

CITY OF HIBBING, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2009

CITY OF HIBBING, MINNESOTA

TABLE OF CONTENTS

December 31, 2009

	<u>Page</u>
Organization	1
Financial Section	
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-12
Basic Financial Information	
Government-wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14-15
Fund Financial Statements	
Governmental Funds	
Balance Sheet	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes to Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds	
Statement of Net Assets	20
Statement of Revenues, Expenses and Changes in Fund Net Assets	21
Statement of Cash Flows	22-23
Notes to Financial Statements	24-56
Required Supplementary Information	
General Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	57
Library Special Revenue Fund - Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	58
Infrastructure Condition Data	59-60
Schedule of Funding Progress for Postemployment Benefit Plans	61
Notes to Required Supplementary Information	62

CITY OF HIBBING, MINNESOTA

TABLE OF CONTENTS (CONTINUED)
December 31, 2009

Other Supplementary Information

Combining and Individual Fund Financial Statements and Schedules	
Nonmajor Governmental Funds	63
Combining Balance Sheet	64-65
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	66-67
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances	68-70
Library Special Revenue Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances	71
Housing Incentive Special Revenue Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances	72
Small Cities Development Special Revenue Fund	
Statement of Revenues Expenditures and Changes in Fund Balances	73
Minnesota Investment Revolving Loans Special Revenue Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances	74
Debt Service Funds	
Combining Statement of Revenue, Expenditures and Changes in Fund Balances	75
Capital Projects Fund	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	76-77
Hibbing Economic Development Authority - Component Unit	
Governmental Funds	
Combining Balance Sheet	78-80
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	81-83

CITY OF HIBBING, MINNESOTA

TABLE OF CONTENTS (CONTINUED)
December 31, 2009

Hibbing Economic Development Authority - Component Unit (Continued)

Enterprise Fund

Combining Statement of Net Assets	84
Combining Statement of Revenues, Expenses and Changes in Net Assets	85
Combining Statement of Cash Flows	86
Schedule of Sources and Uses of Public Funds	
Tax Increment Financing Districts III, VI, VII, VIII, X and XI	87-88

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**

89-90

Schedule of Findings and Responses

91-96

Management Letter

97-99

CITY OF HIBBING, MINNESOTA

ORGANIZATION
December 31, 2009

CITY COUNCIL

Mayor	Richard Wolff
Council Members	
Ward A	Darby Sater
Ward B	Patricia Shafer
Ward C	Jack Lund
Ward D	Timothy Harkonen
Ward E	Frank Bigelow
Clerk/Treasurer	Patrick L. Garrity

ADMINISTRATION

Administrator	Brian J. Redshaw
Finance Director	Sherri Renskers

APPOINTED

City Assessor	Bruce Sandberg
City Attorney	Richard K. Sellman

FINANCIAL SECTION

Fort & Company, P.A.

Certified Public Accountants

John W. Fort, CPA
Christine A. Towner, CPA

Diane D. Krueger-Pirnat, CPA
Tammy M. Mattonen, CPA

Kimberly A. Maxie

Connor B. Michels, EA
Victoria C. Kolo

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, 2009, 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 92 percent, 94 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 related 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, 2009, 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 28, 2010, 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.

Independent Auditor's Report

June 28, 2010

Page 2

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.

Fort & Company

Fort & Company, P.A.

