>156,327</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 7 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)**

<u>Fund or Component Unit</u>	<u>Due From Other Funds</u>	<u>Due From Primary Government</u>	<u>Due To Other Funds</u>	<u>Due To Primary Government</u>
<b>Component Units</b>				
Hibbing Economic Development Authority (EDA)				
Economic Development Special Revenue Fund	\$ 30,000	\$ 156,327	\$ -	\$ -
Storefront Renovation Capital Projects Fund	-	-	30,000	-
Enterprise Funds				
Student Housing	-	-	-	618,241
Total EDA	<u>30,000</u>	<u>156,327</u>	<u>30,000</u>	<u>618,241</u>
Hibbing Public Utilities Commission	-	-	-	319,678
Total Component Units	<u>30,000</u>	<u>156,327</u>	<u>30,000</u>	<u>937,919</u>
Total Reporting Entity	<u>\$ 3,748,904</u>	<u>\$ 1,094,246</u>	<u>\$ 3,748,904</u>	<u>\$ 1,094,246</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, 2006 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>
<b>Primary Government</b>		
General Fund	\$ -	\$ 757,133
Special Revenue Funds		
Library	74,517	-
Capital Projects Funds		
Capital Equipment and Improvement	702,616	30,000
Memorial Building	-	20,000
Privately Financed	30,000	-
Total Primary Government	<u>\$ 807,133</u>	<u>\$ 807,133</u>
<b>Hibbing Economic Development Authority (EDA)</b>		
General Fund	\$ -	\$ 29,245
Debt Service Funds		
TIF VI	16,697	-
TIF VII	31,056	-
TIF XI	20,486	-
Central Range Public Works	10,939	-
Capital Projects Funds		
TIF VII	-	31,056
TIF XI	-	7,938
Public Works	-	10,939
Total EDA	<u>\$ 79,178</u>	<u>\$ 79,178</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 7 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)**

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	\$ 24,490
Housing incentives	45,688
Economic development	56,454
Capital fund contribution	<u>50,000</u>

Total Net Assets, Restricted for Other Purposes – Primary Government	<u>\$ 176,632</u>
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**EDA Component Unit**

Restricted for other purposes -

Tax increment financing projects	<u>\$ 51,423</u>
----------------------------------	------------------

**Fund Balance**

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

General Fund

Reserved for 10% contribution fund	\$ 7,919
Reserved for tobacco settlement	16,199
Reserved for police forfeiture fund	<u>11,746</u>
Total General Fund	<u>\$ 35,864</u>

Minnesota Investment Revolving Loans

Special Revenue Fund

Reserved for community capital fund contributions	<u>\$ 50,000</u>
---	------------------

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	\$ 514,853
Designated for cash flow	6,439,355
Designated for workers compensation	355,000
Designated for infrastructure/cooperative programs	<u>105,490</u>
Total Designated - General Fund	<u>\$ 7,414,698</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 8 - FUND EQUITY (CONTINUED)**

Debt Service Funds

1990 GO Taxable Pension Bonds	
Designated for debt service	\$ 127,905
2002 GO Refunding Bonds	
Designated for debt service	<u>339,204</u>
Total Designated - Debt Service Funds	\$ <u>467,109</u>

**NOTE 9 - PRIOR PERIOD ADJUSTMENTS OF FUND BALANCES/NET ASSETS**

Three changes to the year ended December 31, 2005 financial statements are noted. These changes affected the fund balances and net assets of December 31, 2005, and are shown as prior period adjustments. The first change is a reclassification of loans receivable between an other governmental fund and the EDA. The second change is the recognition of an additional accounts payable in the Garbage and Refuse Collection Enterprise Fund. The final change was for the year ended December 31, 2005 workers' compensation insurance allocation that increased the General Fund and decreased the Library Special Revenue Fund fund balances respectively. This allocation also decreased the net assets of both the Garbage and Refuse Collection and the Sewer Operating and Maintenance Enterprise Funds. All of the changes are summarized as follows:

**Fund Prior Period Adjustments**

	<u>Governmental Fund</u>			<u>Proprietary Funds</u>	
	<u>General Fund</u>	<u>Library Special Revenue Fund</u>	<u>Other Governmental Funds – MN Investment Revolving Loans Special Revenue Fund</u>	<u>Garbage and Refuse Collection Enterprise Fund</u>	<u>Sewer Operating and Maintenance Enterprise Fund</u>
Loans receivable reclassification	\$ -	\$ -	\$ (31,767)	\$ -	\$ -
Additional accounts payable	-	-	-	(30,341)	-
Insurance allocation	<u>56,968</u>	<u>(2,158)</u>	-	<u>(32,473)</u>	<u>(22,337)</u>
Total prior period adjustment	\$ <u>56,968</u>	\$ <u>(2,158)</u>	\$ <u>(31,767)</u>	\$ <u>(62,814)</u>	\$ <u>(22,337)</u>

**Government-Wide Prior Period Adjustments**

	<u>Primary Government</u>		<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>EDA</u>
Loan receivable reclassification	\$ (31,767)	\$ -	\$ 31,767
Additional accounts payable	-	(30,341)	-
Insurance allocation	<u>54,810</u>	<u>(54,810)</u>	-
Total prior period adjustment	\$ <u>23,043</u>	\$ <u>(85,151)</u>	\$ <u>31,767</u>



**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 10 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Risk of loss associated 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, 2006**

**NOTE 11 - TAX INCREMENT FINANCING DISTRICTS**

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

<u>Tax Increment Financing 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>21,114</u>	\$ <u>39,414</u>	\$ <u>45,686</u>
Fiscal disparity deduction:	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Captured net tax capacity retained by Authority:	\$ <u>13,690</u>	\$ <u>26,464</u>	\$ <u>42,274</u>
Total bonds issued			
Tax increment bonds	\$ 121,000	\$ 270,000	\$ 320,000
Amounts redeemed	<u>121,000</u>	<u>165,000</u>	<u>50,000</u>
Outstanding bonds at 12/31/06	\$ <u>-</u>	\$ <u>105,000</u>	\$ <u>270,000</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>7,261</u>	\$ <u>8,272</u>	\$ <u>7,448</u>
\$ <u>-</u>	\$ <u>1,189</u>	\$ <u>1,082</u>
\$ <u>7,261</u>	\$ <u>7,601</u>	\$ <u>6,923</u>
\$ -	\$ -	\$ 165,000
<u>-</u>	<u>-</u>	<u>30,000</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>135,000</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 12 - 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, 2006, 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, 2006. The projects are evidenced by contractual commitments with contractors and engineers and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Capital Project Fund		
Capital Equipment and Improvement		
City Hall Remodeling	\$ 129,149	\$ 30,491
Fire Hall Remodeling	370,664	17,926
Public Works Storage Facility	<u>429,500</u>	<u>51,170</u>
Total Capital Equipment and Improvement Capital Project Fund	<u>\$ 929,313</u>	<u>\$ 99,587</u>

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

**NOTE 13 - 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, 2006, the fund had the following balances:

Assets	\$ 402,165
Fund Balance	\$ 402,165

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

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 13 - 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 2006, there were no related party transactions between the City and the Chisholm/Hibbing Airport Authority.

Complete financial information can be obtained from the Chisholm/Hibbing Airport Authority, 11038 Highway 37, Hibbing, Minnesota 55746.

**NOTE 14 - RELATED ORGANIZATION**

**Housing and Redevelopment Authority of Hibbing**

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

During 2006, there were no related party transactions between the City and the Housing and Redevelopment Authority of Hibbing.

**NOTE 15 - 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 16 - POST EMPLOYMENT BENEFITS**

**Primary Government**

In addition to the pension benefits described in Notes 18 and 19, 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, 2006, expenditures of \$747,160 were recognized for post-employment benefits.

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 16 - 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, 2006, the Commission expended \$471,087 in benefits for 42 retirees.

**NOTE 17 - 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, 2006, 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.

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, 2006, biomass fueled steam and electricity production has not yet started. The Authority began production in early 2007.

As of December 31, 2006, the Commission has reported on its balance sheet an investment of \$9,801,769 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 addition, interest of \$133,687 has been capitalized in conjunction with the development of the Authority.

