

CITY OF HIBBING, MINNESOTA
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
Year Ended December 31, 2008

CITY OF HIBBING, MINNESOTA

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CITY OF HIBBING, MINNESOTA

ORGANIZATION December 31, 2008

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	Patrick L. Garrity

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, 2008, 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 93 percent, 96 percent, and 96 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 other auditors provide 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, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2009, 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 important for assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, infrastructure condition data, and schedule of funding progress for postemployment benefits plans, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Walker, Hirose & Nakano, LLC
June 25, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2008

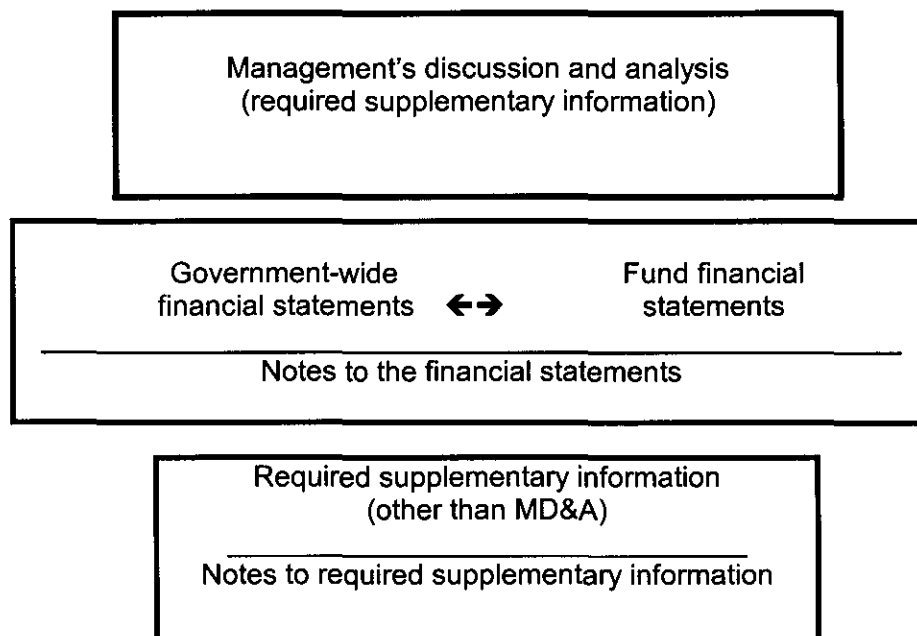
The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2008. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Hibbing, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$31,691,059, of which \$22,625,193 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$12,731,266. Invested in capital assets, net of related debt represents \$14,587,292 of the total.
- The Hibbing Economic Development Authority (EDA) has total net assets of \$1,478,816. Invested in capital assets, net of related debt represents \$23,296 of the total.
- The City of Hibbing's primary government's net assets decreased by \$2,396,111 for the year ended December 31, 2008. The governmental activities' net assets decreased \$(2,481,559) and the business-type activities' net assets increased by \$85,448.
- The EDA's net assets increased by \$407,656.
- The net cost of governmental activities was \$17,320,413 for the current year. The net cost was funded by general revenues and other items totaling \$14,838,854.
- Governmental funds' fund balances decreased by \$(1,286,496).
- With only days remaining in the year, the City's primary revenue source, local government aid, was reduced by \$608,760 causing a decrease in general fund balance for 2008.

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, 2008

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2008

- 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 decreased from \$46,818,436 to \$44,422,325. 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 15,417,629	\$ 16,924,134	\$ (1,186,770)	\$ (1,432,608)	\$ 14,230,859	\$ 15,491,526
Capital assets	<u>25,015,479</u>	<u>24,812,636</u>	<u>24,683,370</u>	<u>25,445,967</u>	<u>49,698,849</u>	<u>50,258,603</u>
Total assets	<u>40,433,108</u>	<u>41,736,770</u>	<u>23,496,600</u>	<u>24,013,359</u>	<u>63,929,708</u>	<u>65,750,129</u>
Long-term debt outstanding	3,337,847	4,047,121	625,088	10,486,000	3,962,935	14,533,121
Other liabilities	<u>5,404,202</u>	<u>3,517,031</u>	<u>10,140,246</u>	<u>881,541</u>	<u>15,544,448</u>	<u>4,398,572</u>
Total liabilities	<u>8,742,049</u>	<u>7,564,152</u>	<u>10,765,334</u>	<u>11,367,541</u>	<u>19,507,383</u>	<u>18,931,693</u>
Net assets						
Invested in capital assets, net of debt	22,625,193	21,723,226	14,587,292	14,900,435	37,212,485	36,623,661
Restricted	1,139,430	2,144,178	-	-	1,139,430	2,144,178
Unrestricted	<u>7,926,436</u>	<u>10,305,214</u>	<u>(1,856,026)</u>	<u>(2,254,617)</u>	<u>6,070,410</u>	<u>8,050,597</u>
Total net assets	<u>\$ 31,691,059</u>	<u>\$ 34,172,618</u>	<u>\$ 12,731,266</u>	<u>\$ 12,645,818</u>	<u>\$ 44,422,325</u>	<u>\$ 46,818,436</u>

Net assets of the City's governmental activities decreased 7.26 percent (\$31,691,059 compared to \$34,172,618). 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 \$10,305,214 at December 31, 2007, to \$7,926,436 at the end of 2008.

Net assets of the City's business-type activities increased 0.68 percent (\$12,731,266 compared to \$12,645,818) in 2008.

CITY OF HIBBING, MINNESOTA

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2008**

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,224,154	\$ 1,949,128	\$ 4,921,391	\$ 4,692,887	\$ 7,145,545	\$ 6,642,015
Operating grants and contributions	1,043,600	1,130,711	-	-	1,043,600	1,130,711
Capital grants and contributions	707,357	1,209,875	18,859	323,640	726,216	1,533,515
General revenues:						
Taxes	6,590,207	6,209,672	-	-	6,590,207	6,209,672
Intergovernmental	8,115,786	8,276,420	-	-	8,115,786	8,276,420
Other general revenues	132,861	287,255	4,968	6,774	137,829	294,029
Total revenues	<u>18,813,965</u>	<u>19,063,061</u>	<u>4,945,218</u>	<u>5,023,301</u>	<u>23,759,183</u>	<u>24,086,362</u>
Program expenses:						
General government	3,863,688	4,152,524	-	-	3,863,688	4,152,524
Public safety	8,224,745	6,026,548	-	-	8,224,745	6,026,548
Public works	4,956,806	4,100,061	-	-	4,956,806	4,100,061
Culture and recreation	3,580,245	2,940,880	-	-	3,580,245	2,940,880
Other	533,456	397,532	-	-	533,456	397,532
Interest	136,584	152,463	-	-	136,584	152,463
Garbage and refuse collection	-	-	2,442,212	2,363,081	2,442,212	2,363,081
Sewer operating and maintenance	-	-	2,406,519	2,129,875	2,406,519	2,129,875
Memorial building concessions	-	-	11,039	3,912	11,039	3,912
Total program expenses	<u>21,295,524</u>	<u>17,770,008</u>	<u>4,859,770</u>	<u>4,496,868</u>	<u>26,155,294</u>	<u>22,266,876</u>
Increase (decrease) in net assets	\$ <u>(2,481,559)</u>	\$ <u>1,293,053</u>	\$ <u>85,448</u>	\$ <u>526,433</u>	\$ <u>(2,396,111)</u>	\$ <u>1,819,486</u>

The City's total revenues decreased by 1.36% (\$327,179). The total cost of all programs and services increased by 17.5% (\$3,888,418). Our analysis below separately considers the operations of governmental, business-type activities, and EDA – Component Unit activity.

Governmental Activities

Revenue for the City's governmental activities decreased by 1.31% (\$249,096) while total expenses increased by 19.84% (\$3,525,516). The decrease in net assets for governmental activities was \$(2,481,559) in 2008.

The cost of all governmental activities this year was \$21,295,524. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs (\$2,224,154) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,866,743). Our taxpayers paid \$6,590,207 in taxes in 2008.

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, 2008

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Public safety	\$ 8,224,745	\$ 6,026,548	\$ 6,326,849	\$ 4,038,593
Public works	4,956,806	4,100,061	3,913,500	2,693,641
General government	3,863,688	4,152,524	3,547,786	3,854,327
Culture and recreation	3,580,245	2,940,880	3,214,010	2,531,560
Other	533,456	397,532	181,684	209,710
Interest on long-term debt	136,584	152,463	136,584	152,463
Totals	<u>\$ 21,295,524</u>	<u>\$ 17,770,008</u>	<u>\$ 17,320,413</u>	<u>\$ 13,480,294</u>

Business-Type Activities

Revenues of the City's business-type activities were \$4,945,218 and expenses were \$4,859,770 (see Table 2). There was an increase in net assets of \$85,448 during the year ended December 31, 2008. The factors driving these results include:

- Operations produced \$294,212 of income for the year ended December 31, 2008.
- The City received capital grants totaling \$18,859 for the year.
- The City had non-operating interest expense totaling \$233,241 for the year.

EDA Component Unit Activity

The EDA had a net increase in net assets of \$407,656 for the year ended December 31, 2008. General revenues such as taxes and grants not restricted to specific programs accounted for \$335,820 of this, with net program revenues over expenses of \$71,836.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$11,635,584 which is below last year's total of \$12,922,080. Included in this year's total fund balance is a surplus of \$9,548,497 in the City's general fund. The general fund had a decrease of \$(1,177,380) due to the unallotment of local government aid of \$608,760 and transfers out to other funds. The Library Fund recorded no change in fund balance due to a transfer in of \$72,152 from the General Fund. The largest increase in other governmental funds was for \$902,692 in the Other Postemployment Benefits Debt Service Fund due to transfers in. The largest decrease in other governmental funds was for \$(823,005) in the Capital Equipment and Improvement Capital Projects Fund due to unfunded capital outlay.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$358,291 above the final budget amounts. The most significant negative variances occurred in the City's public safety (\$433,021) and the transportation (\$146,456) programs. The most significant positive variance (\$159,458) occurred in the City's public works program. Resources available for appropriation were below the final budgeted amounts. The City received more taxes and charges for services, and less intergovernmental revenue than expected.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the City had \$49,698,849 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 decrease (including additions and deductions) of \$559,754 over last year.

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

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Land, improvements, artwork, gravel roads	\$ 6,336,169	\$ 6,324,955	\$ 130,057	\$ 130,057	\$ 6,466,226	\$ 6,455,012
Buildings and improvements	8,322,217	8,577,784	18,306,337	19,019,677	26,628,554	27,597,461
Infrastructure	6,553,692	6,451,904	3,376,310	448,710	9,930,002	6,900,614
Equipment, machinery, and furniture	2,835,315	2,481,819	401,721	509,917	3,237,036	2,991,736
Construction in progress	<u>968,086</u>	<u>976,174</u>	<u>2,468,945</u>	<u>5,337,606</u>	<u>3,437,031</u>	<u>6,313,780</u>
Totals	<u>\$ 25,015,479</u>	<u>\$ 24,812,636</u>	<u>\$ 24,683,370</u>	<u>\$ 25,445,967</u>	<u>\$ 49,698,849</u>	<u>\$ 50,258,603</u>

This year's major additions included:

➤ Ambulance	\$ 133,849
➤ Mower	\$ 17,543
➤ 2 buses	\$ 147,178
➤ Finance office server	\$ 10,708
➤ Election scanner	\$ 64,660
➤ City Hall drainage	\$ 15,763
➤ City Hall remodeling	\$ 46,510
➤ Fire Hall improvements	\$ 80,790
➤ Fire base station	\$ 91,472
➤ Bulldozer	\$ 145,060
➤ Pump for truck	\$ 7,591
➤ Vehicle transmission	\$ 8,731
➤ Broom sweeper	\$ 194,461
➤ HPAT equipment	\$ 2,911
➤ Library projects	\$ 50,514
➤ Memorial Building improvements	\$ 11,845
➤ Police server	\$ 7,319
➤ 2 police cars	\$ 42,084
➤ Police SUV	\$ 29,522
➤ Maple Hill parking lot	\$ 11,215
➤ Vic Power shelter	\$ 70,616
➤ Al Nyberg fence	\$ 42,936
➤ Field groomer	\$ 19,624
➤ Skid steer loader	\$ 49,744
➤ Newberg Road work	\$ 638,990

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2008

➤ MSA projects	\$ 80,599
➤ Animal shelter	\$ 322,833
➤ Bennett Park cold storage	\$ 3,525
➤ Refuse carts, containers	\$ 15,001
➤ WWTP pumps	\$ 27,097
➤ No. Hibbing utilities	\$ 17,302
➤ Phase 5 sewer	\$ 87,498
➤ Sargent Addition storm sewer	\$ 31,86

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 \$17,264,448 in long-term debt outstanding versus \$18,536,061 last year—as shown in Table 5.

Table 5
Outstanding Debt, at Year-end

	Governmental Activities		Business-type Activities		EDA Component Unit	
	2008	2007	2008	2007	2008	2007
General obligation bonds (backed by the City)	\$ 440,000	\$ 600,000	\$ -	\$ -	\$ 1,720,000	\$ 3,998,940
Certificates of indebtedness	716,000	943,000	-	-	-	-
Capital leases	1,234,286	1,546,410	-	-	-	-
Police and Fire indebtedness	-	657,299	-	-	-	-
General obligation revenue notes	-	-	7,643,000	8,121,000	-	-
General obligation revenue bonds	-	-	2,365,000	2,365,000	-	-
Compensated absences	469,852	300,412	132,246	-	-	-
OPEB liability	<u>2,544,064</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,404,202</u>	<u>\$ 4,047,121</u>	<u>\$ 10,140,246</u>	<u>\$ 10,486,000</u>	<u>\$ 1,720,000</u>	<u>\$ 3,998,940</u>

The State limits the amount of net debt that the City's can issue to 3 percent of the market value of all taxable property in the City. The City's outstanding qualifying net debt of \$440,000 is significantly below the \$20,401,787 State-imposed limit.

The City had no new debt issued during the year.