June 28, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2009

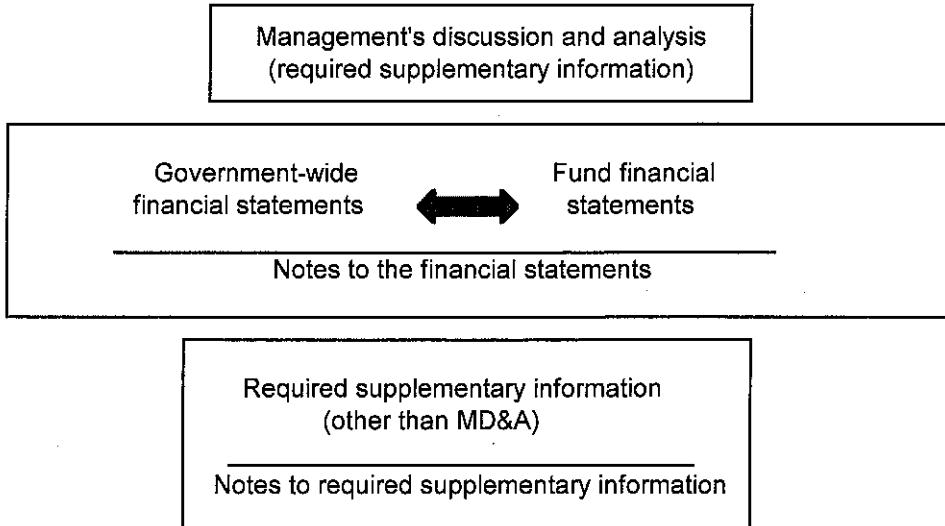
The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2009. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Hibbing, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$30,947,005, of which \$21,330,848 is invested in capital assets, net of related debt.
- Business-type activities have total net assets of \$12,868,095. Invested in capital assets, net of related debt represents \$15,446,258 of the total.
- The Hibbing Economic Development Authority (EDA) has total net assets of \$2,164,531. Invested in capital assets, net of related debt represents \$147,037 of the total.
- The City of Hibbing's primary government's net assets decreased by (\$607,225) for the year ended December 31, 2009. The Governmental activities' net assets decreased by (\$744,054) and the business-type activities' net assets increased by \$136,829.
- The EDA's net assets increased by \$685,715.
- The net cost of governmental activities was \$16,524,051 for the current year. The net cost was funded by general revenues and other items totaling \$15,779,997.
- Governmental funds' fund balances increased by \$3,135,589.
- The increase in governmental funds' fund balance is attributable to the following combination of events: \$1,832,500 in debt proceeds issued, and \$1,334,974 of excess revenues over expenditures. The City was, in part, able to achieve this excess of revenues over expenditures due to receipt of \$457,346 in LGA payments greater than budgeted and general fund and library fund expenditures coming in under budget by \$271,196.

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, 2009

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 on 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 to 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.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

Governmental funds

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

Proprietary funds

When the City charges customers for the services it provides (whether to outside customers or to other units of the City) these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net 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 that are reported in the government-wide statements but provide more detail and additional information, such as cash flows.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets decreased from \$44,422,325 to \$43,815,100. Looking at the net assets and net expenses of governmental and business-type activities separately, however, reveal differences. The 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	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 17,437,577	\$ 15,417,629	\$ (1,480,330)	\$ (1,186,770)	\$ 15,957,247	\$ 14,230,859
Capital assets	<u>24,995,914</u>	<u>25,015,479</u>	<u>24,987,565</u>	<u>24,683,370</u>	<u>49,983,479</u>	<u>49,698,849</u>
Total assets	<u>\$ 42,433,491</u>	<u>\$ 40,433,108</u>	<u>\$ 23,507,235</u>	<u>\$ 23,496,600</u>	<u>\$ 65,940,726</u>	<u>\$ 63,929,708</u>
Long-term liabilities	\$ 9,332,163	\$ 5,404,202	\$ 9,590,629	\$ 10,140,246	\$ 18,922,792	\$ 15,544,448
Other liabilities	<u>2,154,323</u>	<u>3,337,847</u>	<u>1,048,511</u>	<u>625,088</u>	<u>3,202,834</u>	<u>3,962,935</u>
Total liabilities	<u>\$ 11,486,486</u>	<u>\$ 8,742,049</u>	<u>\$ 10,639,140</u>	<u>\$ 10,765,334</u>	<u>\$ 22,125,626</u>	<u>\$ 19,507,383</u>
Net assets						
Invested in capital assets						
net of debt	\$ 21,330,848	\$ 22,625,193	\$ 15,446,258	\$ 14,587,292	\$ 36,777,106	\$ 37,212,485
Restricted	<u>2,820,997</u>	<u>1,139,430</u>	-	-	<u>2,820,997</u>	<u>1,139,430</u>
Unrestricted	<u>6,795,160</u>	<u>7,926,436</u>	<u>(2,578,163)</u>	<u>(1,856,026)</u>	<u>4,216,997</u>	<u>6,070,410</u>
Total net assets	<u>\$ 30,947,005</u>	<u>\$ 31,691,059</u>	<u>\$ 12,868,095</u>	<u>\$ 12,731,266</u>	<u>\$ 43,815,100</u>	<u>\$ 44,422,325</u>