In conjunction with the joint venture, the Commission has pledged \$376,323 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 2006 financial statements:

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 17 - EQUITY IN JOINT VENTURE (CONTINUED)**

Current assets	\$ 5,051,566
Non-current restricted assets	10,236,430
Other assets	4,518,631
Capital assets	60,013,753
Total assets	79,820,380
Current liabilities	5,640,413
Revenue bonds	56,490,000
Total liabilities	61,924,219
Net assets	17,896,161
Total operating revenues	-
Operating expenses	855,409
Change in net assets	7,738,193

**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.

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

## CITY OF HIBBING, MINNESOTA

### NOTES TO FINANCIAL STATEMENTS

December 31, 2006

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

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](http://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 5.50%, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75%. PEPFF members are required to contribute 7.0% of their annual covered salary in 2006. The rate will increase to 7.8% in 2007. The City of Hibbing, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.0% for Coordinated Plan PERF members, and 10.5% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.25% and 11.7%, respectively, effective January 1, 2007. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$256,940, \$234,212, and \$236,598, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2006, 2005, and 2004 were \$307,415, \$269,500, and \$270,469, respectively. The Hibbing Public Utilities contributions to the Public Employees Retirement Fund for the years ending December 31, 2006, 2005, and 2004 were \$266,428, \$230,386, and \$225,556, respectively. The City and Public Utility contributions were equal to the contractually required contributions for each year as set by state statute.



**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2006**

**NOTE 19 - DEFINED CONTRIBUTION PLAN**

Five 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 twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the City of Hibbing, Minnesota during fiscal year 2006 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, 2006

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 4,149,947	\$ 4,149,947	\$ 4,416,120	\$ 266,173
Licenses and permits	107,560	107,560	247,005	139,445
Intergovernmental	8,257,604	8,257,604	8,504,858	247,254
Charges for services	1,525,150	1,525,150	1,543,885	18,735
Fines	100,000	100,000	121,816	21,816
Gifts and contributions	20,000	20,000	17,231	(2,769)
Interest	50,000	50,000	200,483	150,483
Miscellaneous	67,700	67,700	71,323	3,623
<b>TOTAL REVENUES</b>	<b>14,277,961</b>	<b>14,277,961</b>	<b>15,122,721</b>	<b>844,760</b>
<b>EXPENDITURES</b>				
Current				
General government	1,767,669	1,816,453	1,700,186	116,267
Public safety	4,961,840	5,114,450	5,246,616	(132,166)
Public works	2,814,239	2,563,007	2,321,988	241,019
Culture and recreation	1,702,849	1,747,665	1,758,651	(10,986)
Economic development	111,565	114,566	100,489	14,077
Transportation	203,074	203,074	208,794	(5,720)
Miscellaneous	1,954,909	1,978,307	1,862,702	115,605
Debt Service				
Principal	657,299	860,099	860,099	-
Interest and other charges	-	101,447	101,447	-
<b>TOTAL EXPENDITURES</b>	<b>14,173,444</b>	<b>14,499,068</b>	<b>14,160,972</b>	<b>338,096</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>104,517</b>	<b>(221,107)</b>	<b>961,749</b>	<b>1,182,856</b>
<b>OTHER FINANCING USES</b>				
Transfers out	(104,517)	(104,517)	(757,133)	(652,616)
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(325,624)</b>	<b>204,616</b>	<b>530,240</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>10,336,342</b>	<b>10,336,342</b>	<b>10,336,342</b>	<b>-</b>
Prior period adjustment	-	-	56,968	56,968
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 10,336,342</b>	<b>\$ 10,010,718</b>	<b>\$ 10,597,926</b>	<b>\$ 587,208</b>

**CITY OF HIBBING, MINNESOTA**

**LIBRARY SPECIAL REVENUE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
Year Ended December 31, 2006**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 614,959	\$ 614,959	\$ 514,486	\$ (100,473)
Intergovernmental	-	-	100,473	100,473
Charges for services	55,200	55,200	67,441	12,241
Gifts and contributions	9,800	9,800	12,910	3,110
Interest	-	-	81	81
<b>TOTAL REVENUES</b>	<b>679,959</b>	<b>679,959</b>	<b>695,391</b>	<b>15,432</b>
<b>EXPENDITURES</b>				
Current				
Culture and recreation	754,476	776,160	767,049	9,111
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(74,517)</b>	<b>(96,201)</b>	<b>(71,658)</b>	<b>24,543</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	74,517	74,517	74,517	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>(21,684)</b>	<b>2,859</b>	<b>24,543</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>23,789</b>	<b>23,789</b>	<b>23,789</b>	<b>-</b>
Prior period adjustment	-	-	(2,158)	(2,158)
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 23,789</b>	<b>\$ 2,105</b>	<b>\$ 24,490</b>	<b>\$ 22,385</b>

## CITY OF HIBBING, MINNESOTA

### INFRASTRUCTURE CONDITION DATA Year Ended December 31, 2006

#### 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 2006. 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, 2006**

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, 2006, the City's gravel roads all rated at a Level 3.

The City expended \$141,244 on gravel road maintenance for the year ended December 31, 2006. Those routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the Year 2009 is a minimum of \$375,000. (\$125,000 projected budget each year for the years ending December 31, 2007, 2008, and 2009.)

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>
2004	\$ 87,000	\$ 87,000	\$ 87,000
2005	87,000	125,938	125,938
2006	125,000	141,244	141,244

**CITY OF HIBBING, MINNESOTA**

**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**

**December 31, 2006**

**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.

## OTHER SUPPLEMENTARY INFORMATION



## **NONMAJOR GOVERNMENTAL FUNDS**

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

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

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

The 1990 G.O. Taxable Pension Bond Debt Service Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs for the payment of Pension Debt.

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

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

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

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

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

**CITY OF HIBBING, MINNESOTA**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2006**

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	1990 G.O. Taxable Pension Bond Debt Service Fund
<b>ASSETS</b>				
Cash and cash equivalents	\$ 45,688	\$ 23,446	\$ 37,758	\$ 125,217
Taxes receivable	-	-	-	2,688
Special assessments receivable	-	-	-	-
Accounts receivable	-	-	50,000	-
Due from other governments	-	-	-	-
Loans receivables	-	127,402	123,433	-
<b>TOTAL ASSETS</b>	<u>\$ 45,688</u>	<u>\$ 150,848</u>	<u>\$ 211,191</u>	<u>\$ 127,905</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to other governments	\$ -	\$ -	\$ 4,750	\$ -
Contracts payable	-	-	-	-
Deferred revenue	-	127,402	123,433	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>127,402</u>	<u>128,183</u>	<u>-</u>
<b>FUND BALANCES</b>				
Reserved for				
Community capital fund contributions	-	-	50,000	-
Unreserved, designated for debt service	-	-	-	127,905
Unreserved, undesignated	45,688	23,446	33,008	-
<b>TOTAL FUND BALANCES</b>	<u>45,688</u>	<u>23,446</u>	<u>83,008</u>	<u>127,905</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 45,688</u>	<u>\$ 150,848</u>	<u>\$ 211,191</u>	<u>\$ 127,905</u>

<b>2002 G.O. Refunding Bonds Debt Service Fund</b>	<b>Permanent Improvement Capital Projects Fund</b>	<b>Privately- Financed Capital Projects Fund</b>	<b>Memorial Building Capital Projects Fund</b>	<b>MDI Maintenance Capital Projects Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 336,769	\$ 1,020,004	\$ 128,118	\$ 93,920	\$ 19,733	\$ 1,830,653
2,435	1,174	-	-	-	6,297
-	-	155,891	-	-	155,891
-	1,219	-	250	-	51,469
-	52,031	-	-	-	52,031
-	-	-	-	-	250,835
<u>\$ 339,204</u>	<u>\$ 1,074,428</u>	<u>\$ 284,009</u>	<u>\$ 94,170</u>	<u>\$ 19,733</u>	<u>\$ 2,347,176</u>

\$ -	\$ -	\$ 28,941	\$ -	\$ -	\$ 33,691
-	77,122	628	-	-	77,750
-	-	151,922	-	-	402,757
-	77,122	181,491	-	-	514,198