The City issued \$1,370,000 GO Bonds in April 2009 for 2008 and 2009 capital equipment purchases.

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 \$139,680 as compared to the actual costs during the current year of \$150,349.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2008

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2009 budget, tax rates, and fees that will be charged for the business-type activities.

- The State of Minnesota increased the City's local government aid by 9.5% from the prior year.
- City General Fund expenditures for 2009 are budgeted to increase 5.2% over the 2008 budget.
- Property taxes levies will increase 1.99% for 2009.
- Consistent with the national and global economy, rising health care and fuel costs significantly impact the City's budgets.

Subsequent to adopting the 2009 budget, the Governor unallotted local government aid for the December 2008 payment in the amount of \$608,760. With the 2009 legislative session now complete without a balanced budget, the Governor will again unallot local government aid in order to balance the State's budget. The amounts of unallotment have not yet been determined; however, based upon previous estimates of the Governors proposal, the reduction in 2009 local government aid is expected to be at least \$1.7 million.

The City's 2009 capital budget calls for it to spend another \$2,067,000 for capital projects, principally for the following:

• General government	\$ 24,000
• Public works	302,000
• Public safety	230,000
• Parks and recreation – arena	193,000
• Library	659,000
• Other	616,000
• Cemetery	43,000

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS

December 31, 2008

	Primary Government			Component Units	
	Governmental Activities	Business- type Activities	Total	EDA	PUC
ASSETS					
Cash and cash equivalents	\$ 10,143,636	\$ 554,663	\$ 10,698,299	\$ 1,623,157	\$ -
Investments	1,700,236	-	1,700,236	393,166	-
Taxes receivable	244,151	-	244,151	126,887	-
Special assessments receivable	123,068	152,840	275,908	-	-
Accounts receivable	547,060	59,318	606,378	25	6,012,000
Interest receivable	24,029	-	24,029	-	-
Unbilled revenues	-	-	-	-	2,112,882
Internal balances	2,360,376	(2,360,376)	-	-	-
Due from other governments	96,035	-	96,035	12,835	-
Due from other component units	-	361,585	361,585	-	-
Loans receivable	163,665	-	163,665	1,584,841	-
Inventories	-	44,785	44,785	-	1,255,790
Prepaid expenses	15,373	415	15,788	2,175	405,728
Equity in joint venture	-	-	-	-	7,831,289
Temporarily restricted assets					
Cash and cash equivalents	-	-	-	-	719,838
Investments held with fiscal agents	-	-	-	-	1,215,083
Capital assets not being depreciated					
Land, improvements, artwork, gravel roads and construction in progress	7,304,255	2,599,002	9,903,257	23,296	819,728
Capital assets net of accumulated depreciation					
Infrastructure	19,044,944	3,468,708	22,513,652	-	-
Buildings and improvements	20,203,894	26,693,561	46,897,455	-	8,003,919
Transmissions and distribution system	-	-	-	-	44,273,272
Equipment, machinery, and furniture	9,549,450	2,333,931	11,883,381	-	45,449,584
Less: accumulated depreciation	(31,087,064)	(10,411,832)	(41,498,896)	-	(64,132,593)
TOTAL ASSETS	40,433,108	23,496,600	63,929,708	3,766,382	53,966,520
LIABILITIES					
Accounts payable	299,785	180,394	480,179	33,561	5,791,286
Salaries payable	983,618	31,427	1,015,045	531	-
Notes payable	-	-	-	-	1,500,000
Due to other governments	908,214	28,237	936,451	2,970	-
Due to primary government	-	-	-	-	361,585
Contracts payable	176,964	43,252	220,216	-	-
Customer deposits	-	-	-	-	175,522
Other accrued liabilities	6,086	23	6,109	-	99,286
Deferred revenues	918,215	152,088	1,070,303	483,015	31,029
Accrued interest payable	44,965	88,078	133,043	47,489	419,718
Compensated absences	-	101,589	101,589	-	395,403
Long-term liabilities					
Due within one year	563,719	552,000	1,115,719	335,000	651,273
Due in more than one year	4,840,483	9,588,246	14,428,729	1,385,000	12,452,608
TOTAL LIABILITIES	8,742,049	10,765,334	19,507,383	2,287,566	21,877,710
NET ASSETS					
Invested in capital assets, net of related debt	22,625,193	14,587,292	37,212,485	23,296	30,417,910
Restricted for:					
Capital projects	592,613	-	592,613	-	-
Debt service	312,666	-	312,666	84,625	513,287
Other purposes	234,151	-	234,151	180,622	-
Unrestricted	7,926,436	(1,856,026)	6,070,410	1,190,273	1,157,613
TOTAL NET ASSETS	\$ 31,691,059	\$ 12,731,266	\$ 44,422,325	\$ 1,478,816	\$ 32,088,810

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF ACTIVITIES
Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities				
General government	\$ 3,863,688	\$ 314,905	\$ 997	\$ -
Public safety	8,224,745	1,439,311	455,710	2,875
Public works	4,956,806	78,634	260,190	704,482
Culture and recreation	3,580,245	356,728	9,507	-
Economic development	183,865	8,976	-	-
Transportation	349,591	25,600	317,196	-
Interest on long-term debt	136,584	-	-	-
Total Governmental Activities	21,295,524	2,224,154	1,043,600	707,357
Business-type Activities				
Garbage and refuse collection	2,442,212	2,561,912	-	-
Sewer operating and maintenance	2,406,519	2,351,626	-	18,859
Memorial building concessions	11,039	7,853	-	-
Total Business-type Activities	4,859,770	4,921,391	-	18,859
TOTAL PRIMARY GOVERNMENT	\$ 26,155,294	\$ 7,145,545	\$ 1,043,600	\$ 726,216
COMPONENT UNITS				
EDA	\$ 736,777	\$ 649,916	\$ 158,697	\$ -
PUC	30,966,073	26,253,682	-	200,000
TOTAL COMPONENT UNITS	\$ 31,702,850	\$ 26,903,598	\$ 158,697	\$ 200,000

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****NET ASSETS - DECEMBER 31**

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	EDA	PUC
\$ (3,547,786)	\$ -	\$ (3,547,786)		
(6,326,849)	-	(6,326,849)		
(3,913,500)	-	(3,913,500)		
(3,214,010)	-	(3,214,010)		
(174,889)	-	(174,889)		
(6,795)	-	(6,795)		
(136,584)	-	(136,584)		
<u>(17,320,413)</u>	<u>-</u>	<u>(17,320,413)</u>		
-	119,700	119,700		
-	(36,034)	(36,034)		
-	(3,186)	(3,186)		
<u>-</u>	<u>80,480</u>	<u>80,480</u>		
<u>(17,320,413)</u>	<u>80,480</u>	<u>(17,239,933)</u>		
			\$ 71,836	\$ -
			<u>-</u>	<u>(4,512,391)</u>
			<u>71,836</u>	<u>(4,512,391)</u>
4,828,148	-	4,828,148	-	-
1,621,155	-	1,621,155	100,924	-
140,904	-	140,904	-	-
-	-	-	117,880	-
8,115,786	-	8,115,786	16,597	-
107,874	4,968	112,842	34,637	6,225
24,987	-	24,987	65,782	-
<u>14,838,854</u>	<u>4,968</u>	<u>14,843,822</u>	<u>335,820</u>	<u>6,225</u>
(2,481,559)	85,448	(2,396,111)	407,656	(4,506,166)
<u>34,172,618</u>	<u>12,645,818</u>	<u>46,818,436</u>	<u>1,071,160</u>	<u>36,594,976</u>
<u>\$ 31,691,059</u>	<u>\$ 12,731,266</u>	<u>\$ 44,422,325</u>	<u>\$ 1,478,816</u>	<u>\$ 32,088,810</u>

CITY OF HIBBING, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008

	General Fund	Library Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 7,072,088	\$ 97,965	\$ 2,815,831	\$ 9,985,884
Investments	1,700,236	-	-	1,700,236
Taxes receivable	220,283	8,413	15,455	244,151
Special assessments receivable	-	-	123,068	123,068
Accounts receivable	492,417	3,141	51,406	546,964
Interest receivable	24,029	-	-	24,029
Due from other funds	2,885,931	-	-	2,885,931
Due from other governments	71,003	-	25,032	96,035
Loans receivables	-	-	163,665	163,665
Prepaid items	15,143	230	-	15,373
TOTAL ASSETS	\$ 12,481,130	\$ 109,749	\$ 3,194,457	\$ 15,785,336
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 288,237	\$ 8,347	\$ 3,201	\$ 299,785
Salaries payable	937,204	46,414	-	983,618
Due to other funds	-	-	525,555	525,555
Due to other governments	872,622	8,017	27,575	908,214
Contracts payable	-	-	176,964	176,964
Deferred revenue	828,511	-	421,019	1,249,530
Other accrued liabilities	6,059	27	-	6,086
TOTAL LIABILITIES	2,932,633	62,805	1,154,314	4,149,752
FUND BALANCES				
Reserved for				
Prepaid items	15,143	230	-	15,373
Other purposes	37,741	-	50,000	87,741
Unreserved, designated	8,566,549	-	1,260,323	9,826,872
Unreserved, undesignated, reported in				
General fund	929,064	-	-	929,064
Special revenue funds	-	46,714	137,207	183,921
Capital projects funds	-	-	592,613	592,613
TOTAL FUND BALANCES	9,548,497	46,944	2,040,143	11,635,584
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,481,130	\$ 109,749	\$ 3,194,457	\$ 15,785,336

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, 2008**

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 11,635,584
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	25,015,479
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements	331,315
A portion of assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets.	157,848
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(44,965)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(5,404,202)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 31,691,059</u>

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2008

	<u>General Fund</u>	<u>Library Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 4,980,016	\$ 571,348	\$ 1,049,807	\$ 6,601,171
Special assessments	-	-	58,425	58,425
Licenses and permits	188,854	-	-	188,854
Intergovernmental	8,587,618	96,105	1,141,206	9,824,929
Charges for services	1,686,775	25,450	14,400	1,726,625
Fines	138,503	-	-	138,503
Gifts and contributions	10,945	9,507	5,001	25,453
Interest	88,759	-	19,116	107,875
Miscellaneous	85,108	-	81,869	166,977
TOTAL REVENUES	<u>15,766,578</u>	<u>702,410</u>	<u>2,369,824</u>	<u>18,838,812</u>
EXPENDITURES				
Current				
General government	1,878,142	-	-	1,878,142
Public safety	6,122,318	-	-	6,122,318
Public works	2,637,943	-	-	2,637,943
Culture and recreation	1,973,217	774,562	-	2,747,779
Economic development	109,372	-	7,222	116,594
Transportation	374,096	-	-	374,096
Miscellaneous	2,140,927	-	32,823	2,173,750
Debt Service				
Principal	887,399	-	469,024	1,356,423
Interest and other charges	75,159	-	68,485	143,644
Capital Outlay				
General government	-	-	134,898	134,898
Public safety	-	-	707,869	707,869
Public works	-	-	1,473,685	1,473,685
Culture and recreation	-	-	265,611	265,611
Miscellaneous	-	-	17,543	17,543
TOTAL EXPENDITURES	<u>16,198,573</u>	<u>774,562</u>	<u>3,177,160</u>	<u>20,150,295</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(431,995)</u>	<u>(72,152)</u>	<u>(807,336)</u>	<u>(1,311,483)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	72,152	902,692	1,074,844
Transfers out	(846,939)	-	(227,905)	(1,074,844)
Sale of capital assets	1,554	-	23,433	24,987
TOTAL OTHER FINANCING SOURCES (USES)	<u>(745,385)</u>	<u>72,152</u>	<u>698,220</u>	<u>24,987</u>
NET CHANGE IN FUND BALANCES	<u>(1,177,380)</u>	<u>-</u>	<u>(109,116)</u>	<u>(1,286,496)</u>
FUND BALANCES - JANUARY 1	<u>10,725,877</u>	<u>46,944</u>	<u>2,149,259</u>	<u>12,922,080</u>
FUND BALANCES - DECEMBER 31	<u>\$ 9,548,497</u>	<u>\$ 46,944</u>	<u>\$ 2,040,143</u>	<u>\$ 11,635,584</u>

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

CITY OF HIBBING, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2008**

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ (1,286,496)**

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	2,348,593	
Less current year depreciation	<u>(2,145,750)</u>	
Net capital assets		202,843

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	(10,964)	
Change in deferred revenue - special assessments	7,698	
Change in deferred revenue - loans receivable	<u>(46,568)</u>	
		(49,834)

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. No governmental fund debt was issued during the year.

1,356,423

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	7,060	
Change in long-term compensated absences	(169,440)	
Change in long-term other postemployment benefits	<u>(2,544,064)</u>	
		(2,706,444)

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.

1,949

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ (2,481,559)

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund- Memorial Building Concessions	Totals	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 356,224	\$ -	\$ 145,855	\$ 502,079	\$ 210,336
Special assessments receivable	752	152,088	-	152,840	-
Accounts receivable	51,378	7,908	-	59,286	128
Due from component unit	170,257	191,328	-	361,585	-
Inventories	44,785	-	-	44,785	-
Prepaid expenses	-	-	415	415	-
TOTAL CURRENT ASSETS	623,396	351,324	146,270	1,120,990	210,464
NONCURRENT ASSETS					
OTHER ASSETS					
Capital assets					
Land and improvements	-	130,057	-	130,057	-
Construction in progress	-	2,468,945	-	2,468,945	-
Infrastructure	-	3,468,708	-	3,468,708	-
Buildings and improvements	94,976	26,598,585	-	26,693,561	-
Equipment, machinery, and furniture	1,876,311	433,260	24,360	2,333,931	-
Less accumulated depreciation	(1,591,176)	(8,796,296)	(24,360)	(10,411,832)	-
TOTAL NONCURRENT ASSETS	380,111	24,303,259	-	24,683,370	-
TOTAL ASSETS	1,003,507	24,654,583	146,270	25,804,360	210,464
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	78,369	98,146	3,879	180,394	-
Salaries payable	15,704	15,723	-	31,427	-
Accrued interest payable	-	88,078	-	88,078	-
Due to other funds	-	2,360,376	-	2,360,376	-
Due to other governments	16,968	11,269	-	28,237	-
Other accrued expenses	-	23	-	23	-
Deferred revenue	-	152,088	-	152,088	-
Compensated absences	40,597	60,992	-	101,589	-
Contracts payable	-	43,252	-	43,252	-
Bonds, notes and loans payable - current	-	552,000	-	552,000	-
TOTAL CURRENT LIABILITIES	151,638	3,381,947	3,879	3,537,464	-
NONCURRENT LIABILITIES					
Compensated absences	56,391	75,855	-	132,246	-
Bonds, notes and loans payable	-	9,456,000	-	9,456,000	-
TOTAL NON CURRENT LIABILITIES	56,391	9,531,855	-	9,588,246	-
TOTAL LIABILITIES	208,029	12,913,802	3,879	13,125,710	-
NET ASSETS					
Invested in capital assets, net of related debt	380,111	14,207,181	-	14,587,292	-
Unrestricted	415,367	(2,466,400)	142,391	(1,908,642)	210,464
TOTAL NET ASSETS	\$ 795,478	\$ 11,740,781	\$ 142,391	\$ 12,678,650	\$ 210,464

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.