Net assets of the City's governmental activities decreased by 2.25 percent (\$30,947,005 compared to \$31,691,059). 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 requirements) changed from \$7,926,436 at December 31, 2008 to \$6,795,160 at the end of 2009.

Net assets of the City's business-type activities increased 1.07 percent (\$12,868,095 in 2009 compared to \$12,731,266 in 2008).

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,311,135	\$ 2,224,154	\$ 4,733,988	\$ 4,921,391	\$ 7,045,123	\$ 7,145,545
Operating grants and contributions	871,214	1,043,600	-	-	871,214	1,043,600
Capital grants and contributions	1,103,281	707,357	167,866	18,859	1,271,147	726,216
General revenues:						
Taxes	6,665,351	6,590,207	-	-	6,665,351	6,590,207
Intergovernmental	9,102,821	8,115,786	-	-	9,102,821	8,115,786
Other general revenues	58,063	132,861	3,068	4,968	61,131	137,829
Total revenues	<u>20,111,865</u>	<u>18,813,965</u>	<u>4,904,922</u>	<u>4,945,218</u>	<u>25,016,787</u>	<u>23,759,183</u>
Program expenses:						
General government	3,783,484	3,863,688	-	-	3,783,484	3,863,688
Public safety	8,069,475	8,224,745	-	-	8,069,475	8,224,745
Public works	4,931,162	4,956,806	-	-	4,931,162	4,956,806
Culture and recreation	3,458,930	3,580,245	-	-	3,458,930	3,580,245
Other	392,161	533,456	-	-	392,161	533,456
Interest	174,469	136,584	-	-	174,469	136,584
Garbage and refuse collection	-	-	2,364,653	2,442,212	2,364,653	2,442,212
Sewer operating and maintenance	-	-	2,400,712	2,406,519	2,400,712	2,406,519
Memorial building concessions	-	-	2,728	11,039	2,728	11,039
Total program expenses	<u>20,809,681</u>	<u>21,295,524</u>	<u>4,768,093</u>	<u>4,859,770</u>	<u>25,577,774</u>	<u>26,155,294</u>
Transfers to component unit	<u>(46,238)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46,238)</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ (744,054)</u>	<u>\$ (2,481,559)</u>	<u>\$ 136,829</u>	<u>\$ 85,448</u>	<u>\$ (607,225)</u>	<u>\$ (2,396,111)</u>

The City's total revenues increased by \$1,257,604 or 5.29 percent. The total cost of all programs and services decreased by (\$577,520) or 2.21 percent. Our analysis below separately considers the operations of governmental, business-type activities, and EDA - Component Unit activity.

Governmental Activities

Revenue for the City's governmental activities increased by \$1,297,000 or 6.90 percent while total expenses decreased by (\$485,843) or 2.28 percent. The decrease in net assets for governmental activities was \$(843,674) in 2009.