-	-	-	-	-	50,000
339,204	-	-	-	-	467,109
-	997,306	102,518	94,170	19,733	1,315,869
<u>339,204</u>	<u>997,306</u>	<u>102,518</u>	<u>94,170</u>	<u>19,733</u>	<u>1,832,978</u>
<u>\$ 339,204</u>	<u>\$ 1,074,428</u>	<u>\$ 284,009</u>	<u>\$ 94,170</u>	<u>\$ 19,733</u>	<u>\$ 2,347,176</u>

**CITY OF HIBBING, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended December 31, 2006**

	<b>Housing Incentive Special Revenue Fund</b>	<b>Small Cities Development Special Revenue Fund</b>	<b>Minnesota Investment Revolving Loans Special Revenue Fund</b>	<b>1990 G.O. Taxable Pension Bond Debt Service Fund</b>
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ 191,437
Special assessments	-	-	-	-
Intergovernmental	-	-	-	37,462
Charges for services	-	-	-	-
Interest	2,310	1,185	379	-
Miscellaneous	-	6,740	46,084	-
<b>TOTAL REVENUES</b>	<b>2,310</b>	<b>7,925</b>	<b>46,463</b>	<b>228,899</b>
<b>EXPENDITURES</b>				
Current				
Economic development	-	6,740	25,000	-
Miscellaneous	-	-	29,558	-
Debt Service				
Principal	-	-	-	210,000
Interest and other charges	-	-	-	5,996
Capital Outlay				
Public works	-	-	-	-
Culture and recreation	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>6,740</b>	<b>54,558</b>	<b>215,996</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>2,310</b>	<b>1,185</b>	<b>(8,095)</b>	<b>12,903</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,310</b>	<b>1,185</b>	<b>(8,095)</b>	<b>12,903</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>43,378</b>	<b>22,261</b>	<b>122,870</b>	<b>115,002</b>
Prior period adjustment	-	-	(31,767)	-
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 45,688</b>	<b>\$ 23,446</b>	<b>\$ 83,008</b>	<b>\$ 127,905</b>

<b>2002 G.O. Refunding Bonds Debt Service Fund</b>	<b>Permanent Improvement Capital Projects Fund</b>	<b>Privately- Financed Capital Projects Fund</b>	<b>Memorial Building Capital Projects Fund</b>	<b>MDI Maintenance Capital Projects Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 173,409	\$ 83,638	\$ -	\$ -	\$ -	\$ 448,484
-	-	36,645	-	-	36,645
33,945	819,721	-	-	-	891,128
-	-	-	16,000	-	16,000
-	57,523	4,630	5,483	997	72,507
-	-	-	-	-	52,824
<u>207,354</u>	<u>960,882</u>	<u>41,275</u>	<u>21,483</u>	<u>997</u>	<u>1,517,588</u>
-	-	-	-	-	31,740
-	-	-	-	-	29,558
160,000	-	-	-	-	370,000
22,831	-	-	-	-	28,827
-	919,515	70,159	-	-	989,674
-	-	-	2,480	-	2,480
<u>182,831</u>	<u>919,515</u>	<u>70,159</u>	<u>2,480</u>	<u>-</u>	<u>1,452,279</u>
<u>24,523</u>	<u>41,367</u>	<u>(28,884)</u>	<u>19,003</u>	<u>997</u>	<u>65,309</u>
-	-	30,000	-	-	30,000
-	-	-	(20,000)	-	(20,000)
-	-	30,000	(20,000)	-	10,000
24,523	41,367	1,116	(997)	997	75,309
314,681	955,939	101,402	95,167	18,736	1,789,436
-	-	-	-	-	(31,767)
<u>\$ 339,204</u>	<u>\$ 997,306</u>	<u>\$ 102,518</u>	<u>\$ 94,170</u>	<u>\$ 19,733</u>	<u>\$ 1,832,978</u>

## CITY OF HIBBING, MINNESOTA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**(CONTINUED)**  
**Year Ended December 31, 2006**

**REVENUES****TAXES**

General property	\$ 1,396,168
Taconite	
Production	726,145
Homestead credit	464,186
Municipal aid	1,473,527
Franchise	131,619
Other	224,475

<b>TOTAL TAXES</b>	<u>4,416,120</u>
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<b>LICENSES AND PERMITS</b>	<u>247,005</u>
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**INTERGOVERNMENTAL**

Federal grants	
Federal transportation grant	41,610
Juvenile justice and delinquency prevention grant	1,470
Rural access to emergency devices grant	2,677
State grants	
Market value credit	393,281
Local government aid	7,115,165
Police training	9,405
Police aid	388,980
Firemen's aid	403,631
State transportation grant	120,750
PERA rate increase aid	24,366
County grants	
Ambulance	3,523

<b>TOTAL INTERGOVERNMENTAL</b>	<u>8,504,858</u>
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**CHARGES FOR SERVICES**

General government	
Bus transportation	28,962
Miscellaneous	31,836
Public safety	
Ambulance calls	1,075,689
Fire protection contracts	7,113
Highways and streets	
Miscellaneous	20,053
Culture and recreation	
Rent	111,087
Other	195,005
Cemetery	74,140

<b>TOTAL CHARGES FOR SERVICES</b>	<u>1,543,885</u>
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## CITY OF HIBBING, MINNESOTA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**(CONTINUED)**  
**Year Ended December 31, 2006**

**REVENUES (CONTINUED)****FINES**

Court fines	\$ 88,535
Police forfeitures	24,042
Administrative fines	2,375
DARE fines	<u>6,864</u>

**TOTAL FINES** 121,816

**GIFTS AND CONTRIBUTIONS** 17,231

**INTEREST**

Interest on investments	202,246
Decrease in fair value of investments	<u>(1,763)</u>

**TOTAL INTEREST** 200,483

**MISCELLANEOUS**

Insurance dividends	49,200
Other	<u>22,123</u>

**TOTAL MISCELLANEOUS** 71,323

**TOTAL REVENUES** 15,122,721

**EXPENDITURES****CURRENT****GENERAL GOVERNMENT**

Mayor and council	208,716
Elections	41,005
City administration	132,291
City clerk	342,548
City hall	128,909
Accounting	37,000
Data processing	44,787
Legal	90,590
Personnel administration	157,593
Zoning and housing	224,179
Assessor	<u>292,568</u>

**TOTAL GENERAL GOVERNMENT** 1,700,186

**PUBLIC SAFETY**

Police	2,671,203
Fire	1,562,901
Paid on-call fire	71,054
Ambulance	933,637
Civil defense	<u>7,821</u>

**TOTAL PUBLIC SAFETY** 5,246,616

**PUBLIC WORKS**

Highways and streets	
Streets and alleys	1,602,634
Engineering	272,416
Garage	408,340
Street lighting	<u>38,598</u>

**TOTAL PUBLIC WORKS** 2,321,988

## CITY OF HIBBING, MINNESOTA

GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 (CONTINUED)  
 Year Ended December 31, 2006

**EXPENDITURES (CONTINUED)****CURRENT****CULTURE AND RECREATION**

Recreation	\$ 427,765
Memorial building	696,058
Municipal golf course	122,273
Parks	<u>512,555</u>

**TOTAL CULTURE AND RECREATION** 1,758,651

**ECONOMIC DEVELOPMENT**

Administration	<u>100,489</u>
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**TRANSPORTATION**

Bus	<u>208,794</u>
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**MISCELLANEOUS**

Cemetery	280,414
Public access	74,366
Insurance	1,442,619
Donations and contributions	7,034
Other	<u>58,269</u>

**TOTAL MISCELLANEOUS** 1,862,702

**DEBT SERVICE**

Principal	860,099
Interest and agent fees	<u>101,447</u>

**TOTAL DEBT SERVICE** 961,546

**TOTAL EXPENDITURES** 14,160,972

**EXCESS OF REVENUES  
OVER EXPENDITURES** 961,749

**OTHER FINANCING USES**

Transfers out	<u>(757,133)</u>
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**NET CHANGE IN FUND BALANCE** 204,616