52,616

Total net assets per government-wide financial statements

\$ 12,731,266

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, 2008**

	Business-type Activities - Enterprise Funds				
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund- Memorial Building Concessions	Totals	Governmental Activities - Insurance Internal Service Fund
OPERATING REVENUES					
Charges for services	\$ 2,559,782	\$ 2,318,865	\$ 7,853	\$ 4,886,500	\$ -
Sewer connect fees	-	32,761	-	32,761	-
Miscellaneous	2,130	-	-	2,130	-
TOTAL OPERATING REVENUES	<u>2,561,912</u>	<u>2,351,626</u>	<u>7,853</u>	<u>4,921,391</u>	<u>-</u>
OPERATING EXPENSES					
Personal services	762,437	728,915	-	1,491,352	-
Contractual services	1,224,963	75,698	-	1,300,661	-
Administration	289	428	-	717	-
Utilities	110,184	234,842	-	345,026	-
Repairs and maintenance	2,707	79,636	5,736	88,079	-
Other supplies and expenses	175,479	201,526	5,124	382,129	-
Insurance claims and expenses	33,502	31,745	-	65,247	-
Depreciation	131,172	813,280	-	944,452	-
Miscellaneous	1,843	7,494	179	9,516	-
TOTAL OPERATING EXPENSES	<u>2,442,576</u>	<u>2,173,564</u>	<u>11,039</u>	<u>4,627,179</u>	<u>-</u>
OPERATING INCOME (LOSS)	<u>119,336</u>	<u>178,062</u>	<u>(3,186)</u>	<u>294,212</u>	<u>-</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	3,156	-	1,812	4,968	2,531
Miscellaneous revenue	-	-	-	-	68
Interest expense	-	(233,241)	-	(233,241)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>3,156</u>	<u>(233,241)</u>	<u>1,812</u>	<u>(228,273)</u>	<u>2,599</u>
INCOME (LOSS) BEFORE CAPITAL GRANTS	<u>122,492</u>	<u>(55,179)</u>	<u>(1,374)</u>	<u>65,939</u>	<u>2,599</u>
Capital grants	-	18,859	-	18,859	-
CHANGE IN NET ASSETS	<u>122,492</u>	<u>(36,320)</u>	<u>(1,374)</u>	<u>84,798</u>	<u>2,599</u>
TOTAL NET ASSETS - JANUARY 1	<u>672,986</u>	<u>11,777,101</u>	<u>143,765</u>	<u>12,593,852</u>	<u>207,865</u>
TOTAL NET ASSETS - DECEMBER 31	<u>\$ 795,478</u>	<u>\$ 11,740,781</u>	<u>\$ 142,391</u>	<u>\$ 12,678,650</u>	<u>\$ 210,464</u>
Change in net assets, per above				\$ 84,798	
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.				650	
Change in business-type activities in net assets per government-wide financial statements				<u>\$ 85,448</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, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund - Memorial Building Concessions	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,707,215	\$ 2,714,055	\$ 7,853	\$5,429,123	\$ -
Cash paid to suppliers	(1,772,901)	(776,446)	(8,394)	(2,557,741)	-
Cash paid to employees	(550,654)	(478,899)	-	(1,029,553)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>383,660</u>	<u>1,458,710</u>	<u>(541)</u>	<u>1,841,829</u>	<u>-</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Miscellaneous collection	-	-	-	-	68
Interfund financing of cash deficit	-	2,360,376	-	2,360,376	-
Prior year cash deficit payment	(15,591)	(2,935,468)	-	(2,951,059)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(15,591)</u>	<u>(575,092)</u>	<u>-</u>	<u>(590,683)</u>	<u>68</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	(15,001)	(249,782)	-	(264,783)	-
Principal paid on long-term debt	-	(478,000)	-	(478,000)	-
Interest paid on long-term debt	-	(204,695)	-	(204,695)	-
Capital grants and contributions	-	18,859	-	18,859	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(15,001)</u>	<u>(913,618)</u>	<u>-</u>	<u>(928,619)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	<u>3,156</u>	<u>-</u>	<u>1,812</u>	<u>4,968</u>	<u>2,531</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>356,224</u>	<u>(30,000)</u>	<u>1,271</u>	<u>327,495</u>	<u>2,599</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>-</u>	<u>30,000</u>	<u>144,584</u>	<u>174,584</u>	<u>207,737</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 356,224</u>	<u>\$ -</u>	<u>\$ 145,855</u>	<u>\$ 502,079</u>	<u>\$ 210,336</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, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Other Enterprise Fund - Memorial Building Concessions	Totals	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 119,336	\$ 178,062	\$ (3,186)	\$ 294,212	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	131,172	813,280	-	944,452	-
(Increase) decrease in:					
Special assessments receivable	165	-	-	165	-
Accounts receivable	(12,463)	136,971	-	124,508	-
Due from component unit	(4,187)	(19,983)	-	(24,170)	-
Due from other governments	177,713	241,932	-	419,645	-
Inventories	(10,152)	-	-	(10,152)	-
Prepaid expenses	-	-	(415)	(415)	-
Increase (decrease) in:					
Accounts payable	13,850	74,930	3,060	91,840	-
Salaries payable	4,800	2,078	-	6,878	-
Other accrued expenses	(17)	-	-	(17)	-
Compensated absences - current	(77,023)	(47,924)	-	(124,947)	-
Due to other governments	(15,925)	3,509	-	(12,416)	-
Compensated absences - long-term	56,391	75,855	-	132,246	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 383,660	\$ 1,458,710	\$ (541)	\$1,841,829	\$ -

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, 2008

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 is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended December 31, 2008.

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, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The component units that are discretely presented are as follows:

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

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

B. Basis of Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information 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, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

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

Major Governmental Funds:

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

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

Nonmajor Governmental Funds:

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

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

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

Proprietary Funds

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

Major Proprietary Funds:

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

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

Nonmajor Proprietary Funds:

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2008

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 \$62,000 for 2008.

- 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, 2008**

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 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

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Payment of principal and interest along with severance pay and post-employment benefits, are recognized as expenditures when paid.

- 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.
- 3) As provided in union and employment contracts, qualified employees meeting minimum age and length of service requirements may be eligible for certain other postemployment benefits directly from the City (see Note 16).

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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, 2008:

Primary Government	
Sewer Operating and Maintenance Enterprise	
Fund – Unrestricted Net Assets	\$2,466,400

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

Capital Projects Fund	
Capital Equipment and Improvement	\$ 665,607

This deficit occurred because expenditures exceeded revenues. The City plans to eliminate this deficit through future bonding. In April of 2009 the City issued \$1,370,000 in general obligation bonds to finance 2008 and 2009 capital equipment purchases.

EDA Component Unit	
Storefront Renovation Capital Projects Fund	\$ 9,965

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

NOTE 3 - CASH AND CASH EQUIVALENTS

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

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

	Primary Government	Component Units		Total
		EDA	PUC	
Cash and cash equivalents				
Petty cash	\$ 1,735	\$ -	\$ -	\$ 1,735
Deposits	<u>10,696,564</u>	<u>1,623,157</u>	<u>719,838</u>	<u>13,039,559</u>
Total cash and cash equivalents	<u>10,698,299</u>	<u>1,623,157</u>	<u>719,838</u>	<u>13,041,294</u>
Investments				
Certificates of deposit	964,906	-	-	964,906
Other	<u>735,330</u>	<u>393,166</u>	<u>1,215,083</u>	<u>2,343,579</u>
Total Investments	<u>1,700,236</u>	<u>393,166</u>	<u>1,215,083</u>	<u>3,308,485</u>
Total	<u>\$ 12,398,535</u>	<u>\$ 2,016,323</u>	<u>\$ 1,934,921</u>	<u>\$ 16,349,779</u>

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event the failure of a depository financial institution, the City will not be able to recover its deposits. The City's formal deposit policy for custodial credit risk requires deposits to be insured by FDIC insurance and collateralized.

The City maintains deposits at financial institutions authorized by the City Council. Minnesota statutes require that all City deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. State statutes authorize the types of securities which may be pledged as collateral and require that those securities be held in safekeeping by the City or in a financial institution other than that furnishing the collateral. At year-end, the carrying amount of the City's deposits was \$13,286,362; the bank balance was \$13,630,048. At December 31, 2008, the carrying amount of Hibbing Public Utility Commission's deposits was \$719,838 and the bank balance was \$1,271,414. 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's formal investment policy requires brokers to have Securities Investor Protector Insurance (SIPC) and excess SIPC coverage. At year end the City had \$1,699,010 held by a broker-dealer whose executive office is not in Minnesota.

Credit Risk and Concentration of Credit Risk

The City has a formal investment policy for credit risk or concentration of credit risk. State statutes authorize the City to invest in qualified repurchase agreements, obligations of the U.S. government, obligations of the State of Minnesota or its municipalities, shares of certain investment companies, banker's acceptance notes, commercial paper and guaranteed investment contracts. The City places no limit on the amount the City may invest in any one issuer.

As of December 31, 2008, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money		
Market (4M) Fund	\$ 1,226	Not rated
Federal Home Loan Mortgage Corp.		
Step-up Bonds	331,350	AAA (S&P and Moody's)
Federal National Mortgage Association		
Step-up Bonds	302,250	AAA (S&P and Moody's)
Freddie Mac Notes	100,504	AAA (S&P and Moody's)
Wells Fargo Government Advantage		
Money Market Fund	393,166	Not rated
Total Fair Value	<u>\$ 1,128,496</u>	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS December 31, 2008

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of an investment. The City's formal investment policy structures the investment portfolio so that maturing investments meet the City's cash requirements for ongoing operations.

As of December 31, 2008, 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, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets, not being depreciated:					
Land and improvements	\$ 1,608,105	\$ 11,214	\$ -	\$ -	\$ 1,619,319
Artwork	1,807,350	-	-	-	1,807,350
Gravel roads	2,909,500	-	-	-	2,909,500
Construction in progress	<u>976,174</u>	<u>965,349</u>	<u>-</u>	<u>(973,437)</u>	<u>968,086</u>
Total capital assets, not being depreciated	<u>7,301,129</u>	<u>976,563</u>	<u>-</u>	<u>(973,437)</u>	<u>7,304,255</u>
Capital assets, being depreciated:					
Infrastructure	17,990,908	80,599	-	973,437	19,044,944
Buildings and improvements	20,029,437	318,975	(144,518)	-	20,203,894
Equipment, machinery, and furniture	<u>8,989,489</u>	<u>972,456</u>	<u>(412,495)</u>	<u>-</u>	<u>9,549,450</u>
Total capital assets, being depreciated	<u>47,009,834</u>	<u>1,372,030</u>	<u>(557,013)</u>	<u>973,437</u>	<u>48,798,288</u>
Less accumulated depreciation for:					
Infrastructure	(11,539,004)	(952,248)	-	-	(12,491,252)
Buildings and improvements	(11,451,653)	(574,542)	144,518	-	(11,881,677)
Equipment, machinery, and furniture	<u>(6,507,670)</u>	<u>(618,960)</u>	<u>412,495</u>	<u>-</u>	<u>(6,714,135)</u>
Total accumulated depreciation	<u>(29,498,327)</u>	<u>(2,145,750)</u>	<u>557,013</u>	<u>-</u>	<u>(31,087,064)</u>
Total capital assets, being depreciated, net	<u>17,511,507</u>	<u>(773,720)</u>	<u>-</u>	<u>973,437</u>	<u>17,711,224</u>
Governmental activities capital assets, net	<u>\$ 24,812,636</u>	<u>\$ 202,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,015,479</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Business-type activities					
Capital assets, not being depreciated:					
Land and improvements	\$ 130,057	\$ -	\$ -	\$ -	\$ 130,057
Construction in progress	<u>5,337,606</u>	<u>119,360</u>	<u>-</u>	<u>(2,988,021)</u>	<u>2,468,945</u>
Total capital assets, not being depreciated	<u>5,467,663</u>	<u>119,360</u>	<u>-</u>	<u>(2,988,021)</u>	<u>2,599,002</u>
Capital assets, being depreciated:					
Infrastructure	454,390	20,396	-	2,993,922	3,468,708
Buildings and improvements	26,699,462	-	-	(5,901)	26,693,561
Equipment, machinery, and furniture	<u>2,300,160</u>	<u>42,099</u>	<u>(8,328)</u>	<u>-</u>	<u>2,333,931</u>
Total capital assets, being depreciated	<u>29,454,012</u>	<u>62,495</u>	<u>(8,328)</u>	<u>2,988,021</u>	<u>32,496,200</u>
Less accumulated depreciation for:					
Infrastructure	(5,680)	(86,718)	-	-	(92,398)
Buildings and improvements	(7,679,785)	(707,439)	-	-	(8,387,224)
Equipment, machinery, and furniture	<u>(1,790,243)</u>	<u>(150,295)</u>	<u>8,328</u>	<u>-</u>	<u>(1,932,210)</u>
Total accumulated depreciation	<u>(9,475,708)</u>	<u>(944,452)</u>	<u>8,328</u>	<u>-</u>	<u>(10,411,832)</u>
Total capital assets, being depreciated, net	<u>19,978,304</u>	<u>(881,957)</u>	<u>-</u>	<u>2,988,021</u>	<u>22,084,368</u>
Business-type activities capital assets, net	<u>\$ 25,445,967</u>	<u>\$ (762,597)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,683,370</u>