The cost of all governmental activities this year was \$20,809,681. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs, \$2,311,135, or by other governments and organizations that subsidized certain programs with grants and contributions, \$11,077,316. Our taxpayers paid \$6,665,351 in taxes in 2009.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2009

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Public safety	\$ 8,069,475	\$ 8,224,745	\$ 6,238,512	\$ 6,326,849
Public works	4,931,162	4,956,806	3,416,084	3,913,500
General government	3,783,484	3,863,688	3,471,320	3,547,786
Culture and recreation	3,458,930	3,580,245	3,061,960	3,214,010
Other	392,161	533,456	161,706	181,684
Interest on long-term debt	174,469	136,584	174,469	136,584
Totals	\$ 20,809,681	\$ 21,295,524	\$ 16,524,051	\$ 17,320,413

Business-Type Activities

Revenues of the City's business-type activities were \$4,904,922 and expenses were \$4,768,093 (see Table 2). There was an increase in net assets of \$136,829 during the year ended December 31, 2009. The factors driving these results include:

Operations produced \$186,143 of income for the year ended December 31, 2009.

The City received capital grants totaling \$167,866 for the year.

The City had non-operating interest expense totaling \$224,002 for the year.

EDA Component Unit Activity

The EDA had a net increase in net assets of \$685,715 for the year ended December 31, 2009. General revenues such as taxes and grants not restricted to specific programs accounted for \$340,410 of this, with net program revenues over expenses of \$345,305.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$14,771,173 which is greater than last year's total of \$11,635,584. Included in this year's total fund balance is a surplus of \$10,312,755 in the City's general fund. The general fund had a increase of \$764,258 due to a favorable variances on revenues and expenses of \$552,927 and \$222,339, respectively. The Library Fund recorded a \$50,709 increase in fund balance due to a transfer in of \$70,529 from the General Fund and favorable variance on expenditures for the year of \$48,857. The largest increase in other governmental funds was for \$1,630,817 in the Capital Equipment and Improvement Capital Projects Fund which was due to the receipt of bond proceeds of \$1,832,500 in 2009 versus the unfunded capital outlay of \$823,005 which occurred in 2008. The next largest increase was \$657,299 in the Other Postemployment Benefits Debt Service Fund due to transfers in.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$222,339 below the final budget amounts. The most significant positive variances occurred in the City's public works, \$290,244, and miscellaneous, \$390,136. The most significant negative variance (\$209,989) occurred in the City's public safety program. Resources available for appropriation were above the final budgeted amounts. The City received more in intergovernmental revenue, taxes and charges for services, and less licenses and permit revenue than expected.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2009

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the City had \$49,983,479 invested in a broad range of capital assets, net of accumulated depreciation, including land, land improvements, buildings, infrastructure and equipment (see Table 4 below). This amount represents a net increase (including additions and deductions) of \$284,630 over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land, improvements, artwork, gravel roads	\$ 6,336,169	\$ 6,336,169	\$ 130,057	\$ 130,057	\$ 6,466,226	\$ 6,466,226
Buildings and improvements	8,266,508	8,322,217	17,604,133	18,306,337	25,870,641	26,628,554
Infrastructure	6,457,071	6,553,692	4,230,315	3,376,310	10,687,386	9,930,002
Equipment, machinery and furniture	2,828,519	2,835,315	947,486	401,721	3,776,005	3,237,036
Construction in progress	1,107,647	968,086	2,075,574	2,468,945	3,183,221	3,437,031
Totals	\$ 24,995,914	\$ 25,015,479	\$ 24,987,565	\$ 24,683,370	\$ 49,983,479	\$ 49,698,849

This Year's major additions included:

Ambulance	\$ 29,993
ALS monitors	102,944
Cemetery Columbarium	21,188
Finance office server	6,193
Human Resources software	22,260
Fire Station improvements	5,284
Fire pump equipment	7,182
Fire surveillance system	4,518
Fire portable radios	61,472
Fire extrication equipment	5,656
Fire hall server	12,709
Pressure washer	7,896
Garage exhaust system	5,575
Screen plant	16,412
Backhoe track rebuild	8,758
Grader	178,059
2 Int'l dump boxes	28,242
Office equipment	1,747
Curling club roof	21,765
2 police cars	43,694
Vic Power improvements	12,507
Brooklyn warming shack	5,697
Memorial benches	6,448
Playstructure	49,262
Utility vehicle	11,885
MSA 5th Ave. W. road work	957,412