**FUND BALANCE - JANUARY 1**

Prior period adjustment	<u>56,968</u>
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**FUND BALANCE - DECEMBER 31** \$ 10,597,926



**CITY OF HIBBING, MINNESOTA**

**LIBRARY SPECIAL REVENUE FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

**Year Ended December 31, 2006**

**REVENUES**

**TAXES**

General property	\$ 355,098
Taconite homestead credit	118,694
Other	<u>40,694</u>

<b>TOTAL TAXES</b>	<u>514,486</u>
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**INTERGOVERNMENTAL**

State grants	
Market value credit	<u>100,473</u>

<b>CHARGES FOR SERVICES</b>	<u>67,441</u>
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<b>GIFTS AND CONTRIBUTIONS</b>	<u>12,910</u>
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<b>INTEREST</b>	<u>81</u>
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<b>TOTAL REVENUES</b>	<u>695,391</u>
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**EXPENDITURES**

**CURRENT**

**CULTURE AND RECREATION**

Library	
Personal services	574,277
Supplies	84,230
Other services and charges	106,097
Other	<u>2,445</u>

<b>TOTAL EXPENDITURES</b>	<u>767,049</u>
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<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(71,658)
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**OTHER FINANCING SOURCES**

Transfers in	<u>74,517</u>
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<b>NET CHANGE IN FUND BALANCE</b>	2,859
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<b>FUND BALANCE - JANUARY 1</b>	23,789
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Prior period adjustment	<u>(2,158)</u>
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<b>FUND BALANCE - DECEMBER 31</b>	<u><u>\$ 24,490</u></u>
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**CITY OF HIBBING, MINNESOTA**  
**HOUSING INCENTIVE SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**Year Ended December 31, 2006**

<b>REVENUES</b>	
<b>INTEREST</b>	\$ 2,310
<b>EXPENDITURES</b>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	2,310
<b>FUND BALANCE - JANUARY 1</b>	<u>43,378</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u><u>\$ 45,688</u></u>

**CITY OF HIBBING, MINNESOTA**

**SMALL CITIES DEVELOPMENT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**

**Year Ended December 31, 2006**

**REVENUES**

**INTEREST** \$ 1,185

**MISCELLANEOUS**

Principal on loans repayments 6,257  
Interest on loans repayments 483

**TOTAL MISCELLANEOUS** 6,740

**TOTAL REVENUES** 7,925

**EXPENDITURES**

**CURRENT**

**ECONOMIC DEVELOPMENT**

Administration 4,579  
Loans 2,161

**TOTAL EXPENDITURES** 6,740

**NET CHANGE IN FUND BALANCE** 1,185

**FUND BALANCE - JANUARY 1** 22,261

**FUND BALANCE - DECEMBER 31** \$ 23,446

**CITY OF HIBBING, MINNESOTA**

**MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
Year Ended December 31, 2006**

**REVENUES**

<b>INTEREST</b>	<u>\$ 379</u>
<b>MISCELLANEOUS</b>	
Principal on loans repayments	40,769
Interest on loans repayments	<u>5,315</u>
<b>TOTAL MISCELLANEOUS</b>	<u>46,084</u>
<b>TOTAL REVENUES</b>	<u>46,463</u>

**EXPENDITURES  
CURRENT**

<b>ECONOMIC DEVELOPMENT</b>	
Temporary loans	25,000
<b>MISCELLANEOUS</b>	
Repayments to DEED	<u>29,558</u>
<b>TOTAL EXPENDITURES</b>	<u>54,558</u>
<b>NET CHANGE IN FUND BALANCE</b>	(8,095)
<b>FUND BALANCE - JANUARY 1</b>	122,870
Prior period adjustment	<u>(31,767)</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u><u>\$ 83,008</u></u>

**CITY OF HIBBING, MINNESOTA**

**DEBT SERVICE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Year Ended December 31, 2006**

	<u>1990 G.O. Taxable Pension Bond</u>	<u>2002 G.O. Refunding Bonds</u>	<u>Totals</u>
<b>REVENUES</b>			
<b>TAXES</b>			
General property	\$ 132,050	\$ 119,597	\$ 251,647
Taconite homestead credit	44,225	40,073	84,298
Other	<u>15,162</u>	<u>13,739</u>	<u>28,901</u>
<b>TOTAL TAXES</b>	191,437	173,409	364,846
<b>INTERGOVERNMENTAL</b>			
State grants			
Market value credit	<u>37,462</u>	<u>33,945</u>	<u>71,407</u>
<b>TOTAL REVENUES</b>	<u>228,899</u>	<u>207,354</u>	<u>436,253</u>
<b>EXPENDITURES</b>			
<b>DEBT SERVICE</b>			
Principal	210,000	160,000	370,000
Interest	5,565	22,400	27,965
Fiscal charges	<u>431</u>	<u>431</u>	<u>862</u>
<b>TOTAL EXPENDITURES</b>	<u>215,996</u>	<u>182,831</u>	<u>398,827</u>
<b>NET CHANGE IN FUND BALANCES</b>	12,903	24,523	37,426
<b>FUND BALANCES - JANUARY 1</b>	<u>115,002</u>	<u>314,681</u>	<u>429,683</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u><u>\$ 127,905</u></u>	<u><u>\$ 339,204</u></u>	<u><u>\$ 467,109</u></u>

## CITY OF HIBBING, MINNESOTA

**CAPITAL PROJECTS FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Year Ended December 31, 2006**

	<u>Permanent Improvement</u>	<u>Privately- Financed Capital Projects</u>	<u>Memorial Building</u>	<u>Capital Equipment and Improvement</u>	<u>MDI Maintenance</u>	<u>Total</u>
<b>REVENUES</b>						
<b>TAXES</b>						
General property	\$ 57,698	\$ -	\$ -	\$ 421,330	\$ -	\$ 479,028
Taconite homestead credit	19,317	-	-	140,976	-	160,293
Other	6,623	-	-	48,333	-	54,956
<b>TOTAL TAXES</b>	<u>83,638</u>	<u>-</u>	<u>-</u>	<u>610,639</u>	<u>-</u>	<u>694,277</u>
<b>SPECIAL ASSESSMENTS</b>						
Principal	-	35,804	-	-	-	35,804
Interest and penalties	-	841	-	-	-	841
<b>TOTAL SPECIAL ASSESSMENTS</b>	<u>-</u>	<u>36,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,645</u>
<b>INTERGOVERNMENTAL</b>						
Federal grants						
Election assistance for Individuals with Disabilities	-	-	-	3,715	-	3,715
Domestic Preparedness Equipment Grant	-	-	-	192,044	-	192,044
State grants						
Market value credit	16,363	-	-	119,419	-	135,782
MSA maintenance municipal	253,287	-	-	-	-	253,287
MSA construction municipal	550,071	-	-	-	-	550,071
Public transit capital grant	-	-	-	85,213	-	85,213
Iron Range Resources	-	-	-	46,000	-	46,000
Other	-	-	-	1,431	-	1,431
County grant						
Recreation	-	-	-	18,235	-	18,235
<b>TOTAL INTERGOVERNMENTAL</b>	<u>819,721</u>	<u>-</u>	<u>-</u>	<u>466,057</u>	<u>-</u>	<u>1,285,778</u>
<b>CHARGES FOR SERVICES</b>						
Rent	-	-	16,000	-	-	16,000
<b>GIFTS AND CONTRIBUTIONS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,300</u>	<u>-</u>	<u>51,300</u>
<b>INTEREST</b>	<u>57,523</u>	<u>4,630</u>	<u>5,483</u>	<u>4,275</u>	<u>997</u>	<u>72,908</u>
<b>TOTAL REVENUES</b>	<u>960,882</u>	<u>41,275</u>	<u>21,483</u>	<u>1,132,271</u>	<u>997</u>	<u>2,156,908</u>