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

Governmental activities

General government	\$ 258,752
Public safety	263,074
Public works	1,248,293
Culture and recreation	326,547
Transportation	<u>49,084</u>
Total depreciation expense- governmental activities	<u>\$ 2,145,750</u>

Business-type activities

Garbage and refuse collection	\$ 131,172
Sewer operating and maintenance	<u>813,280</u>
Total depreciation expense - business-type activities	<u>\$ 944,452</u>

Discretely presented component units

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2008, was as follows:

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land and improvements	\$ 9,300	\$ 23,296	\$ (9,300)	\$ -	\$ 23,296
Total capital assets, not being depreciated	<u>9,300</u>	<u>23,296</u>	<u>(9,300)</u>	<u>-</u>	<u>23,296</u>
Capital assets, being depreciated:					
Buildings and improvements	1,828,906	9,165	(1,838,071)	-	-
Equipment, machinery, and furniture	<u>301,961</u>	<u>20,000</u>	<u>(321,961)</u>	<u>-</u>	<u>-</u>
Total capital assets, being depreciated	<u>2,130,867</u>	<u>29,165</u>	<u>(2,160,032)</u>	<u>-</u>	<u>-</u>
Less accumulated depreciation for:					
Buildings and improvements	(615,335)	(43,091)	658,426	-	-
Equipment, machinery, and furniture	<u>(284,808)</u>	<u>(3,953)</u>	<u>288,761</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>(900,143)</u>	<u>(47,044)</u>	<u>947,187</u>	<u>-</u>	<u>-</u>
Total capital assets, being depreciated, net	<u>1,230,724</u>	<u>(17,879)</u>	<u>(1,212,845)</u>	<u>-</u>	<u>-</u>
Hibbing Economic Development Authority capital assets, net	<u>\$ 1,240,024</u>	<u>\$ 5,417</u>	<u>\$ (1,222,145)</u>	<u>\$ -</u>	<u>\$ 23,296</u>

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Construction in progress	\$ 711,237	\$ 108,491	\$ -	\$ -	\$ 819,728
Capital assets, being depreciated:					
Buildings and grounds	7,423,300	1,119,908	(539,289)	-	8,003,919
Transmission and distribution system	43,518,908	1,110,975	(356,611)	-	44,273,272
Equipment, machinery, and furniture	<u>45,152,128</u>	<u>847,219</u>	<u>(549,763)</u>	<u>-</u>	<u>45,449,584</u>
Total capital assets, being depreciated	<u>96,094,336</u>	<u>3,078,102</u>	<u>(1,445,663)</u>	<u>-</u>	<u>97,726,775</u>
Less total accumulated depreciation	<u>(62,964,490)</u>	<u>(2,613,766)</u>	<u>1,445,663</u>	<u>-</u>	<u>(64,132,593)</u>
Total capital assets, being depreciated, net	<u>33,129,846</u>	<u>464,336</u>	<u>-</u>	<u>-</u>	<u>33,594,182</u>
Hibbing Public Utilities Commission capital assets, net	<u>\$ 33,841,083</u>	<u>\$ 572,827</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,413,910</u>

NOTE 5 - OPERATING LEASE

The City entered into a sublease agreement with St. Louis County for office facilities for its police department. Total cost for this lease was \$74,728 for the year ended December 31, 2008. The future payments for this lease are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2009	\$ 74,728
2010	74,728
2011	74,728
2012	74,728
	<u>\$ 298,912</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 6 - NOTES PAYABLE

During 2008 the PUC entered into various short term loan agreements for operating cash flow purposes. As of December 31, 2008, the notes carried interest rates of 3.25%, were secured by accounts receivable and mature by March, 2009. Interest expensed during 2008 was \$74,927.

Notes payable activity for the year ended December 31, 2008 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

NOTE 7 - LONG-TERM DEBT

The City issued general obligation bonds to finance the construction of major capital facilities, improvements and equipment. 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.

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Primary Government					
Governmental Activities					
General obligation bonds					
2007A Equipment Certificates	12/01/2007	4.00%	\$ 440,000	02/1/2017	\$ <u>440,000</u>
Certificates of indebtedness					
Series 2004A	11/01/2004	1.55-2.65%	\$ 265,000	08/1/2009	55,000
Series 2005A	12/01/2005	4.68%	\$ 565,000	08/1/2015	320,000
Series 2006A	11/01/2006	4.21%	\$ 455,000	11/1/2016	<u>341,000</u>
Total certificates of indebtedness					716,000
Lease purchase obligations					
Various	various	4.42-6.40%	various	12/30/2012	1,234,286
Compensated absences payable					469,852
OPEB liability					<u>2,544,064</u>
Governmental Activities Long-term Liabilities					<u>5,404,202</u>

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Business-type Activities					
General obligation revenue					
2003 Sewer Notes	01/29/2003	1.74%	\$9,847,450	08/20/2022	7,643,000
2007A Sewer Revenue Bonds	12/1/2007	4.00-4.10%	\$2,365,000	02/1/2028	2,365,000
Compensated absences payable					<u>132,246</u>
Business-type Activities Long-term Liabilities					<u>10,140,246</u>
Total Primary Government Long-Term Liabilities					<u>15,544,448</u>
Discretely Presented Component Units					
EDA					
Bonds and notes payable					
1997 Public Project					
Revenue Bonds	3/5/1997	5.40-6.40%	\$ 3,850,000	2/1/2012	1,365,000
1997B General Obligation					
Tax Increment Bonds	8/1/1997	7.50%	\$ 320,000	2/1/2017	240,000
1999A General Obligation					
Tax Increment Bonds	8/1/1999	7.49%	\$ 165,000	2/1/2016	<u>115,000</u>
Total EDA-Component Unit Long-Term Liabilities					<u>1,720,000</u>
PUC					
Bonds, notes, and real estate mortgage payable					9,269,082
Compensated absences payable					1,033,623
OPEB liability					<u>2,801,176</u>
Total PUC-Component Unit Long-Term Liabilities					<u>13,103,881</u>
Total Reporting Entity					<u>\$ 30,368,329</u>

Long-term liability activity for the year ended December 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Primary Government					
Governmental Activities					
General obligation bonds payable	\$ 600,000	\$ -	\$ (160,000)	\$ 440,000	\$ 65,000
Certificates of indebtedness	943,000	-	(227,000)	716,000	203,000
Leases payable	1,546,410	-	(312,124)	1,234,286	295,719
Police and fire indebtedness	657,299	-	(657,299)	-	-
Compensated absences payable	300,412	189,795	(20,355)	469,852	-
OPEB liability	-	3,715,077	(1,171,013)	2,544,064	-
Governmental Activities - Long-term Liabilities	<u>4,047,121</u>	<u>3,904,872</u>	<u>(2,547,791)</u>	<u>5,404,202</u>	<u>563,719</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-type Activities					
GO revenue notes payable	\$ 8,121,000	\$ -	\$ (478,000)	\$ 7,643,000	\$ 487,000
GO revenue bonds payable	2,365,000	-	-	2,365,000	65,000
Compensated absences payable	-	132,246	-	132,246	-
Business-type Activities - Long-term Liabilities	<u>10,486,000</u>	<u>132,246</u>	<u>(478,000)</u>	<u>10,140,246</u>	<u>552,000</u>
Total Primary Government	<u>\$ 14,533,121</u>	<u>\$ 4,037,118</u>	<u>\$ (3,025,791)</u>	<u>\$ 15,544,448</u>	<u>\$ 1,115,719</u>
Discretely Presented Component Units					
EDA					
Bonds payable	\$ 3,998,940	\$ -	\$ (2,278,940)	\$ 1,720,000	\$ 335,000
PUC					
Bonds, notes, and real estate mortgage payable	\$ 6,688,354	\$ 3,220,000	\$ (639,272)	\$ 9,269,082	\$ 651,273
Compensated absences payable	986,137	47,486	-	1,033,623	-
OPEB liability	-	2,801,176	-	2,801,176	-
PUC-Component Unit Long-term Liabilities	<u>\$ 7,674,491</u>	<u>\$ 6,068,662</u>	<u>\$ (639,272)</u>	<u>\$ 13,103,881</u>	<u>\$ 651,273</u>
Totals	<u>\$ 26,206,552</u>	<u>\$ 10,105,780</u>	<u>\$ (5,944,003)</u>	<u>\$ 30,368,329</u>	<u>\$ 2,101,992</u>

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

Year Ending December 31	Primary Government					
	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 563,719	\$ 115,208	\$ 552,000	\$ 226,773	\$ 1,115,719	\$ 341,981
2010	528,135	85,732	580,000	215,300	1,108,135	301,032
2011	481,164	56,653	594,000	203,186	1,075,164	259,839
2012	446,268	29,831	603,000	190,818	1,049,268	220,649
2013	138,000	14,106	617,000	178,191	755,000	192,297
2014-2018	233,000	18,527	3,278,000	690,661	3,511,000	709,188
2019-2023	-	-	3,004,000	327,198	3,004,000	327,198
2024-2028	-	-	780,000	82,112	780,000	82,112
Total	<u>\$ 2,390,286</u>	<u>\$ 320,057</u>	<u>\$10,008,000</u>	<u>\$ 2,114,239</u>	<u>\$12,398,286</u>	<u>\$ 2,434,296</u>

Year Ending December 31	Component Units			
	EDA		PUC	
	Principal	Interest	Principal	Interest
2009	\$ 335,000	\$ 103,117	\$ 651,273	\$ 241,118
2010	360,000	80,575	557,917	601,567
2011	385,000	56,379	512,334	568,228
2012	415,000	30,368	785,685	290,813
2013	40,000	15,369	819,869	260,130
2014-2018	185,000	27,554	3,751,728	844,490
2019-2023	-	-	1,892,951	248,375
2024-2028	-	-	297,325	24,033
Total	<u>\$ 1,720,000</u>	<u>\$ 313,362</u>	<u>\$ 9,269,082</u>	<u>\$ 3,078,754</u>

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 - LONG-TERM DEBT (CONTINUED)

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.

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, 2008, is \$4,382,011. Records for revenue bonds or notes issued prior to 1995 are not available.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 8 - INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2008, 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>
Primary Government				
General Fund	\$ 2,885,931	\$ -	\$ -	\$ -
Capital Projects				
Capital Equipment and Improvement	-	-	525,555	-
Enterprise Funds				
Garbage and Refuse	-	170,257	-	-
Sewer Operating and Maintenance	-	191,328	2,360,376	-
Total Primary Government	<u>2,885,931</u>	<u>361,585</u>	<u>2,885,931</u>	<u>-</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>
Component Units				
Hibbing Economic Development Authority (EDA)				
Economic Development Special				
Revenue Fund	40,835	-	-	-
Storefront Renovation Capital				
Projects Fund	-	-	30,000	-
Enterprise Funds				
Student Housing	-	-	10,835	-
Total EDA	<u>40,835</u>	<u>-</u>	<u>40,835</u>	<u>-</u>
Hibbing Public Utilities Commission	-	-	-	361,585
Total Component Units	<u>40,835</u>	<u>-</u>	<u>40,835</u>	<u>361,585</u>
Total Reporting Entity	<u>\$ 2,926,766</u>	<u>\$ 361,585</u>	<u>\$ 2,926,766</u>	<u>\$ 361,585</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, 2008 consisted of the following:

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 8 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)

Transfer To/From Other Funds/Component Units

<u>Fund or Component Unit</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government		
General Fund	\$ 100,000	\$ 846,939
Special Revenue Funds		
Library	72,152	-
Debt Service Fund		
Other Postemployment Benefits	902,692	-
1990 GO Taxable Pension Bond	-	127,905
Capital Projects Funds		
Permanent Improvement	-	100,000
Total Primary Government	<u>\$ 1,074,844</u>	<u>\$ 1,074,844</u>

Hibbing Economic Development Authority (EDA)

Debt Service Funds		
TIF III	\$ -	\$ 31,414
TIF VI	26,180	-
TIF VII	33,994	-
TIF XI	18,988	-
Central Range Public Works	18,508	-
Capital Projects Funds		
TIF VI	495	-
TIF VII	-	33,994
TIF XI	-	14,249
Public Works	-	18,508
Enterprise Fund		
Student Housing	144,968	-
Family Center	-	144,968
Total EDA	<u>\$ 243,133</u>	<u>\$ 243,133</u>

Transfers are used to: 1) eliminate deficit fund balances, 2) to help fund operating losses or deficits, and 3) to establish the OPEB debt service fund.