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2009

MSA projects	\$ 238,574
Animal shelter	118,801
Bennett Park cold storage	122,009
Library improvements	5,000
Cemetery software	10,799
Fire Hall training tower	3,501
Curling club leak repair	5,400

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 \$20,770,292 in long-term debt outstanding versus \$17,264,448 last year (see Table 5).

Table 5
Outstanding Debt at Year-end

	Governmental Activities		Business-type Activities		EDA Component Unit	
	2009	2008	2009	2008	2009	2008
General obligation bonds (backed by the City)	\$ 1,745,000	\$ 440,000	\$ -	\$ -	\$ 1,847,500	\$ 1,720,000
Certificates of indebtedness	519,000	716,000	-	-	-	-
Capital leases	1,401,067	1,234,286	-	-	-	-
Police and Fire indebtedness	-	-	-	-	-	-
General obligation revenue notes	-	-	7,156,000	7,643,000	-	-
General obligation revenue bonds	-	-	2,300,000	2,365,000	-	-
Compensated absences	439,126	469,852	134,629	132,246	-	-
OPEB liability	5,227,970	2,544,064	-	-	-	-
Total	\$ 9,332,163	\$ 5,404,202	\$ 9,590,629	\$ 10,140,246	\$ 1,847,500	\$ 1,720,000

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 \$1,745,000 is significantly below the \$21,590,769 State-imposed limit.

The City had two new debt issuances during the year:

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

Pursuant to the City entering into a lease with option to purchase agreement with the EDA on an animal shelter in May 2009, the EDA Component Unit issued \$462,500 of Public Project Revenue Bonds for the construction of the facility.

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, 2009

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2010 budget, tax rates, and fees that will be charged for the business-type activities.

The State of Minnesota reduced the City's local government aid by \$889,350 from the then current law formula, resulting in a 4.9% decrease from the prior year. During the 2010 legislative session, the Legislature unallotted an additional \$451,360, from the Market Value Homestead Credit (MVHC) for a combined reduction of \$1,340,710 for 2010; a 15.1% reduction in 2010 original law amounts and 10.3% reduction from the prior year.

The General Fund expenditures for 2010 are budgeted to decrease 2.6% from the 2009 final budget and 10.2% decrease from the 2009 original budget.

Property tax levies will increase 9.7% for 2010.

Consistent with the national and global economy, rising health care and fuel costs significantly impact the City's budgets.

Subsequent to adopting the 2010 budget, the Legislature unallotted Market Value Homestead Credit for 2010 in the amount of \$451,360. The State is facing a nearly \$6 billion deficit in the next biennium, which likely will result in significant decreases in aid from the State. The amount is unknown at this time.

The City's 2010 capital budget calls for it to spend another \$1,875,000 for capital projects, principally for the following:

General government	\$ 28,000
Public works	110,000
Public safety	215,000
Parks and recreation - arena	115,000
Library	730,000
Other	628,000
Cemetery	49,000
<hr/> Total	<hr/> <u>\$ 1,875,000</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS
December 31, 2009