## CITY OF HIBBING, MINNESOTA

**CAPITAL PROJECTS FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)**  
**Year Ended December 31, 2006**

	Permanent Improvement	Privately- Financed Capital Projects	Memorial Building	Capital Equipment and Improvement	MDI Maintenance	Total
<b>EXPENDITURES</b>						
<b>DEBT SERVICE</b>						
Principal	\$ -	\$ -	\$ -	\$ 375,512	\$ -	\$ 375,512
Interest	-	-	-	52,649	-	52,649
Fiscal charges	-	-	-	45	-	45
Debt issue costs	-	-	-	8,025	-	8,025
<b>TOTAL DEBT SERVICE</b>	-	-	-	436,231	-	436,231
<b>CAPITAL OUTLAY</b>						
General government						
City hall	-	-	-	129,149	-	129,149
Public safety						
Police	-	-	-	43,263	-	43,263
Fire	-	-	-	565,338	-	565,338
Public works						
Streets and alleys	919,515	70,159	-	262,133	-	1,251,807
Engineering	-	-	-	22,164	-	22,164
Garage	-	-	-	440,770	-	440,770
Culture and recreation						
Recreation	-	-	-	5,869	-	5,869
Memorial building	-	-	2,480	80,630	-	83,110
Parks	-	-	-	237,884	-	237,884
Municipal golf course	-	-	-	32,365	-	32,365
Library	-	-	-	32,313	-	32,313
Miscellaneous						
Cemetery	-	-	-	85,716	-	85,716
<b>TOTAL CAPITAL OUTLAY</b>	919,515	70,159	2,480	1,937,594	-	2,929,748
<b>TOTAL EXPENDITURES</b>	919,515	70,159	2,480	2,373,825	-	3,365,979
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	41,367	(28,884)	19,003	(1,241,554)	997	(1,209,071)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	30,000	-	702,616	-	732,616
Transfers out	-	-	(20,000)	(30,000)	-	(50,000)
Debt issuance	-	-	-	455,000	-	455,000
Sale of capital assets	-	-	-	19,390	-	19,390
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	30,000	(20,000)	1,147,006	-	1,157,006
<b>NET CHANGE IN FUND BALANCES</b>	41,367	1,116	(997)	(94,548)	997	(52,065)
<b>FUND BALANCES - JANUARY 1</b>	955,939	101,402	95,167	578,577	18,736	1,749,821
<b>FUND BALANCES - DECEMBER 31</b>	\$ 997,306	\$ 102,518	\$ 94,170	\$ 484,029	\$ 19,733	\$ 1,697,756

## CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT  
 COMBINING BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 December 31, 2006

	General Fund	Economic Development Special Revenue Fund	1996 Refunding Bonds	Tax Increment III
<b>ASSETS</b>				
Cash and cash equivalents	\$ 141,377	\$ 776,343	\$ 10,807	\$ 54,590
Investments	-	-	-	-
Taxes receivable				
Unapportioned	1,081	-	-	1,869
Delinquent	-	-	-	9,404
Accounts receivable	15,000	-	-	-
Due from other funds	-	30,000	-	-
Due from primary government	-	156,327	-	-
Loans receivable	-	575,393	-	-
Prepaid items	160	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 157,618</u>	<u>\$ 1,538,063</u>	<u>\$ 10,807</u>	<u>\$ 65,863</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 9,772	\$ -	\$ -	\$ -
Contracts payable	10,000	-	-	-
Due to other funds	-	-	-	-
Due to other governments	37	-	-	-
Other accrued liabilities	1	-	-	-
Deferred revenue	9,750	575,393	-	9,404
<b>TOTAL LIABILITIES</b>	<u>29,560</u>	<u>575,393</u>	<u>-</u>	<u>9,404</u>
<b>FUND BALANCES</b>				
Unreserved, designated	-	-	10,807	56,459
Unreserved, undesignated	128,058	962,670	-	-
<b>TOTAL FUND BALANCES</b>	<u>128,058</u>	<u>962,670</u>	<u>10,807</u>	<u>56,459</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 157,618</u>	<u>\$ 1,538,063</u>	<u>\$ 10,807</u>	<u>\$ 65,863</u>



**Debt Service Funds**

<u>Tax Increment VI</u>	<u>Tax Increment VII</u>	<u>Tax Increment XI</u>	<u>Central Range Public Works</u>
\$ 431	\$ -	\$ -	\$ 34,364
-	-	-	-
-	-	-	-
6,487	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>6,918</u>	<u>-</u>	<u>-</u>	<u>34,364</u>
<u>\$ 6,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,364</u>
\$ 431	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
6,487	-	-	-
<u>6,918</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	34,364
-	-	-	-
-	-	-	34,364
<u>\$ 6,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,364</u>

**CITY OF HIBBING, MINNESOTA**

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**

**COMBINING BALANCE SHEET  
GOVERNMENTAL FUNDS (CONTINUED)**

**December 31, 2006**

			<b>Capital Projects Funds</b>	
	<b>Storefront Renovation Project</b>	<b>District III Tax Increment</b>	<b>District VII Tax Increment</b>	<b>District VIII Tax Increment</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 35,206	\$ 18,495	\$ 11,185	\$ 18,438
Investments	-	-	-	-
Taxes receivable				
Unapportioned	-	-	1,019	-
Delinquent	-	-	63,761	-
Accounts receivable	-	-	-	-
Due from other funds	-	-	-	-
Due from primary government	-	-	-	-
Loans receivable	28,664	-	-	461,924
Prepaid items	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 63,870</b>	<b>\$ 18,495</b>	<b>\$ 75,965</b>	<b>\$ 480,362</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 255	\$ -	\$ -	\$ 4,447
Contracts payable	-	-	-	-
Due to other funds	30,000	-	-	-
Due to other governments	-	-	-	-
Other accrued liabilities	-	-	-	-
Deferred revenue	28,664	-	63,761	461,924
<b>TOTAL LIABILITIES</b>	<b>58,919</b>	<b>-</b>	<b>63,761</b>	<b>466,371</b>
<b>FUND BALANCES</b>				
Unreserved, designated	-	-	-	-
Unreserved, undesignated	4,951	18,495	12,204	13,991
<b>TOTAL FUND BALANCES</b>	<b>4,951</b>	<b>18,495</b>	<b>12,204</b>	<b>13,991</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 63,870</b>	<b>\$ 18,495</b>	<b>\$ 75,965</b>	<b>\$ 480,362</b>

<u>District X Tax Increment</u>	<u>District XI Tax Increment</u>	<u>Public Works</u>	<u>Tax Abatement</u>	<u>Totals</u>
\$ 10,305	\$ -	\$ -	\$ 34,034	\$ 1,145,575
-	-	402,165	-	402,165
-	-	-	118	4,087
7,458	7,763	-	-	94,873
-	-	-	-	15,000
-	-	-	-	30,000
-	-	-	-	156,327
-	-	-	-	1,065,981
-	-	-	-	160
<u>\$ 17,763</u>	<u>\$ 7,763</u>	<u>\$ 402,165</u>	<u>\$ 34,152</u>	<u>\$ 2,914,168</u>
\$ 3,572	\$ -	\$ -	\$ 1,643	\$ 20,120
-	-	-	-	10,000
-	-	-	-	30,000
-	-	-	-	37
-	-	-	-	1
7,458	7,763	-	-	1,170,604
<u>11,030</u>	<u>7,763</u>	<u>-</u>	<u>1,643</u>	<u>1,230,762</u>
-	-	-	-	101,630
6,733	-	402,165	32,509	1,581,776
<u>6,733</u>	<u>-</u>	<u>402,165</u>	<u>32,509</u>	<u>1,683,406</u>
<u>\$ 17,763</u>	<u>\$ 7,763</u>	<u>\$ 402,165</u>	<u>\$ 34,152</u>	<u>\$ 2,914,168</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, 2006**