NOTE 9 - 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

Restricted for other purposes –

Library	\$ 46,944
Housing incentives	47,890
Economic development	89,317
Capital fund contribution	<u>50,000</u>
Total Net Assets, Restricted for Other	
Purposes – Primary Government	<u>\$ 234,151</u>

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 9 - FUND EQUITY (CONTINUED)

EDA Component Unit

Restricted for other purposes -

Tax increment financing projects \$ 180,622

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 \$ 7,263

Reserved for police forfeiture fund 30,478

Total General Fund \$ 37,741

Minnesota Investment Revolving Loans

Special Revenue Fund

Reserved for community capital fund contributions \$ 50,000

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 7,443,698

Designated for workers compensation 372,750

Designated for infrastructure/cooperative programs 235,248

Total Designated - General Fund \$ 8,566,549

Debt Service Funds

Other Postemployment Benefits

Designated for debt service \$ 902,692

2002 GO Refunding Bonds

Designated for debt service 357,631

Total Designated - Debt Service Funds \$ 1,260,323

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.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 10 - RISK MANAGEMENT (CONTINUED)

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, 2008

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>9,461</u>	\$ <u>39,414</u>	\$ <u>50,301</u>
Fiscal disparity deduction:	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Captured net tax capacity retained by Authority:	\$ <u>2,037</u>	\$ <u>26,464</u>	\$ <u>46,889</u>
Total bonds issued			
Tax increment bonds	\$ 121,000	\$ 270,000	\$ 320,000
Amounts redeemed	<u>121,000</u>	<u>270,000</u>	<u>80,000</u>
Outstanding bonds at 12/31/08	\$ <u>-</u>	\$ <u>-</u>	\$ <u>240,000</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>7,362</u>	\$ <u>10,397</u>	\$ <u>9,734</u>
\$ <u>-</u>	\$ <u>1,667</u>	\$ <u>1,579</u>
\$ <u>7,362</u>	\$ <u>9,726</u>	\$ <u>9,209</u>
\$ -	\$ -	\$ 165,000
-	-	<u>50,000</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>115,000</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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, 2008, 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 four outstanding construction projects as of December 31, 2008. The projects are evidenced by contractual commitments with contractors and engineers and include:

<u>Project</u>	<u>Spent to Date</u>	<u>Commitments Remaining</u>
Capital Projects Funds		
Capital Equipment and Improvement		
Animal Shelter	\$ 322,833	\$ 143,402
Permanent Improvement		
Nyberg Road	<u>638,990</u>	<u>121,180</u>
Total Capital Project Fund	<u>961,823</u>	<u>264,582</u>
Enterprise Fund		
Sewer Operating and Maintenance Fund		
Phase 5 Sewer Improvements	771,789	73,148
Sargent Addition Storm Sewer	<u>31,772</u>	<u>6,400</u>
Total Sewer Operating and Maintenance Fund	<u>803,561</u>	<u>79,548</u>
Total All Funds	<u>\$ 1,765,384</u>	<u>\$ 344,130</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.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 13 - JOINT VENTURES (CONTINUED)

The proceeds from the sale of bonds were placed in the EDA Public Works Capital Projects Fund. At December 31, 2008, the fund had the following balances:

Assets	\$ 393,166
Fund Balance	\$ 393,166

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

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 2008, 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 2008, 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.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS

Primary Government

The City provides postretirement health and life insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years of service and age needed to qualify for these postretirement benefits. The contracts also establish the amount the City will contribute towards the purchase of health insurance. Employer contributions are financed on a pay-as-you-go basis.

Effective for 2008, the City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits and life insurance benefits provided by the Department. The requirements of this Statement are being implemented prospectively, with the actuarially accrued liability for benefits of \$42,567,876 at January 1, 2008, date of transition, amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

Plan Description

Pursuant to the provisions of contracts with bargaining units or other employment contracts, former employees who retire from the City and eligible dependents, may continue to participate in the City's plan for medical and life coverages. The City subsidizes the premium rates paid by the retirees by allowing them to participate in the plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan on average than those of active employees. Additionally, certain retirees receive insurance coverage at a lower (explicitly subsidized) premium rate than active employees. The benefits provided under this defined benefit plan are provided for life. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

Funding Policy

The City has not advance-funded or established a funding methodology, other than transferring funds to the Other Postemployment Benefits Debt Service Fund, for the annual Other Postemployment Benefit (OPEB) costs or the net OPEB obligation. For 2008, 152 retirees and eligible dependents received postemployment benefits. The City provided required contributions of \$966,233 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$319,305. Required contributions are based on projected pay-as-you-go financing.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Normal cost (service cost for one year)	\$ 1,101,769
Amortization of unfunded actuarial accrued liability	<u>2,613,308</u>

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual required contribution	\$ 3,715,077
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	3,715,077
Contribution toward the OPEB cost	<u>(1,171,013)</u>
Increase in net OPEB obligation	2,544,064
Net OPEB Obligation, Beginning of Year	<u>-</u>
Net OPEB Obligation, End of Year	<u>\$ 2,544,064</u>
Percentage of annual OPEB cost contributed	<u>31.5%</u>

Funding Status and Funding Progress

As of December 31, 2008, the actuarial accrued liability for benefits was \$42,567,876, and the actuarial value of assets was \$902,692, resulting in an unfunded actuarial accrued liability of \$41,665,184. The covered payroll (annual payroll of active participating employees) was \$8,623,539 for 2008, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 483.2 percent.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City's initial OPEB actuarial valuation as of January 1, 2008, used the unprojected unit cost actuarial cost method to estimate both the unfunded actuarial liability as of December 31, 2008 and to estimate the City's 2008 annual required contribution. This method was selected because it produced the best estimate of the OPEB liability and annual cost. Because the OPEB liability is currently unfunded, the actuarial assumptions include a 4.5 percent rate of return on invested assets, which is the City's long-term expectation of investment returns under its investment policy. The actuarial assumptions include an annual healthcare cost trend rate of 12 percent initially for 2008, reduced by .5 percent per year, to an ultimate rate of 4.5 percent after 15 years. The unfunded actuarial accrued liability is being amortized using the level dollar method. The remaining amortization period at December 31, 2008 is 29 years.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Component Unit – Hibbing Public Utilities Commission

Plan Description

The Commission provides health care and dental insurance benefits for retired Commission employees. Commission employees become eligible for such benefits upon retirement. During the year ended December 31, 2008, the Commission expended \$471,118 for benefits for approximately 38 retirees.

Annual OPEB Cost and Net OPEB Obligation

The Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Commission's annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the Commission's net OPEB obligation:

Annual required contribution	\$ 2,801,176
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	2,801,176
Contributions during the year	<u>-</u>
Increase in net OPEB obligation	2,801,176
Net OPEB Obligation, Beginning of Year	<u>-</u>
Net OPEB Obligation, End of Year	<u><u>\$ 2,801,176</u></u>

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 were as follows:

Fiscal Year Ended	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2008	\$ 2,801,176	\$ -	\$ -	\$ 2,801,176

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 16 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funding Status and Funding Progress

The actuarial accrued liability for benefits at December 31, 2008 is \$30,281,516. The Commission currently has no assets that have been irrevocably deposited in a trust for future health benefits, thus the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$4,932,098. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 613.97 percent.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the December 31, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Commission. The annual healthcare cost trend rate is 7.9 percent for medical and 5.84 for dental initially, reduced incrementally to an ultimate rate of 4.3 percent for medical and 4.0 for dental. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years.

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, 2005, under Minnesota Statutes Chapter 322B. The Authority was created to supply 35 MW of new biomass fueled electricity to Northern States Power Company, an operating subsidiary of Excel Energy, as well as to supply steam to existing customers of the Hibbing and Virginia Public Utilities Commissions.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 17 - EQUITY IN JOINT VENTURE (CONTINUED)

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

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

The Authority began production of biomass fueled steam and electricity in early 2007.

The Commission has entered into various agreements with the Authority including agreements for the purchase of steam as well as operation and lease agreements. The steam agreement calls for the purchases of minimum quantities of steam based on an escalating fee structure. The operating agreement calls for the Authority to pay the Commission fees based on the operating costs of the Commission's facility up to specified maximum amounts. In addition, the Authority is required to pay the Commission an annual rental fee of \$25,000.

As of December 31, 2008, the Commission has reported on its balance sheet an investment of \$7,831,289 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.

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 2008 financial statements:

Current assets	\$ 4,834,741
Non-current restricted assets	7,227,148
Other assets	3,995,287
Capital assets	62,827,310
Total assets	78,884,486
Current liabilities	9,602,832
Non-current liabilities	53,886,452
Total liabilities	63,489,284
Net assets	15,395,202
Total operating revenues	27,918,390
Operating expenses	26,152,433
Change in net assets	(788,092)

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 18 - DISCONTINUED OPERATIONS

EDA sold its Student Housing facility and operations to the State of Minnesota for \$1,538,588 on December 15, 2008. This included \$758,588 from the State of Minnesota taconite production taxes and \$780,000 from the Minnesota State Colleges and Universities System. Subsequently, the outstanding bond of \$2,105,000 was paid off. The net result was a gain on the sale of the facility of \$35,414.

NOTE 19 - 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 PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent for each year of service. For all PEPFF members and PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 55 for PEPFF and 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 19 - DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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

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

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

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.0%, respectively, of their annual covered salary in 2008. PEPFF members were required to contribute 8.6% of their annual covered salary in 2008. The rate will increase to 9.4% in 2009. The City of Hibbing, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 6.5% for Coordinated Plan PERF members, and 12.9% for PEPFF members. Employer contribution rates for the Coordinated Plan and PEPFF will increase to 6.75% and 14.1%, respectively, effective January 1, 2009. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2008, 2007, and 2006 were \$301,270, \$275,319, and \$256,940, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2008, 2007, and 2006 were \$428,693, \$372,809, and \$307,415, respectively. The Hibbing Public Utilities contributions to the Public Employees Retirement Fund for the years ending December 31, 2008, 2007, and 2006 were \$318,216, \$283,111, and \$266,428, 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, 2008

NOTE 20 - DEFINED CONTRIBUTION PLAN

Four 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 2008 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>	
\$ <u>1,616</u>	\$ <u>1,616</u>	<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, 2008

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 5,149,357	\$ 4,729,357	\$ 4,980,016	\$ 250,659
Licenses and permits	169,900	169,900	188,854	18,954
Intergovernmental	8,791,494	9,231,494	8,587,618	(643,876)
Charges for services	1,565,700	1,565,700	1,686,775	121,075
Fines	100,000	100,000	138,503	38,503
Gifts and contributions	30,000	10,000	10,945	945
Interest	120,000	120,000	88,759	(31,241)
Miscellaneous	92,000	92,000	85,108	(6,892)
TOTAL REVENUES	16,018,451	16,018,451	15,766,578	(251,873)
EXPENDITURES				
Current				
General government	1,974,854	1,974,854	1,878,142	96,712
Public safety	5,689,297	5,689,297	6,122,318	(433,021)
Public works	3,102,660	2,797,401	2,637,943	159,458
Culture and recreation	1,985,650	1,985,650	1,973,217	12,433
Economic development	113,031	113,031	109,372	3,659
Transportation	227,640	227,640	374,096	(146,456)
Miscellaneous	2,089,851	2,089,851	2,140,927	(51,076)
Debt Service				
Principal	657,299	887,399	887,399	-
Interest and other charges	-	75,159	75,159	-
TOTAL EXPENDITURES	15,840,282	15,840,282	16,198,573	(358,291)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	178,169	178,169	(431,995)	(610,164)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	100,000	100,000
Transfers out	(171,305)	(171,305)	(846,939)	(675,634)
Sale of capital assets	-	-	1,554	1,554
TOTAL OTHER FINANCING SOURCES (USES)	(171,305)	(171,305)	(745,385)	(574,080)
NET CHANGE IN FUND BALANCES	6,864	6,864	(1,177,380)	(1,184,244)
FUND BALANCES - JANUARY 1	10,725,877	10,725,877	10,725,877	-
FUND BALANCES - DECEMBER 31	\$ 10,732,741	\$ 10,732,741	\$ 9,548,497	\$ (1,184,244)

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended December 31, 2008**

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 667,453	\$ 571,453	\$ 571,348	\$ (105)
Intergovernmental	-	96,000	96,105	105
Charges for services	20,000	20,000	25,450	5,450
Gifts and contributions	10,386	10,386	9,507	(879)
TOTAL REVENUES	697,839	697,839	702,410	4,571
EXPENDITURES				
Current				
Culture and recreation	849,144	849,144	774,562	74,582
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(151,305)	(151,305)	(72,152)	79,153
OTHER FINANCING SOURCES				
Transfers in	151,305	151,305	72,152	(79,153)
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCES - JANUARY 1	46,944	46,944	46,944	-
FUND BALANCES - DECEMBER 31	\$ 46,944	\$ 46,944	\$ 46,944	\$ -

CITY OF HIBBING, MINNESOTA
INFRASTRUCTURE CONDITION DATA
Year Ended December 31, 2008

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 2008. 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, 2008

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, 2008, the City's gravel roads all rated at a Level 3.

The City expended \$150,345 on gravel road maintenance for the year ended December 31, 2008. Those routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the Year 2010 is a minimum of \$450,000. (\$150,000 projected budget each year for the years ending December 31, 2009, 2010, and 2011.)

A schedule of the estimated annual amount calculated to maintain and preserve its gravel roads at the current level compared to actual expenditures for gravel road maintenance for the years ended December 31, 2006, 2007 and 2008, is presented below:

<u>Year</u>	<u>Estimated Annual Expenditures</u>	<u>Actual Expenditures</u>	<u>Funded by General Fund</u>
2006	125,000	141,244	141,244
2007	132,832	146,959	146,959
2008	139,680	150,345	150,345

CITY OF HIBBING, MINNESOTA

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS
Year Ended December 31, 2008**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
<u>Other Postemployment Benefits</u>						
Primary Government						
12/31/2008	\$ 902,692	\$ 42,567,876	\$ 41,665,184	2.1%	\$ 8,623,539	483.2%
Component Unit - Hibbing Public Utilities Commission						
12/31/2008	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 4,932,098	614.0%

CITY OF HIBBING, MINNESOTA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2008**

NOTE 1 - BUDGETING

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

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

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded appropriations in the following fund for the year ended December 31, 2008:

General Fund	\$ 358,291
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This over expenditure was funded by fund balance reserves.

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 administrated by AEOA.

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

The Other Postemployment Benefits Debt Service Fund is used to account for the accumulation of resources to set aside for postemployment benefits.