	Primary government			Component Units	
	Governmental Activities		Business type Activities	Total	EDA
ASSETS					
Cash and cash equivalents	\$ 12,933,095	\$ 201,731	\$ 13,134,826	\$ 1,626,973	\$ 1,900,025
Investments	776,740	-	776,740	386,229	-
Taxes receivable	295,637	-	295,637	142,099	-
Special assessments receivable	147,594	152,359	299,953	-	-
Accounts receivable	463,583	16,701	480,284	-	4,272,620
Interest receivable	3,609	-	3,609	-	-
Unbilled revenues	-	-	-	-	1,398,903
Internal balances	2,241,629	(2,241,629)	-	-	-
Due from other governments	305,233	-	305,233	-	-
Due from other component units	-	373,307	373,307	-	-
Due from primary government	-	-	-	462,500	-
Loans receivable	143,713	-	143,713	1,749,289	-
Inventories	-	5,367	5,367	-	1,224,185
Prepaid expenses	126,744	11,834	138,578	3,865	448,329
Equity in joint venture	-	-	-	-	10,437,730
Temporarily restricted assets	-	-	-	46,238	1,468,000
Cash and cash equivalents	-	-	-	-	618,967
Investments held with fiscal agents	-	-	-	-	-
Capital assets not being depreciated	-	-	-	-	-
Land, improvements, artwork, gravel roads and construction in progress	7,443,816	2,205,631	9,649,447	127,338	790,469
Capital assets net of accumulated depreciation	-	-	-	-	-
Infrastructure	19,922,509	4,419,418	24,341,927	19,699	-
Buildings and improvements	20,717,544	26,698,621	47,416,165	-	8,563,023
Transmissions and distribution system	-	-	-	-	45,218,653
Equipment, machinery and furniture	9,992,596	3,032,443	13,025,039	-	45,915,882
Less: accumulated depreciation	(33,080,551)	(11,368,548)	(44,449,099)	-	(66,333,933)
TOTAL ASSETS	\$ 42,433,491	\$ 23,507,235	\$ 65,940,726	\$ 4,564,230	\$ 55,922,853
LIABILITIES AND NET ASSETS					
Accounts payable	\$ 267,587	\$ 59,979	\$ 327,566	\$ 22,692	\$ 3,501,399
Salaries payable	1,011,641	38,774	1,050,415	415	-
Notes payable	-	-	-	-	-
Due to other governments	327,725	17,286	345,011	3,084	-
Due to primary governments	-	-	-	-	345,607
Contracts payable	137,873	29,952	167,825	-	-
Customer deposits	-	-	-	-	179,771
Other accrued liabilities	12,409	23	12,432	-	97,356
Deferred revenues	339,658	732,971	1,072,629	480,723	41,828
Accrued interest payable	57,430	85,307	142,737	45,285	103,247
Compensated absences	-	84,219	84,219	-	392,558
Long-term liabilities	-	-	-	-	-
Due to component unit	462,500	-	462,500	-	-
Due within one year	754,686	580,000	1,334,686	386,551	708,249
Due in more than one year	8,114,977	9,010,629	17,125,606	1,460,949	15,731,123
TOTAL LIABILITIES	\$ 11,486,486	\$ 10,639,140	\$ 22,125,626	\$ 2,399,699	\$ 21,101,138
NET ASSETS					
Invested in capital assets, net of related debt	21,330,848	15,446,258	36,777,106	147,037	30,548,222
Restricted for:	-	-	-	-	-
Capital projects	2,250,463	-	2,250,463	-	-
Debt service	300,201	-	300,201	780,390	1,246,401
Other purposes	290,333	-	290,333	81,109	-
Unrestricted	6,775,160	(2,578,163)	4,196,997	1,155,995	3,027,092
TOTAL NET ASSETS	30,947,005	12,868,095	43,815,100	2,164,531	34,821,715
TOTAL LIABILITIES AND NET ASSETS	\$ 42,433,491	\$ 23,507,235	\$ 65,940,726	\$ 4,564,230	\$ 55,922,853