	General Fund	Economic Development Special Revenue Fund	1996 Refunding Bonds	Tax Increment III
<b>REVENUES</b>				
<b>TAXES</b>				
General	\$ 53,041	\$ -	\$ -	\$ 31,502
Taconite homestead credit	17,791	-	-	-
Other	6,100	-	-	-
<b>INTERGOVERNMENTAL</b>				
State grants				
Market value credit	15,071	-	-	-
<b>CHARGES FOR SERVICES</b>	509	-	-	-
<b>INTEREST</b>	6,730	35,428	-	-
<b>MISCELLANEOUS</b>				
Principal on loan repayments	-	122,387	-	-
Interest on loan repayments	-	34,226	-	-
Donations	15,750	-	-	-
<b>TOTAL REVENUES</b>	<u>114,992</u>	<u>192,041</u>	<u>-</u>	<u>31,502</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
Economic development				
Community development	175	-	-	-
Administration	51,022	7	-	-
Professional services	27,328	-	-	-
Loans	-	50,000	-	-
Tax increment projects	-	-	-	-
<b>DEBT SERVICE</b>				
Principal	-	-	30,000	27,225
Interest	-	-	750	-
Fiscal charges	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>78,525</u>	<u>50,007</u>	<u>30,750</u>	<u>27,225</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>36,467</u>	<u>142,034</u>	<u>(30,750)</u>	<u>4,277</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(29,245)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(29,245)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	7,222	142,034	(30,750)	4,277
<b>FUND BALANCES - JANUARY 1</b>	120,836	788,869	41,557	52,182
Prior period adjustment	-	31,767	-	-
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 128,058</u>	<u>\$ 962,670</u>	<u>\$ 10,807</u>	<u>\$ 56,459</u>

Debt Service Funds			
Tax Increment VI	Tax Increment VII	Tax Increment XI	Central Range Public Works
\$ 35,885	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	381,692
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>35,885</u>	<u>-</u>	<u>-</u>	<u>381,692</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
45,000	10,000	10,000	260,000
7,150	20,625	10,486	130,060
432	431	-	2,340
<u>52,582</u>	<u>31,056</u>	<u>20,486</u>	<u>392,400</u>
<u>(16,697)</u>	<u>(31,056)</u>	<u>(20,486)</u>	<u>(10,708)</u>
16,697	31,056	20,486	10,939
-	-	-	-
<u>16,697</u>	<u>31,056</u>	<u>20,486</u>	<u>10,939</u>
-	-	-	231
-	-	-	34,133
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,364</u>

**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, 2006**

		<b>Capital Projects Funds</b>		
	<b>Storefront Renovation Project</b>	<b>District III Tax Increment</b>	<b>District VII Tax Increment</b>	<b>District VIII Tax Increment</b>
<b>REVENUES</b>				
<b>TAXES</b>				
General	\$ -	\$ -	\$ 47,757	\$ 9,847
Taconite homestead credit	-	-	-	-
Other	-	-	-	-
<b>INTERGOVERNMENTAL</b>				
State grants				
Market value credit	-	-	-	-
<b>CHARGES FOR SERVICES</b>				
<b>INTEREST</b>	75	935	367	770
<b>MISCELLANEOUS</b>				
Principal on loan repayments	1,336	-	-	-
Interest on loan repayments	279	-	-	-
Local contributions	-	-	-	-
<b>TOTAL REVENUES</b>	<u>1,690</u>	<u>935</u>	<u>48,124</u>	<u>10,617</u>
<b>EXPENDITURES</b>				
<b>CURRENT</b>				
Economic development				
Community development	-	-	-	-
Administration	-	-	3,665	-
Professional services	-	-	-	-
Loans	30,000	-	-	-
Tax increment projects	-	-	-	8,895
<b>DEBT SERVICE</b>				
Principal	-	-	-	-
Interest	-	-	-	-
Fiscal charges	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>30,000</u>	<u>-</u>	<u>3,665</u>	<u>8,895</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(28,310)</u>	<u>935</u>	<u>44,459</u>	<u>1,722</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	(31,056)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>(31,056)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(28,310)	935	13,403	1,722
<b>FUND BALANCES - JANUARY 1</b>	33,261	17,560	(1,199)	12,269
Prior period adjustment	-	-	-	-
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 4,951</u>	<u>\$ 18,495</u>	<u>\$ 12,204</u>	<u>\$ 13,991</u>

<u>District X Tax Increment</u>	<u>District XI Tax Increment</u>	<u>Public Works</u>	<u>Tax Abatement</u>	<u>Totals</u>
\$ 8,553	\$ 7,809	\$ -	\$ 5,733	\$ 200,127
-	-	-	1,948	19,739
-	-	-	668	6,768
-	-	-	1,651	16,722
-	-	-	-	382,201
339	129	17,673	1,507	63,953
-	-	-	-	123,723
-	-	-	-	34,505
-	-	-	-	15,750
<u>8,892</u>	<u>7,938</u>	<u>17,673</u>	<u>11,507</u>	<u>863,488</u>
-	-	-	5,529	5,704
-	-	-	-	54,694
-	-	-	-	27,328
-	-	-	-	80,000
7,143	-	-	-	16,038
-	-	-	-	382,225
-	-	-	-	169,071
-	-	-	-	3,203
<u>7,143</u>	<u>-</u>	<u>-</u>	<u>5,529</u>	<u>738,263</u>
<u>1,749</u>	<u>7,938</u>	<u>17,673</u>	<u>5,978</u>	<u>125,225</u>
-	-	-	-	79,178
-	(7,938)	(10,939)	-	(79,178)
-	(7,938)	(10,939)	-	-
1,749	-	6,734	5,978	125,225
4,984	-	395,431	26,531	1,526,414
-	-	-	-	31,767
<u>\$ 6,733</u>	<u>\$ -</u>	<u>\$ 402,165</u>	<u>\$ 32,509</u>	<u>\$ 1,683,406</u>

**CITY OF HIBBING, MINNESOTA**

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT  
COMBINING STATEMENT OF NET ASSETS  
ENTERPRISE FUNDS  
December 31, 2006**

	<u>Student Housing</u>	<u>Family Center</u>	<u>Totals</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 50	\$ 167,271	\$ 167,321
Accounts receivable	8,034	-	8,034
Loans receivable	-	690,510	690,510
Prepaid items	6,000	-	6,000
<b>TOTAL CURRENT ASSETS</b>	<u>14,084</u>	<u>857,781</u>	<u>871,865</u>
<b>NONCURRENT ASSETS</b>			
Restricted cash and pooled investments	1,125,288	-	1,125,288
Deferred debt issue costs	41,404	-	41,404
Capital assets			
Land	9,300	-	9,300
Other improvements	36,905	-	36,905
Buildings	1,787,794	-	1,787,794
Furniture and equipment	293,594	-	293,594
Less accumulated depreciation	(848,232)	-	(848,232)
Total capital assets (net of accumulated depreciation)	1,279,361	-	1,279,361
<b>TOTAL NONCURRENT ASSETS</b>	<u>2,446,053</u>	<u>-</u>	<u>2,446,053</u>
<b>TOTAL ASSETS</b>	<u>2,460,137</u>	<u>857,781</u>	<u>3,317,918</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Other accrued liabilities	1	-	1
Due to primary government	618,241	-	618,241
Due to other governments	4,895	-	4,895
Interest payable	25,153	-	25,153
Deferred revenue	1,450	-	1,450
Customer deposits	12,600	-	12,600
Bonds, notes and loans payable	65,000	-	65,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>727,340</u>	<u>-</u>	<u>727,340</u>
<b>NONCURRENT LIABILITIES</b>			
Bonds, notes and loans payable	1,881,269	-	1,881,269
<b>TOTAL LIABILITIES</b>	<u>2,608,609</u>	<u>-</u>	<u>2,608,609</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(666,908)	-	(666,908)
Restricted for debt	1,100,135	-	1,100,135
Unrestricted	(581,699)	857,781	276,082
<b>TOTAL NET ASSETS</b>	<u>\$ (148,472)</u>	<u>\$ 857,781</u>	<u>\$ 709,309</u>