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

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, 2008

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	Other Postemploy- ment Benefits Debt Service Fund	1990 G.O. Taxable Pension Bond Debt Service Fund
ASSETS					
Cash and cash equivalents	\$ 47,890	\$ 24,577	\$ 64,001	\$ 902,692	\$ -
Taxes receivable	-	-	-	-	-
Special assessments receivable	-	-	-	-	-
Accounts receivable	-	-	50,739	-	-
Due from other governments	-	-	-	-	-
Loans receivables	-	130,132	33,533	-	-
TOTAL ASSETS	<u>\$ 47,890</u>	<u>\$ 154,709</u>	<u>\$ 148,273</u>	<u>\$ 902,692</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	-
Contracts payable	-	-	-	-	-
Deferred revenue	-	130,132	33,533	-	-
TOTAL LIABILITIES	<u>-</u>	<u>130,132</u>	<u>33,533</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Reserved for					
Community capital fund contributions	-	-	50,000	-	-
Unreserved, designated for debt service	-	-	-	902,692	-
Unreserved, undesignated	47,890	24,577	64,740	-	-
TOTAL FUND BALANCES	<u>47,890</u>	<u>24,577</u>	<u>114,740</u>	<u>902,692</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 47,890</u>	<u>\$ 154,709</u>	<u>\$ 148,273</u>	<u>\$ 902,692</u>	<u>\$ -</u>

2002 G.O. Refunding Bonds Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 356,133	\$ 1,165,923	\$ 109,455	\$ 124,475	\$ -	\$ 20,685	\$ 2,815,831
2,192	1,261	-	-	12,002	-	15,455
-	-	123,068	-	-	-	123,068
-	-	-	667	-	-	51,406
-	25,032	-	-	-	-	25,032
-	-	-	-	-	-	163,665
<u>\$ 358,325</u>	<u>\$ 1,192,216</u>	<u>\$ 232,523</u>	<u>\$ 125,142</u>	<u>\$ 12,002</u>	<u>\$ 20,685</u>	<u>\$ 3,194,457</u>
\$ 694	\$ 440	\$ -	\$ -	\$ 2,067	\$ -	\$ 3,201
-	-	-	-	525,555	-	525,555
-	-	27,575	-	-	-	27,575
-	31,214	-	-	145,750	-	176,964
-	131,739	121,078	400	4,137	-	421,019
<u>694</u>	<u>163,393</u>	<u>148,653</u>	<u>400</u>	<u>677,509</u>	<u>-</u>	<u>1,154,314</u>
-	-	-	-	-	-	50,000
357,631	-	-	-	-	-	1,260,323
-	1,028,823	83,870	124,742	(665,507)	20,685	729,820
<u>357,631</u>	<u>1,028,823</u>	<u>83,870</u>	<u>124,742</u>	<u>(665,507)</u>	<u>20,685</u>	<u>2,040,143</u>
<u>\$ 358,325</u>	<u>\$ 1,192,216</u>	<u>\$ 232,523</u>	<u>\$ 125,142</u>	<u>\$ 12,002</u>	<u>\$ 20,685</u>	<u>\$ 3,194,457</u>

CITY OF HIBBING, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2008

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	Other Postemploy- ment Benefits Debt Service Fund	1990 G.O. Taxable Pension Bond Debt Service Fund
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Gifts and contributions	-	-	-	-	-
Interest	576	296	219	-	-
Miscellaneous	-	7,167	48,377	-	-
TOTAL REVENUES	576	7,463	48,596	-	-
EXPENDITURES					
Current					
Economic development	-	7,167	55	-	-
Miscellaneous	-	-	32,823	-	-
Debt Service					
Principal	-	-	-	-	-
Interest and other charges	-	-	-	-	-
Capital Outlay					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Miscellaneous	-	-	-	-	-
TOTAL EXPENDITURES	-	7,167	32,878	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	576	296	15,718	-	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	902,692	-
Transfers out	-	-	-	-	(127,905)
Sale of capital assets	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	902,692	(127,905)
NET CHANGE IN FUND BALANCES	576	296	15,718	902,692	(127,905)
FUND BALANCES - JANUARY 1	47,314	24,281	99,022	-	127,905
FUND BALANCES - DECEMBER 31	\$ 47,890	\$ 24,577	\$ 114,740	\$ 902,692	\$ -

2002 G.O. Refunding Bonds Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 148,993	\$ 85,602	\$ -	\$ -	\$ 815,212	\$ -	\$ 1,049,807
-	-	58,425	-	-	-	58,425
25,037	979,069	-	-	137,100	-	1,141,206
-	-	-	14,400	-	-	14,400
-	-	-	-	5,001	-	5,001
-	14,864	1,574	1,338	-	249	19,116
-	-	-	-	26,325	-	81,869
<u>174,030</u>	<u>1,079,535</u>	<u>59,999</u>	<u>15,738</u>	<u>983,638</u>	<u>249</u>	<u>2,369,824</u>
-	-	-	-	-	-	7,222
-	-	-	-	-	-	32,823
160,000	-	-	-	309,024	-	469,024
5,484	-	-	-	63,001	-	68,485
-	-	-	-	134,898	-	134,898
-	-	-	-	707,869	-	707,869
-	1,028,302	113,040	-	332,343	-	1,473,685
-	-	-	213	265,398	-	265,611
-	-	-	-	17,543	-	17,543
<u>165,484</u>	<u>1,028,302</u>	<u>113,040</u>	<u>213</u>	<u>1,830,076</u>	<u>-</u>	<u>3,177,160</u>
<u>8,546</u>	<u>51,233</u>	<u>(53,041)</u>	<u>15,525</u>	<u>(846,438)</u>	<u>249</u>	<u>(807,336)</u>
-	-	-	-	-	-	902,692
-	(100,000)	-	-	-	-	(227,905)
-	-	-	-	23,433	-	23,433
<u>-</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>	<u>23,433</u>	<u>-</u>	<u>698,220</u>
8,546	(48,767)	(53,041)	15,525	(823,005)	249	(109,116)
<u>349,085</u>	<u>1,077,590</u>	<u>136,911</u>	<u>109,217</u>	<u>157,498</u>	<u>20,436</u>	<u>2,149,259</u>
<u>\$ 357,631</u>	<u>\$ 1,028,823</u>	<u>\$ 83,870</u>	<u>\$ 124,742</u>	<u>\$ (665,507)</u>	<u>\$ 20,685</u>	<u>\$ 2,040,143</u>

CITY OF HIBBING, MINNESOTA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2008**

REVENUES

Taxes

General property	\$ 1,867,328
Taconite	
Production	718,179
Homestead credit	474,866
Municipal aid	1,506,355
Franchise	140,904
Other	272,384

Total Taxes	<u>4,980,016</u>
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Licenses and Permits	<u>188,854</u>
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Intergovernmental

Federal grants	
Federal transportation grant	205,427
Bulletproof vest grant	1,426
Assistance to firefighters grant	4,157
State grants	
Market value credit	420,024
Local government aid	7,398,756
Police training	12,019
Police aid	250,359
Firemen's aid	155,649
State transportation grant	91,516
PERA rate increase aid	24,366
County grants	
Ambulance	2,360
Safe and sober	1,306
Local grants	
Police liaison grant	20,253

Total Intergovernmental	<u>8,587,618</u>
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Charges for Services

General government	
Bus transportation	25,600
Miscellaneous	12,120
Public safety	
Ambulance calls	1,223,504
Fire protection contracts	9,715
Other	5,000
Highways and streets	
Miscellaneous	12,511
Culture and recreation	
Rent	116,475
Other	190,609
Cemetery	91,241

Total Charges for Services	<u>1,686,775</u>
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CITY OF HIBBING, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2008

REVENUES (CONTINUED)

Fines

Court fines	\$ 103,904
Police forfeitures	31,749
Administrative fines	<u>2,850</u>

Total Fines	<u>138,503</u>
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Gifts and Contributions	<u>10,945</u>
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Interest

Interest on investments	81,906
Increase in fair value of investments	<u>6,853</u>

Total Interest	<u>88,759</u>
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Miscellaneous

Insurance recoveries	400
Insurance dividends	40,558
Other	<u>44,150</u>

Total Miscellaneous	<u>85,108</u>
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TOTAL REVENUES	<u>15,766,578</u>
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EXPENDITURES

Current

General Government

Mayor and council	260,494
Elections	35,644
City administration	137,525
City clerk	424,121
City hall	136,892
Accounting	46,635
Data processing	54,212
Legal	108,761
Personnel administration	97,812
Zoning and housing	249,735
Assessor	<u>326,311</u>

Total General Government	<u>1,878,142</u>
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Public Safety

Police	3,193,425
Fire	1,739,600
Paid on-call fire	70,403
Ambulance	1,107,891
Civil defense	<u>10,999</u>

Total Public Safety	<u>6,122,318</u>
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Public Works

Highways and streets	
Streets and alleys	1,808,986
Engineering	320,110
Garage	463,734
Street lighting	<u>45,113</u>

Total Public Works	<u>2,637,943</u>
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CITY OF HIBBING, MINNESOTA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2008

EXPENDITURES (CONTINUED)

Current

Culture and Recreation

Recreation	\$ 478,250
Memorial building	831,783
Municipal golf course	124,071
Parks	<u>539,113</u>

Total Culture and Recreation 1,973,217

Economic Development

Administration 109,372

Transportation

Bus 374,096

Miscellaneous

Cemetery	271,532
Public access	80,990
Insurance	1,650,246
Donations and contributions	26,646
Other	<u>111,513</u>

Total Miscellaneous 2,140,927

Debt Service

Principal	887,399
Interest and agent fees	<u>75,159</u>

Total Debt Service 962,558

TOTAL EXPENDITURES 16,198,573

DEFICIENCY OF REVENUES
OVER EXPENDITURES

(431,995)

OTHER FINANCING SOURCES (USES)

Transfers in	100,000
Transfers out	(846,939)
Sale of capital assets	<u>1,554</u>

**TOTAL OTHER FINANCING
SOURCES (USES)** (745,385)

NET CHANGE IN FUND BALANCE (1,177,380)

FUND BALANCE - JANUARY 1 10,725,877

FUND BALANCE - DECEMBER 31 \$ 9,548,497

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2008

REVENUES

Taxes

General property	\$ 411,143
Taconite homestead credit	108,653
Other	<u>51,552</u>

Total Taxes	<u>571,348</u>
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Intergovernmental

State grants	
Market value credit	<u>96,105</u>

Charges for Services	<u>25,450</u>
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Gifts and Contributions	<u>9,507</u>
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TOTAL REVENUES	<u>702,410</u>
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EXPENDITURES

Current

Culture and Recreation

Library	
Personal services	552,094
Supplies	91,720
Other services and charges	130,587
Other	<u>161</u>

TOTAL EXPENDITURES	<u>774,562</u>
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**DEFICIENCY OF REVENUES
OVER EXPENDITURES**

(72,152)

OTHER FINANCING SOURCES

Transfers in	<u>72,152</u>
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NET CHANGE IN FUND BALANCE	-
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FUND BALANCE - JANUARY 1	<u>46,944</u>
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FUND BALANCE - DECEMBER 31	<u><u>\$ 46,944</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, 2008

REVENUES	
Interest	\$ 576
EXPENDITURES	
	<u>-</u>
NET CHANGE IN FUND BALANCE	576
FUND BALANCE - JANUARY 1	<u>47,314</u>
FUND BALANCE - DECEMBER 31	<u><u>\$ 47,890</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, 2008**

REVENUES

Interest	<u>\$ 296</u>
Miscellaneous	
Principal on loans repayments	799
Interest on loans repayments	238
Other	<u>6,130</u>
Total Miscellaneous	<u>7,167</u>
TOTAL REVENUES	<u>7,463</u>

EXPENDITURES

Current	
Economic Development	
Administration	1,037
Community development	<u>6,130</u>
TOTAL EXPENDITURES	<u>7,167</u>
NET CHANGE IN FUND BALANCE	296
FUND BALANCE - JANUARY 1	<u>24,281</u>
FUND BALANCE - DECEMBER 31	<u><u>\$ 24,577</u></u>

CITY OF HIBBING, MINNESOTA

**MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended December 31, 2008**

REVENUES

Interest	<u>\$ 219</u>
Miscellaneous	
Principal on loans repayments	45,769
Interest on loans repayments	<u>2,608</u>
Total Miscellaneous	<u>48,377</u>
TOTAL REVENUES	<u>48,596</u>

EXPENDITURES

Current

Economic Development

Administration	<u>55</u>
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Miscellaneous

Repayments to DEED	32,805
Other	<u>18</u>

Total Miscellaneous	<u>32,823</u>
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TOTAL EXPENDITURES	<u>32,878</u>
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NET CHANGE IN FUND BALANCE	15,718
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FUND BALANCE - JANUARY 1	<u>99,022</u>
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FUND BALANCE - DECEMBER 31	<u><u>\$ 114,740</u></u>
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CITY OF HIBBING, MINNESOTA

DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2008

	Other Postemploy- ment Benefits	1990 G.O. Taxable Pension Bond	2002 G.O. Refunding Bonds	Totals
REVENUES				
Taxes				
General property	\$ -	\$ -	\$ 107,257	\$ 107,257
Taconite homestead credit	-	-	28,306	28,306
Other	-	-	13,430	13,430
Total Taxes	-	-	148,993	148,993
Intergovernmental				
State grants				
Market value credit	-	-	25,037	25,037
TOTAL REVENUES	-	-	174,030	174,030
EXPENDITURES				
Debt Service				
Principal	-	-	160,000	160,000
Interest	-	-	5,484	5,484
TOTAL EXPENDITURES	-	-	165,484	165,484
EXCESS OF REVENUES OVER EXPENDITURES	-	-	8,546	8,546
OTHER FINANCING SOURCES (USES)				
Transfer in	902,692	-	-	902,692
Transfer out	-	(127,905)	-	(127,905)
TOTAL OTHER FINANCING SOURCES (USES)	902,692	(127,905)	-	774,787
NET CHANGE IN FUND BALANCES	902,692	(127,905)	8,546	783,333
FUND BALANCES - JANUARY 1	-	127,905	349,085	476,990
FUND BALANCES - DECEMBER 31	<u>\$ 902,692</u>	<u>\$ -</u>	<u>\$ 357,631</u>	<u>\$ 1,260,323</u>