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental activities				
General government	\$ 3,783,484	\$ 299,772	\$ 12,392	\$ -
Public safety	8,069,475	1,506,436	324,527	-
Public works	4,931,162	90,043	331,891	1,093,144
Culture and recreation	3,458,930	377,063	9,770	10,137
Economic development	165,223	1,214	-	-
Transportation	226,938	36,607	192,634	-
Interest on long-term debt	174,469	-	-	-
Total Governmental Activities	<u>20,809,681</u>	<u>2,311,135</u>	<u>871,214</u>	<u>1,103,281</u>
Business-type Activities				
Garbage and refuse collection	2,364,653	2,429,970	-	-
Sewer operating and maintenance	2,400,712	2,295,708	-	167,866
Memorial building concessions	2,728	8,310	-	-
Total Business-type Activities	<u>4,768,093</u>	<u>4,733,988</u>	<u>-</u>	<u>167,866</u>
Total Primary Government	<u>\$ 25,577,774</u>	<u>\$ 7,045,123</u>	<u>\$ 871,214</u>	<u>\$ 1,271,147</u>
Component Units				
EDA	\$ 510,119	\$ 389,780	\$ 345,644	\$ 120,000
PUC	24,639,814	27,364,511	-	-
Total Component Units	<u>\$ 25,149,933</u>	<u>\$ 27,754,291</u>	<u>\$ 345,644</u>	<u>\$ 120,000</u>
General Revenues				
Taxes				
Property taxes, levied for general purposes				
Property taxes, levied for specific purposes				
Franchise taxes				
Tax increment financing				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Gain on sale of capital assets				
Transfers				
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	
\$ (3,471,320)	\$ -	\$ (3,471,320)			
(6,238,512)	-	(6,238,512)			
(3,416,084)	-	(3,416,084)			
(3,061,960)	-	(3,061,960)			
(164,009)	-	(164,009)			
2,303	-	2,303			
(174,469)	-	(174,469)			
<u>(16,524,051)</u>	<u>-</u>	<u>(16,524,051)</u>			
-	65,317	65,317			
-	62,862	62,862			
-	5,582	5,582			
<u>-</u>	<u>133,761</u>	<u>133,761</u>			
<u>(16,524,051)</u>	<u>133,761</u>	<u>(16,390,290)</u>			
			\$ 345,305	\$ -	
			<u>-</u>	<u>2,724,697</u>	
			<u>\$ 345,305</u>	<u>\$ 2,724,697</u>	
4,956,523	-	4,956,523			
1,556,377	-	1,556,377	150,967	-	
152,451	-	152,451	-	-	
-	-	-	117,151	-	
9,102,821	-	9,102,821	24,210	-	
43,710	3,068	46,778	1,844	8,208	
14,353	-	14,353	-	-	
(46,238)	-	(46,238)	46,238	-	
<u>15,779,997</u>	<u>3,068</u>	<u>15,783,065</u>	<u>340,410</u>	<u>8,208</u>	
(744,054)	136,829	(607,225)	685,715	2,732,905	
<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>	
<u>\$ 30,947,005</u>	<u>\$ 12,868,095</u>	<u>\$ 43,815,100</u>	<u>\$ 2,164,531</u>	<u>\$ 34,821,715</u>	