**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, 2006**

	<u>Student Housing</u>	<u>Family Center</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 269,767	\$ -	\$ 269,767
Miscellaneous	5,890	-	5,890
<b>TOTAL OPERATING REVENUES</b>	<u>275,657</u>	<u>-</u>	<u>275,657</u>
<b>OPERATING EXPENSES</b>			
Personal services	1,723	235	1,958
Supplies	5,911	-	5,911
Maintenance and repairs	2,441	-	2,441
Contracted services	84,181	-	84,181
Utilities	49,486	57	49,543
Insurance	4,701	-	4,701
Depreciation	50,994	-	50,994
Miscellaneous	222	-	222
<b>TOTAL OPERATING EXPENSES</b>	<u>199,659</u>	<u>292</u>	<u>199,951</u>
<b>OPERATING INCOME</b>	<u>75,998</u>	<u>(292)</u>	<u>75,706</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	45,481	6,345	51,826
Interest on notes	-	35,068	35,068
Interest expense	(125,366)	-	(125,366)
Amortization	(1,882)	-	(1,882)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(81,767)</u>	<u>41,413</u>	<u>(40,354)</u>
<b>CHANGE IN NET ASSETS</b>	<u>(5,769)</u>	<u>41,121</u>	<u>35,352</u>
<b>TOTAL NET ASSETS - JANUARY 1</b>	<u>(142,703)</u>	<u>816,660</u>	<u>673,957</u>
<b>TOTAL NET ASSETS - DECEMBER 31</b>	<u>\$ (148,472)</u>	<u>\$ 857,781</u>	<u>\$ 709,309</u>

## CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**COMBINING STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUNDS**  
**Year Ended December 31, 2006**

	<u>Student Housing</u>	<u>Family Center</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 272,563	\$ -	\$ 272,563
Cash paid to suppliers	(162,263)	(84)	(162,347)
Cash paid to employees	(1,523)	(208)	(1,731)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>108,777</u>	<u>(292)</u>	<u>108,485</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interfund financing of cash deficit	166,886	-	166,886
Principal received on note	-	13,085	13,085
Interest received on note	-	35,218	35,218
Interest on customer deposits	(377)	-	(377)
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>166,509</u>	<u>48,303</u>	<u>214,812</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase or construction of fixed assets	(9,805)	-	(9,805)
Principal paid on long-term debt	(55,000)	-	(55,000)
Interest paid on long-term debt	(102,886)	-	(102,886)
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(167,691)</u>	<u>-</u>	<u>(167,691)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest on investments	45,481	6,345	51,826
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	153,076	54,356	207,432
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>972,262</u>	<u>112,915</u>	<u>1,085,177</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u><u>\$ 1,125,338</u></u>	<u><u>\$ 167,271</u></u>	<u><u>\$ 1,292,609</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 75,998	\$ (292)	\$ 75,706
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:			
Depreciation	50,994	-	50,994
Decrease in:			
Accounts receivable	10,149	-	10,149
Due from other funds	2,097	-	2,097
Increase (decrease) in:			
Accounts payable	(10,936)	-	(10,936)
Other accrued liabilities	1	-	1
Contracts payable	(11,178)	-	(11,178)
Due to other governments	4,895	-	4,895
Deferred revenue	1,450	-	1,450
Customer deposits	(14,693)	-	(14,693)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><u>\$ 108,777</u></u>	<u><u>\$ (292)</u></u>	<u><u>\$ 108,485</u></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, 2006**

	<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>21,114</u>		<u>39,414</u>	
<b>Captured Net Tax Capacity Retained by the City</b>	<u><b>\$ 13,690</b></u>		<u><b>\$ 26,464</b></u>	
	Accounted for in	Current	Accounted for in	Current
	Prior Years	Year	Prior Years	Year
<b>SOURCES OF FUNDS</b>				
Bond proceeds	\$ 225,630	\$ -	\$ 726,091	\$ -
Note proceeds	121,000	-	-	-
Tax increments received	674,992	31,502	537,156	35,885
General property taxes received	17,921	-	-	-
Interest on invested funds	13,449	935	19,141	-
Grants	17,602	-	-	-
Local contributions	-	-	-	-
Miscellaneous	26,528	-	-	-
<b>TOTAL SOURCES OF FUNDS</b>	<u>1,097,122</u>	<u>32,437</u>	<u>1,282,388</u>	<u>35,885</u>
<b>USES OF FUNDS</b>				
Building acquisition	-	-	-	-
Other public improvements	295,796	-	325,000	-
Bond payments				
Principal	351,000	-	585,000	45,000
Interest and fiscal charges	168,766	27,225	288,716	7,582
Professional services	3,315	-	2,994	-
Administrative costs	19,980	-	87,092	-
<b>TOTAL USES OF FUNDS</b>	<u>838,857</u>	<u>27,225</u>	<u>1,288,802</u>	<u>52,582</u>
<b>EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS BEFORE TRANSFERS</b>	<u>258,265</u>	<u>5,212</u>	<u>(6,414)</u>	<u>(16,697)</u>
<b>TRANSFERS</b>				
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	16,697
<b>TOTAL TRANSFERS</b>	<u>(188,523)</u>	<u>-</u>	<u>6,414</u>	<u>16,697</u>
<b>EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS AND TRANSFERS</b>	<u><b>\$ 69,742</b></u>	<u>5,212</u>	<u><b>\$ -</b></u>	<u>-</u>
<b>DISTRICT BALANCE - JANUARY 1</b>		<u>69,742</u>		<u>-</u>
<b>DISTRICT BALANCE - DECEMBER 31</b>		<u><b>\$ 74,954</b></u>		<u><b>\$ -</b></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	
45,686		7,261		8,272		7,448	
<u>\$ 42,274</u>		<u>\$ 7,261</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	\$ -
-	-	-	-	-	-	-	-
426,804	47,757	132,876	9,847	48,444	8,553	49,766	7,809
-	-	-	-	-	-	-	-
9,397	367	3,771	770	180	339	1,531	129
299,999	-	385,000	-	-	-	-	-
8,251	-	-	-	64,350	-	67,786	-
19,619	-	18,670	-	-	-	2,786	-
<u>1,084,070</u>	<u>48,124</u>	<u>540,317</u>	<u>10,617</u>	<u>112,974</u>	<u>8,892</u>	<u>286,869</u>	<u>7,938</u>
-	-	555,095	-	-	-	-	-
721,672	-	28,774	8,895	115,073	7,143	253,248	-
40,000	10,000	-	-	-	-	20,000	10,000
188,410	21,056	-	-	-	-	69,094	10,486
26,945	-	5,371	-	16,832	-	27,014	-
108,242	3,665	30,205	-	-	-	-	-
<u>1,085,269</u>	<u>34,721</u>	<u>619,445</u>	<u>8,895</u>	<u>131,905</u>	<u>7,143</u>	<u>369,356</u>	<u>20,486</u>
<u>(1,199)</u>	<u>13,403</u>	<u>(79,128)</u>	<u>1,722</u>	<u>(18,931)</u>	<u>1,749</u>	<u>(82,487)</u>	<u>(12,548)</u>
-	-	-	-	-	-	-	-
-	-	(4,926)	-	-	-	-	-
-	-	-	-	9,459	-	13,654	-
-	-	96,323	-	14,456	-	68,833	12,548
-	-	91,397	-	23,915	-	82,487	12,548
<u>\$ (1,199)</u>	<u>13,403</u>	<u>\$ 12,269</u>	<u>1,722</u>	<u>\$ 4,984</u>	<u>1,749</u>	<u>\$ -</u>	<u>-</u>
	<u>(1,199)</u>		<u>12,269</u>		<u>4,984</u>		<u>-</u>
<u>\$ 12,204</u>		<u>\$ 13,991</u>		<u>\$ 6,733</u>		<u>\$ -</u>	



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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, 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, 2006, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated July 23, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be

prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2006-1, 2006-2, 2006-3 and 2006-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-2 and 2006-4 to be material weaknesses.

### **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 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.

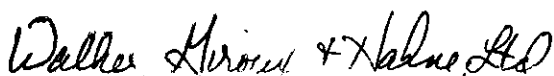
The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, tax increment financing and miscellaneous provisions. Our study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

We also noted certain additional matters that we reported to management of City of Hibbing, Minnesota in a separate letter dated July 23, 2007, included under this cover.

City of Hibbing, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Hibbing, Minnesota's response and, accordingly, we express no opinion on it.

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



July 23, 2007

**CITY OF HIBBING, MINNESOTA**

**SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2006**

**SIGNIFICANT DEFICIENCIES**

**2006-1. SEGREGATION OF DUTIES**

**Condition**

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

**Criteria**

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

**Effect**

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

**Cause**

This occurred because of staffing limitations caused by fiscal constraints.