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2008

	Permanent Improvement	Privately- Financed Capital Projects	Memorial Building	Capital Equipment and Improvement	MDI Maintenance	Total
REVENUES						
Taxes						
General property	\$ 61,601	\$ -	\$ -	\$ 586,669	\$ -	\$ 648,270
Taconite homestead credit	16,278	-	-	155,001	-	171,279
Other	7,723	-	-	73,542	-	81,265
Total Taxes	<u>85,602</u>	<u>-</u>	<u>-</u>	<u>815,212</u>	<u>-</u>	<u>900,814</u>
Special Assessments						
Principal	-	58,286	-	-	-	58,286
Interest and penalties	-	139	-	-	-	139
Total Special Assessments	<u>-</u>	<u>58,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,425</u>
Intergovernmental						
State grants						
Market value credit	14,398	-	-	137,100	-	151,498
MSA maintenance municipal	260,190	-	-	-	-	260,190
MSA construction municipal	704,481	-	-	-	-	704,481
Total Intergovernmental	<u>979,069</u>	<u>-</u>	<u>-</u>	<u>137,100</u>	<u>-</u>	<u>1,116,169</u>
Charges for Services						
Rent	-	-	14,400	-	-	14,400
Gifts and Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,001</u>	<u>-</u>	<u>5,001</u>
Interest	<u>14,864</u>	<u>1,574</u>	<u>1,338</u>	<u>-</u>	<u>249</u>	<u>18,025</u>
Miscellaneous						
Insurance recoveries	-	-	-	26,325	-	26,325
TOTAL REVENUES	<u>1,079,535</u>	<u>59,999</u>	<u>15,738</u>	<u>983,638</u>	<u>249</u>	<u>2,139,159</u>

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
Year Ended December 31, 2008

	Permanent Improvement	Privately- Financed Capital Projects	Memorial Building	Capital Equipment and Improvement	MDI Maintenance	Total
EXPENDITURES						
Debt Service						
Principal	\$ -	\$ -	\$ -	\$ 309,024	\$ -	\$ 309,024
Interest	-	-	-	63,001	-	63,001
Total Debt Service	-	-	-	372,025	-	372,025
Capital Outlay						
General government						
Elections	-	-	-	52,660	-	52,660
City hall	-	-	-	71,530	-	71,530
Data processing	-	-	-	10,708	-	10,708
Public safety						
Police	-	-	-	78,925	-	78,925
Fire	-	-	-	166,656	-	166,656
Paid on-call fire	-	-	-	5,606	-	5,606
Ambulance	-	-	-	133,849	-	133,849
Animal shelter	-	-	-	322,833	-	322,833
Public works						
Streets and alleys	1,028,302	113,040	-	332,343	-	1,473,685
Culture and recreation						
Recreation	-	-	-	14,636	-	14,636
Memorial building	-	-	213	11,845	-	12,058
Parks	-	-	-	197,660	-	197,660
Library	-	-	-	41,257	-	41,257
Miscellaneous						
Cemetery	-	-	-	17,543	-	17,543
Total Capital Outlay	1,028,302	113,040	213	1,458,051	-	2,599,606
TOTAL EXPENDITURES	1,028,302	113,040	213	1,830,076	-	2,971,631
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	51,233	(53,041)	15,525	(846,438)	249	(832,472)
OTHER FINANCING SOURCES						
Transfers out	(100,000)	-	-	-	-	(100,000)
Sale of capital assets	-	-	-	23,433	-	23,433
TOTAL OTHER FINANCING SOURCES	(100,000)	-	-	23,433	-	(76,567)
NET CHANGE IN FUND BALANCES	(48,767)	(53,041)	15,525	(823,005)	249	(909,039)
FUND BALANCES - JANUARY 1	1,077,590	136,911	109,217	157,498	20,436	1,501,652
FUND BALANCES - DECEMBER 31	\$ 1,028,823	\$ 83,870	\$ 124,742	\$ (665,507)	\$ 20,685	\$ 592,613

CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008**

	<u>General Fund</u>	<u>Economic Development Special Revenue Fund</u>	<u>Tax Increment III</u>
ASSETS			
Cash and cash equivalents	\$ 141,644	\$ 1,162,980	\$ 7,142
Investments	-	-	-
Taxes receivable			
Unapportioned	1,329	-	-
Delinquent	-	-	3,928
Accounts receivable	-	-	-
Due from other funds	-	40,835	-
Due from other governments	2,000	-	-
Loans receivable	-	423,938	-
Prepaid items	2,175	-	-
TOTAL ASSETS	<u>\$ 147,148</u>	<u>\$ 1,627,753</u>	<u>\$ 11,070</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 10,604	\$ -	\$ -
Salaries payable	531	-	-
Due to other funds	-	-	-
Due to other governments	-	-	-
Deferred revenue	-	423,938	3,928
TOTAL LIABILITIES	<u>11,135</u>	<u>423,938</u>	<u>3,928</u>
FUND BALANCES			
Unreserved, designated	-	-	7,142
Unreserved, undesignated	136,013	1,203,815	-
TOTAL FUND BALANCES	<u>136,013</u>	<u>1,203,815</u>	<u>7,142</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 147,148</u>	<u>\$ 1,627,753</u>	<u>\$ 11,070</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>
\$ 693	\$ -	\$ -	\$ 67,062
-	-	-	-
-	-	-	-
6,493	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>7,186</u>	<u>-</u>	<u>-</u>	<u>67,062</u>
<u>\$ 7,186</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,062</u>
\$ 693	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
6,493	-	-	-
<u>7,186</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	67,062
-	-	-	-
-	-	-	67,062
<u>\$ 7,186</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,062</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 COMBINING BALANCE SHEET
 GOVERNMENTAL FUNDS (CONTINUED)
 December 31, 2008

	Storefront Renovation Project	District III Tax Increment	District VI Tax Increment	District VII Tax Increment
ASSETS				
Cash and cash equivalents	\$ 20,265	\$ 18,721	\$ 495	\$ 21,771
Investments	-	-	-	-
Taxes receivable				
Unapportioned	-	-	-	-
Delinquent	-	-	-	90,577
Accounts receivable	25	-	-	-
Due from other funds	-	-	-	-
Due from other governments	-	-	-	-
Loans receivable	46,857	-	-	-
Prepaid items	-	-	-	-
TOTAL ASSETS	<u>\$ 67,147</u>	<u>\$ 18,721</u>	<u>\$ 495</u>	<u>\$ 112,348</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 255	\$ -	\$ -	\$ -
Salaries payable	-	-	-	-
Due to other funds	30,000	-	-	-
Due to other governments	-	495	495	495
Deferred revenue	46,857	-	-	90,577
TOTAL LIABILITIES	<u>77,112</u>	<u>495</u>	<u>495</u>	<u>91,072</u>
FUND BALANCES				
Unreserved, designated	-	-	-	-
Unreserved, undesignated	(9,965)	18,226	-	21,276
TOTAL FUND BALANCES	<u>(9,965)</u>	<u>18,226</u>	<u>-</u>	<u>21,276</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 67,147</u>	<u>\$ 18,721</u>	<u>\$ 495</u>	<u>\$ 112,348</u>

Capital Projects Funds

District VIII Tax Increment	District X Tax Increment	District XI Tax Increment	Public Works	Tax Abatement	Totals
\$ 19,970	\$ 18,241	\$ 495	\$ -	\$ 41,747	\$ 1,521,226
-	-	-	393,166	-	393,166
-	-	-	-	124	1,453
111	10,487	13,838	-	-	125,434
-	-	-	-	-	25
-	-	-	-	-	40,835
-	-	-	-	-	2,000
461,924	-	-	-	-	932,719
-	-	-	-	-	2,175
<u>\$ 482,005</u>	<u>\$ 28,728</u>	<u>\$ 14,333</u>	<u>\$ 393,166</u>	<u>\$ 41,871</u>	<u>\$ 3,019,033</u>
\$ 3,920	\$ 7,193	\$ -	\$ -	\$ 6,504	\$ 29,169
-	-	-	-	-	531
-	-	-	-	-	30,000
495	495	495	-	-	2,970
462,035	10,487	13,838	-	-	1,058,153
<u>466,450</u>	<u>18,175</u>	<u>14,333</u>	<u>-</u>	<u>6,504</u>	<u>1,120,823</u>
-	-	-	-	-	74,204
15,555	10,553	-	393,166	35,367	1,824,006
15,555	10,553	-	393,166	35,367	1,898,210
<u>\$ 482,005</u>	<u>\$ 28,728</u>	<u>\$ 14,333</u>	<u>\$ 393,166</u>	<u>\$ 41,871</u>	<u>\$ 3,019,033</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, 2008

	General Fund	Economic Development Special Revenue Fund	Tax Increment III
REVENUES			
Taxes			
General	\$ 64,697	\$ -	\$ 2,407
Taconite homestead credit	17,160	-	-
Other	8,142	-	-
Intergovernmental			
State grants			
Market value credit	15,178	-	-
Charges for Services	-	-	-
Interest	1,852	3,486	-
Miscellaneous			
Principal on loan repayments	-	86,985	-
Interest on loan repayments	-	19,938	-
Other	25	-	-
TOTAL REVENUES	<u>107,054</u>	<u>110,409</u>	<u>2,407</u>
EXPENDITURES			
Current			
Economic development			
Community development	23,296	-	-
Administration	79,331	-	-
Professional services	96,483	-	-
Loans	-	80,000	-
Tax increment projects	-	-	-
Debt Service			
Principal	-	-	-
Interest	-	-	-
Fiscal charges	-	-	-
TOTAL EXPENDITURES	<u>199,110</u>	<u>80,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(92,056)</u>	<u>30,409</u>	<u>2,407</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	(31,414)
Sale of capital assets	30,368	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>30,368</u>	<u>-</u>	<u>(31,414)</u>
NET CHANGE IN FUND BALANCES	(61,688)	30,409	(29,007)
FUND BALANCES - JANUARY 1	197,701	1,173,406	36,149
FUND BALANCES - DECEMBER 31	<u>\$ 136,013</u>	<u>\$ 1,203,815</u>	<u>\$ 7,142</u>

Debt Service Funds			
Tax Increment VI	Tax Increment VII	Tax Increment XI	Central Range Public Works
\$ 31,285	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
31,285	-	-	389,835
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
55,000	15,000	10,000	295,000
1,581	18,563	8,988	96,358
884	431	-	2,530
57,465	33,994	18,988	393,888
(26,180)	(33,994)	(18,988)	(4,053)
26,180	33,994	18,988	18,508
-	-	-	-
-	-	-	-
26,180	33,994	18,988	18,508
-	-	-	14,455
-	-	-	52,607
\$ -	\$ -	\$ -	\$ 67,062

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, 2008**

	<u>Storefront Renovation Project</u>	<u>District III Tax Increment</u>	<u>District VI Tax Increment</u>	<u>District VII Tax Increment</u>
REVENUES				
Taxes				
General	\$ -	\$ -	\$ -	\$ 44,864
Taconite homestead credit	-	-	-	-
Other	-	-	-	-
Intergovernmental				
State grants				
Market value credit	-	-	-	-
Charges for Services	-	-	-	-
Interest	-	226	-	325
Miscellaneous				
Principal on loan repayments	8,822	-	-	-
Interest on loan repayments	1,888	-	-	-
Other	-	-	-	-
TOTAL REVENUES	<u>10,710</u>	<u>226</u>	<u>-</u>	<u>45,189</u>
EXPENDITURES				
Current				
Economic development				
Community development	-	-	-	-
Administration	-	-	-	3,310
Professional services	-	669	495	495
Loans	20,000	-	-	-
Tax increment projects	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Fiscal charges	-	-	-	-
TOTAL EXPENDITURES	<u>20,000</u>	<u>669</u>	<u>495</u>	<u>3,805</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(9,290)</u>	<u>(443)</u>	<u>(495)</u>	<u>41,384</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	495	-
Transfers out	-	-	-	(33,994)
Sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>495</u>	<u>(33,994)</u>
NET CHANGE IN FUND BALANCES	<u>(9,290)</u>	<u>(443)</u>	<u>-</u>	<u>7,390</u>
FUND BALANCES - JANUARY 1	<u>(675)</u>	<u>18,669</u>	<u>-</u>	<u>13,886</u>
FUND BALANCES - DECEMBER 31	<u>\$ (9,965)</u>	<u>\$ 18,226</u>	<u>\$ -</u>	<u>\$ 21,276</u>

Capital Projects Funds

<u>District VIII Tax Increment</u>	<u>District X Tax Increment</u>	<u>District XI Tax Increment</u>	<u>Public Works</u>	<u>Tax Abatement</u>	<u>Totals</u>
\$ 8,649	\$ 10,172	\$ 10,477	\$ -	\$ 6,217	\$ 178,768
-	-	-	-	1,603	18,763
-	-	-	-	761	8,903
-	-	-	-	1,419	16,597
-	-	-	-	-	389,835
197	134	65	8,555	429	15,269
-	-	-	-	-	95,807
-	-	-	-	-	21,826
-	-	-	-	-	25
<u>8,846</u>	<u>10,306</u>	<u>10,542</u>	<u>8,555</u>	<u>10,429</u>	<u>745,793</u>
-	-	-	-	4,601	27,897
-	-	-	-	-	82,641
495	495	495	-	-	99,627
-	-	-	-	3,806	103,806
7,812	7,193	-	-	-	15,005
-	-	-	-	-	375,000
-	-	-	-	-	125,490
-	-	-	-	-	3,845
<u>8,307</u>	<u>7,688</u>	<u>495</u>	<u>-</u>	<u>8,407</u>	<u>833,311</u>
<u>539</u>	<u>2,618</u>	<u>10,047</u>	<u>8,555</u>	<u>2,022</u>	<u>(87,518)</u>
-	-	-	-	-	98,165
-	-	(14,249)	(18,508)	-	(98,165)
-	-	-	-	-	30,368
-	-	(14,249)	(18,508)	-	30,368
539	2,618	(4,202)	(9,953)	2,022	(57,150)
15,016	7,935	4,202	403,119	33,345	1,955,360
<u>\$ 15,555</u>	<u>\$ 10,553</u>	<u>\$ -</u>	<u>\$ 393,166</u>	<u>\$ 35,367</u>	<u>\$ 1,898,210</u>

CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
December 31, 2008**

	<u>Student Housing</u>	<u>Family Center</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 4,392	\$ 97,539	\$ 101,931
Due from other governments	10,835	-	10,835
Loans receivable	-	652,122	652,122
TOTAL ASSETS	<u>15,227</u>	<u>749,661</u>	<u>764,888</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	4,392	-	4,392
Due to other funds	10,835	-	10,835
TOTAL LIABILITIES	<u>15,227</u>	<u>-</u>	<u>15,227</u>
NET ASSETS			
Unrestricted	-	749,661	749,661
TOTAL NET ASSETS	<u>\$ -</u>	<u>\$ 749,661</u>	<u>\$ 749,661</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, 2008**