**Recommendations**

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

**Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City Finance Director will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints.
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 recognized the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

**CITY OF HIBBING, MINNESOTA**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**Year Ended December 31, 2006**

**2006-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS**

**Condition and Criteria**

As part of the audit, management requested us to prepare a draft of your financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management did not perform a detailed review of the financial statements.

**Effect**

The potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the Organization's internal control.

**Cause**

This occurred because of staffing limitations caused by fiscal constraints.

**Recommendations**

In order to provide controls over the financial statement preparation services at an appropriate level, we suggest management establish effective review policies and procedures.

**Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The City has determined that the cost and training involved to review or prepare their own financial statements exceeds the benefit that would result.
3. Official Responsible for Ensuring CAP  
None – see number 2 above.
4. Planned Completion Date for CAP  
None – see number 2 above.
5. Plan to Monitor Completion of CAP  
None – see number 2 above.



**CITY OF HIBBING, MINNESOTA**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**Year Ended December 31, 2006**

**2006-3. TIMELY DEPOSITS**

**Condition**

For the last six months of 2006 the City was not making timely deposits into its checking accounts. During some months, the City made only three of four deposits.

**Criteria**

It is the City's policy to make deposits daily.

**Effect**

There is an increased risk of cash and checks to become missing or misused due to untimely deposits. Also, since the bank accounts are interest bearing, the City is losing interest income.

**Cause**

The procedures based on the City policy of making daily deposits is not being followed.

**Recommendations**

All deposits must be made daily.

**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 instruct her staff to make daily deposits.
3. Official Responsible for Ensuring CAP  
Sherri Lindstrom, Finance Director, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP  
Daily deposits will be made starting July 1, 2007.
5. Plan to Monitor Completion of CAP  
The City Council will monitor the completion of this plan.

**CITY OF HIBBING, MINNESOTA**

**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**Year Ended December 31, 2006**

**2006-4. PRIOR PERIOD RESTATEMENTS**

**Condition**

During 2006, the City identified three adjustments to the December 31, 2005 financial statements. The most significant of these adjustments decreased the Garbage and Refuse Collection Enterprise Fund's net assets by \$62,814. The other significant restatement increased the General Fund's fund balance by \$56,968.

**Criteria**

The financial statements should be reviewed before audit release to eliminate material prior period restatements.

**Effect**

Material prior period adjustments were made by the City.

**Cause**

The adjustments were found after the audit release date.

**Recommendations**

Trial balances and financial statements must be timely reviewed to reduce changes for material prior period adjustments.

**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 review all trial balance and financial statements timely to reduce the change for a material prior period adjustment.
3. Official Responsible for Ensuring CAP  
Sherri Lindstrom, Finance Director, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP  
Financial statements will be reviewed by July 1, 2007.
5. Plan to Monitor Completion of CAP  
The City Council will monitor the completion of this plan.



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**MANAGEMENT LETTER**

To the City Council  
City of Hibbing, Minnesota

In planning and performing our audit of the financial statements of the City of Hibbing, Minnesota, and the Hibbing Economic Development Authority – component unit for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated July 23, 2007, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated July 23, 2007, on the financial statements of the City of Hibbing, Minnesota.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments and suggestions are summarized as follows:

**Internal Control and Operating Efficiency**

1. The Hibbing Economic Development Authority's Student Housing Enterprise Fund operates an apartment building which had a net loss in 2006 of \$5,769. This compares to net losses before transfers of \$18,867 and \$33,897 for 2005 and 2004, respectively. Revenues were insufficient to recover expenses, including interest and depreciation. Management needs to decide on a course of action.
2. The City does not have a council approved investment policy that addresses GASB 40 issues. The City Council should approve an investment policy that considers the various risks associated with investing.
3. The City is not making timely transfers between certain bank accounts. The bank transfers should be made immediately after the transaction occurs, or the City should consider closing these accounts.

4. The City has several checks that are more than three years old on their outstanding check lists. Old outstanding checks should be investigated, and if applicable, turned over to the State.
5. The City does not have a council approved antifraud policy. The Council should approve an antifraud policy to strengthen internal controls.
6. The City's administrator was over reimbursed on moving expenses by over \$705. This was due to being paid at a rate higher than the approved IRS rate and a round-trip reimbursement instead of a one-way reimbursement. Although the over reimbursement was repaid in May of 2007, it should have been repaid immediately.
7. Three City employees were allowed to carryover vacation balances higher than the amounts allowed by their contracts. The total excess vacation accrual amount is approximately \$20,000 at year end. Controls should be implemented to prevent this over accrual of balances and limit the liability of the City.
8. Many year end December 31, 2006 audit workpapers were not completed timely by the City staff. Subsequently, due to errors or workpapers not agreeing to the general ledger or other schedules, many schedules had to be redone, some as many as three or four times. Those areas of significant concern were cash, receivables, payables, construction costs, and capital assets.
9. We noted that the City made a few duplicate vendor payments during the year ended 2006. One duplicate payment was for \$235,351 to a contractor. Vendor and contractor invoices should be paid from original invoices only, and vendor files should be reviewed to check that a payment had not already been paid.
10. When the City reimburses meals paid by a credit card, the expense does not always include an itemized receipt. Claims presented for payment must be in writing and properly itemized.
11. City receipts do not have back up attached showing what the receipt was for. Information on the computer generated receipts is incomplete.
12. We noted that interest receipts of \$313,971 for 2006 were posted to the general ledger on January 31, 2007. Also, other December 2006 receipts were receipted in January 2007 and posted to the general ledger in 2006. These items complicated the December 31, 2006 cash cut-off.
13. The City did not make timely entries to loan receivable balances during the year ended December 31, 2006. Some entries were not done until 2007. The City should review the loans receivable balances at least monthly and make corrections immediately.
14. The EDA subordinated its loan to a company that was refinancing its other debt through a bank. This bank refinancing paid off the former City Clerk/Treasurer's interest in that company. The former City Clerk/Treasurer did abstain from the EDA vote, but should have disclosed his interest in the subordination of the EDA loan.

15. Due to his financial interest in a contractor, the former City Clerk/Treasurer instructed the finance department to pay a contractor payment directly to himself. The City Attorney instructed the finance department to do the same. He was also representing the former City Clerk/Treasurer on this case. The City filed a declaratory judgment, based on the recommendation of a separate attorney hired to represent the City in this matter. This attorney was paid \$6,195 for this service. Eventually the claim for the former City Clerk/Treasurer was dropped and an attorney representing the contractor was paid on behalf of the contractor. All City officials should be careful not to use their power to their advantage when they are representing the City.
16. There appears to be some inconsistencies between the minutes of the Police Commission and the change in employment status of a certain police officer. The documentation of the procedures used for the changes in that police officer's status is unclear. The power of the Police Commission should be reviewed and clarified.
17. The City's Garbage and Refuse Enterprise Fund had a decrease in net assets in 2006 of \$57,665. Revenues were insufficient to recover expenses including depreciation. Management needs to decide on a course on to eliminate the reduction of net assets.
18. The City has not approved written policies and procedures for control over the accounting system.

### **New Accounting Standards**

#### GASB Statement No. 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 45 *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* (OPEB), which will significantly change the reporting of the City's post-employment benefits. The statement requires actuarial valuations for OPEB at least every two years for plans with 200 or more members, and every three years for plans with fewer than 200 members. Plans with fewer than 100 members have the option to apply a simplified alternative measure to eliminate the need for outside actuarial valuations. This statement is effective in three phases based on the same criteria as those defined for the implementation of GASB Statement No. 34. City of Hibbing, Minnesota, will be required to implement the standard in the fiscal year beginning January 1, 2008.

The City's management should review the requirements of the new statement in advance of the effective date and plan for implementation.

#### Statements on Auditing Standards

The Auditing Standards Board of the American Institute of CPA's has issued new statements on auditing standards that significantly impact: 1) the required level of audit documentation and risk assessment; 2) the manner of reporting audit findings to audit committees, or their equivalents; and 3) the amount of time spent on audits by financial auditors, for periods beginning on or after December 15, 2006.

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

*Walter Hiron & Hiron, Ltd*

July 23, 2007