	<u>Student Housing</u>	<u>Family Center</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 259,045	\$ -	\$ 259,045
Miscellaneous	1,037	-	1,037
TOTAL OPERATING REVENUES	<u>260,082</u>	<u>-</u>	<u>260,082</u>
OPERATING EXPENSES			
Personal services	2,046	-	2,046
Supplies	4	-	4
Maintenance and repairs	470	-	470
Contracted services	86,445	-	86,445
Utilities	54,205	-	54,205
Depreciation	47,044	-	47,044
Miscellaneous	3,560	-	3,560
TOTAL OPERATING EXPENSES	<u>193,774</u>	<u>-</u>	<u>193,774</u>
OPERATING INCOME	<u>66,308</u>	<u>-</u>	<u>66,308</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	19,367	-	19,367
Interest on notes	-	36,848	36,848
Interest expense	(115,703)	-	(115,703)
Amortization	(1,882)	-	(1,882)
Gain on disposal of student housing facility	35,414	-	35,414
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(62,804)</u>	<u>36,848</u>	<u>(25,956)</u>
INCOME (LOSS) BEFORE TRANSFERS	3,504	36,848	40,352
Transfers in	144,968	-	144,968
Transfers out	<u>-</u>	<u>(144,968)</u>	<u>(144,968)</u>
CHANGE IN NET ASSETS	148,472	(108,120)	40,352
TOTAL NET ASSETS - JANUARY 1	<u>(148,472)</u>	<u>857,781</u>	<u>709,309</u>
TOTAL NET ASSETS - DECEMBER 31	<u>\$ -</u>	<u>\$ 749,661</u>	<u>\$ 749,661</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended December 31, 2008

	Student Housing	Family Center	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 254,114	\$ -	\$ 254,114
Cash paid to suppliers	(140,200)	-	(140,200)
Cash paid to employees	(1,800)	-	(1,800)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>112,114</u>	<u>-</u>	<u>112,114</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfer in from other funds	144,968	-	144,968
Transfer out to other funds	-	(144,968)	(144,968)
Prior year cash deficit payment	(734,762)	-	(734,762)
Interfund financing of cash deficit	10,835	-	10,835
Principal received on note	-	32,640	32,640
Interest received on note	-	36,848	36,848
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(578,959)</u>	<u>(75,480)</u>	<u>(654,439)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase or construction of fixed assets	(29,165)	-	(29,165)
Principal paid on long-term debt	(2,170,000)	-	(2,170,000)
Interest paid on long-term debt	(117,516)	-	(117,516)
Sale of facility	1,527,753	-	1,527,753
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(788,928)</u>	<u>-</u>	<u>(788,928)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	<u>19,367</u>	<u>-</u>	<u>19,367</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,236,406)	(75,480)	(1,311,886)
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>1,240,798</u>	<u>173,019</u>	<u>1,413,817</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u><u>\$ 4,392</u></u>	<u><u>\$ 97,539</u></u>	<u><u>\$ 101,931</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 66,308	\$ -	\$ 66,308
Adjustments to reconcile operating income (loss) to net cash (used) provided by operating activities:			
Depreciation	47,044	-	47,044
Decrease in:			
Accounts receivable	5,832	-	5,832
Prepaid items	6,000	-	6,000
Increase (decrease) in:			
Accounts payable	4,392	-	4,392
Due to other governments	(5,662)	-	(5,662)
Customer deposits	(11,800)	-	(11,800)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 112,114</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 112,114</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, 2008

	<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>9,461</u>		<u>39,414</u>	
Captured Net Tax Capacity Retained by the City	<u>\$ 2,037</u>		<u>\$ 26,464</u>	
	Accounted for in	Current	Accounted for in	Current
	Prior Years	Year	Prior Years	Year
SOURCES OF FUNDS				
Bond proceeds	\$ 225,630	\$ -	\$ 726,091	\$ -
Note proceeds	121,000	-	-	-
Tax increments received	730,214	2,407	608,305	31,285
General property taxes received	17,921	-	-	-
Interest on invested funds	15,029	226	19,141	-
Grants	17,602	-	-	-
Local contributions	-	-	-	-
Miscellaneous	26,528	-	-	-
TOTAL SOURCES OF FUNDS	<u>1,153,924</u>	<u>2,633</u>	<u>1,353,537</u>	<u>31,285</u>
USES OF FUNDS				
Building acquisition	-	-	-	-
Other public improvements	295,796	-	325,000	-
Bond payments				
Principal	351,000	-	680,000	55,000
Interest and fiscal charges	195,991	-	300,836	2,465
Professional services	3,786	669	3,455	495
Administrative costs	19,980	-	87,092	-
TOTAL USES OF FUNDS	<u>866,553</u>	<u>669</u>	<u>1,396,383</u>	<u>57,960</u>
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS BEFORE TRANSFERS	<u>287,371</u>	<u>1,964</u>	<u>(42,846)</u>	<u>(26,675)</u>
TRANSFERS				
Transfers to other districts	(36,397)	(31,414)	(926)	-
Transfers to other funds	(366,646)	-	-	-
Transfers from other districts	140,000	-	19,735	26,675
Transfers from other funds	30,490	-	24,037	-
TOTAL TRANSFERS	<u>(232,553)</u>	<u>(31,414)</u>	<u>42,846</u>	<u>26,675</u>
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS AND TRANSFERS	<u>\$ 54,818</u>	<u>(29,450)</u>	<u>\$ -</u>	<u>-</u>
DISTRICT BALANCE - JANUARY 1		<u>54,818</u>		<u>-</u>
DISTRICT BALANCE - DECEMBER 31		<u>\$ 25,368</u>		<u>\$ -</u>

<u>Tax Increment District VII</u>		<u>Tax Increment District VIII</u>		<u>Tax Increment District X</u>		<u>Tax Increment District XI</u>	
Redevelopment		Qualified Housing		Economic Development		Redevelopment	
469		469		469		469	
1993		1993		1999		1999	
2019		2020		2009		2025	
	\$ 3,412		\$ -		\$ 671		\$ 525
	50,301		7,362		10,397		9,734
	<u>\$ 46,889</u>		<u>\$ 7,362</u>		<u>\$ 9,726</u>		<u>\$ 9,209</u>
Accounted for in	Current	Accounted for in	Current	Accounted for in	Current	Accounted for in	Current
Prior Years	Year	Prior Years	Year	Prior Years	Year	Prior Years	Year
\$ 320,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,000	\$ -
-	-	-	-	-	-	-	-
514,673	44,864	152,478	8,649	65,424	10,172	65,339	10,477
-	-	-	-	-	-	-	-
10,578	325	5,084	197	798	134	1,679	65
299,999	-	385,000	-	-	-	-	-
8,251	-	-	-	64,350	-	67,786	-
19,619	-	18,670	-	-	-	2,786	-
<u>1,173,120</u>	<u>45,189</u>	<u>561,232</u>	<u>8,846</u>	<u>130,572</u>	<u>10,306</u>	<u>302,590</u>	<u>10,542</u>
-	-	555,095	-	-	-	-	-
721,672	-	46,481	7,812	129,254	7,193	253,248	-
65,000	15,000	-	-	-	-	40,000	10,000
229,585	18,994	-	-	-	-	89,317	8,988
27,499	495	5,832	495	17,298	495	27,475	495
115,478	3,310	30,205	-	-	-	45	-
<u>1,159,234</u>	<u>37,799</u>	<u>637,613</u>	<u>8,307</u>	<u>146,552</u>	<u>7,688</u>	<u>410,085</u>	<u>19,483</u>
<u>13,886</u>	<u>7,390</u>	<u>(76,381)</u>	<u>539</u>	<u>(15,980)</u>	<u>2,618</u>	<u>(107,495)</u>	<u>(8,941)</u>
-	-	-	-	-	-	-	-
-	-	(4,926)	-	-	-	-	-
-	-	-	-	9,459	-	30,316	4,739
-	-	96,323	-	14,456	-	81,381	-
-	-	91,397	-	23,915	-	111,697	4,739
<u>\$ 13,886</u>	<u>7,390</u>	<u>\$ 15,016</u>	<u>539</u>	<u>\$ 7,935</u>	<u>2,618</u>	<u>\$ 4,202</u>	<u>(4,202)</u>
	<u>13,886</u>		<u>15,016</u>		<u>7,935</u>		<u>4,202</u>
	<u>\$ 21,276</u>		<u>\$ 15,555</u>		<u>\$ 10,553</u>		<u>\$ -</u>



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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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, 2008, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated June 25, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Public Utilities Commission, as described in our report on the City of Hibbing, Minnesota's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 City of Hibbing, Minnesota'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 City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2008-1, 2008-2, and 2008-3 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 City of Hibbing, Minnesota'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 significant deficiencies described above, we consider item 2008-3 to be a material weakness.

Compliance and Other Matters

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

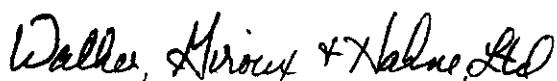
The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our study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

The results of our tests indicate that for the items tested, the City of Hibbing, Minnesota, complied with the material terms and conditions of applicable legal provisions, except as described in the schedule of findings and responses as item 2008-4.

We also noted certain additional matters that we reported to management of City of Hibbing, Minnesota in a separate letter dated June 25, 2009, 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.



June 25, 2009

CITY OF HIBBING, MINNESOTA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2008**

SIGNIFICANT DEFICIENCIES

2008-1. 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. The Finance Director will provide additional oversight to the operations of the finance office.
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, 2008

2008-2. LACK OF CONTROL OVER FINANCIAL REPORTING PROCESS

Condition and Criteria

As part of the audit, management requested us to prepare a draft of the City's 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 City'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; the City acknowledges that this finding is a result of the new SAS 112 requirements, which make this an expected finding given the cost/benefit of preparing the financial statements.
2. Actions Planned in Response to Finding
The City will continue to have the auditor prepare the financial statements; however, the City has included in its Internal Financial Control Policy procedures for maintaining the integrity of the financial statements and documenting the annual review of the financial statements.
3. Officials Responsible for Ensuring CAP
Sherri A. Lindstrom, Finance Director
Patrick L. Garrity, City Clerk/Treasurer
4. Planned Completion Date for CAP
The City has already implemented these policies and the review is ongoing.
5. Plan to Monitor Completion of CAP
Patrick L. Garrity, City Clerk/Treasurer is monitoring the procedures to ensure that they are consistent with the Internal Financial Control Policy. The City Council will also monitor the completion of the corrective action plan.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2008

2008-3. BANK RECONCILIATIONS

Condition

The bank accounts were not reconciled to the general ledger at December 31, 2008. Although the software system summary accounts do reconcile to the City's bank accounts, the City's general ledger does not reconcile to the summary accounts.

Criteria

The City bank accounts should be reconciled monthly to the City's general ledger.

Effect

Because cash is not reconciled to the general ledger, the City has not provided adequate control over the City's cash.

Cause

The City started using its software provider reconciliation during 2008. The software system is not configured such that the summary accounts tie to the general ledger.

Recommendations

The software system has to be configured to correctly reconcile the bank accounts to the City's general ledger. Bank accounts must be reconciled monthly with all differences accounted for.

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 software provider has been contacted and is in the process of configuring the summary to the City's general ledger. Bank accounts will be reconciled timely, with all differences accounted for.
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 summary account will be configured to the general ledger, and bank accounts will be reconciled completely by July 31, 2009.
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, 2008

MINNESOTA LEGAL COMPLIANCE

2008-4. INVESTMENT SAFEKEEPING

Condition

At December 31, 2008 the City had \$1,699,010 held at a broker-dealer whose executive office is not in Minnesota.

Criteria

Minnesota Stat. §118A.06 restricts the entities that can safekeep public investments. It states: "Investments, contracts, and agreements may be held in safekeeping with a securities broker-dealer having its principal executive office in Minnesota, licenses under Chapter 80A."

Effect

The City is in violation of the statute and has a minimal increased risk for investment loss.

Cause

The broker-dealer does not have a principal executive office in the State of Minnesota.

Recommendations

State Statutes must be followed relating to the safekeeping of public investments.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding. The City does feel, however, that all of the investments had adequate collateralization under FDIC and SIPC coverage limits.
2. Actions Planned in Response to Finding
The Finance Director will review and insure that all safekeeping of public investments are according to Minnesota Statutes. Until the question of compliance is resolved, the City has implemented a plan to reduce the investments with this broker-dealer in a manner that does not create an investment loss for the City.
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 review will be completed by July 31, 2009.
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, 2008, 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express 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 June 25, 2009, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated June 25, 2009, 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. Before audit adjustments, the City's accounts payable and due to other governmental units detail and summary workpapers did not agree to the liability posted on the City's general ledger. The detail and summary workpapers should agree to the amounts posted on the City's general ledger by fund and in total.
2. Before audit adjustments, the City's contracts payable, construction costs, and compensated absences payable detail and summary workpapers did not agree to the amounts posted on the City's general ledger. The detail and summary workpapers should agree to the amounts posted on the City's general ledger by fund and in total for all areas.
3. The City is usually posting reversing entries directly to the balance sheet. Some of the prior year reversals were not made until December 2008. We recommend using the software's automatic reversal system for more timely financial information and the prevention of incorrect reversing entries.

4. The City is using the same general ledger code for several construction contracts in the Sewer Operating and Maintenance Enterprise Fund. In order to better account for the projects, we recommend each contract have a unique code.
5. The police department is not providing timely and complete grant information to the finance office clerk in charge of grants. The finance office should have all grant information to properly account for all grants and for record retention purposes.
6. The City is only receiving copies of the front of the payroll checks from the bank. We recommend that the City request copies of both the front and the back of the payroll checks.
7. The City of Hibbing does not have a council approved policy for electronic transfers. The City Council should approve a policy for electronic transfers to strengthen controls in this area.

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.

Walker, Hironaka + Walker, Ltd

June 25, 2009