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

CITY OF HIBBING, MINNESOTA

**BALANCE SHEET
GOVERNMENTAL FUNDS**

December 31, 2009

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 8,186,278	\$ 132,970	\$ 4,455,230	\$ 12,774,478
Investments	776,740	-	-	776,740
Taxes receivable	278,895	6,037	10,705	295,637
Special assessments receivable	-	-	147,594	147,594
Accounts receivable	408,275	3,141	52,167	463,583
Interest receivable	3,609	-	-	3,609
Due from other funds	2,241,629	-	-	2,241,629
Due from other governments	120,291	7,423	177,519	305,233
Loans receivables	-	-	143,713	143,713
Prepaid items	122,241	4,503	-	126,744
TOTAL ASSETS	\$ 12,137,958	\$ 154,074	\$ 4,986,928	\$ 17,278,960
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 120,499	\$ 2,159	\$ 144,930	\$ 267,588
Salaries payable	962,781	48,860	-	1,011,641
Due to other funds	-	-	-	-
Due to other governments	267,781	5,402	54,543	327,726
Contracts payable	-	-	137,873	137,873
Deferred revenue	461,733	-	288,817	750,550
Other accrued liabilities	12,409	-	-	12,409
TOTAL LIABILITIES	1,825,203	56,421	626,163	2,507,787
FUND BALANCES				
Reserved for				
Encumbrances	-	-	20,000	20,000
Prepaid items	122,241	4,503	-	126,744
Other purposes	27,087	-	50,000	77,087
Unreserved, designated	9,134,964	-	1,917,622	11,052,586
Unreserved, undesignated reported in				
General fund	1,028,463	-	-	1,028,463
Special revenue funds	-	93,150	142,680	235,830
Capital projects funds	-	-	2,230,463	2,230,463
TOTAL FUND BALANCES	10,312,755	97,653	4,360,765	14,771,173
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,137,958	\$ 154,074	\$ 4,986,928	\$ 17,278,960

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, 2009

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 14,771,173
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	24,995,914
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements	410,893
A portion of assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets	158,618
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(57,430)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(9,332,163)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 30,947,005</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, 2009

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 5,032,389	\$ 561,257	\$ 995,121	\$ 6,588,767
Special assessments	-	-	53,183	53,183
Licenses and permits	131,846	-	-	131,846
Intergovernmental	9,455,006	89,902	1,549,904	11,094,812
Charges for services	1,803,670	22,668	14,366	1,840,704
Fines	123,657	-	-	123,657
Gifts and contributions	7,525	9,770	19,619	36,914
Interest	30,434	-	12,526	42,960
Miscellaneous	82,823	-	21,499	104,322
TOTAL REVENUES	16,667,350	683,597	2,666,218	20,017,165
EXPENDITURES				
Current				
General government	1,801,068	-	-	1,801,068
Public safety	6,085,436	-	-	6,085,436
Public works	2,734,265	-	-	2,734,265
Culture and recreation	1,916,983	703,417	-	2,620,400
Economic development	111,859	-	415	112,274
Transportation	230,489	-	-	230,489
Miscellaneous	1,945,971	-	16,403	1,962,374
Debt Service				
Principal	241,800	-	315,920	557,720
Interest and other charges	60,403	-	101,598	162,001
Capital Outlay				
General government	-	-	28,926	28,926
Public safety	-	-	386,811	386,811
Public works	-	-	1,719,508	1,719,508
Culture and recreation	-	-	247,932	247,932
Miscellaneous	-	-	32,987	32,987
TOTAL EXPENDITURES	15,128,274	703,417	2,850,500	18,682,191
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	1,539,076	(19,820)	(184,282)	1,334,974
OTHER FINANCING SOURCES (USES)				
Transfers in	-	70,529	719,454	789,983
Transfers out	(789,983)	-	(46,238)	(836,221)
Debt issuance	-	-	1,832,500	1,832,500
Sale of capital assets	15,165	-	(812)	14,353
TOTAL OTHER FINANCING SOURCES (USES)	(774,818)	70,529	2,504,904	1,800,615
NET CHANGE IN FUND BALANCES	764,258	50,709	2,320,622	3,135,589
FUND BALANCES - JANUARY 1	9,548,497	46,944	2,040,143	11,635,584
FUND BALANCES - DECEMBER 31	\$ 10,312,755	\$ 97,653	\$ 4,360,765	\$ 14,771,173

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 GOVERNAMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended December 31, 2009

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 3,135,589

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

Expenditures for capital assets	2,138,841
Less current year depreciation	(2,155,668)
Less current year asset writeoff	<u>(2,737)</u>
Net capital assets	(19,564)

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	76,585
Change in deferred revenue - special assessments	23,276
Change in deferred revenue - loans receivable	<u>(20,284)</u>
	79,577

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

Debt issued	(1,832,500)
Principal repaid	<u>557,719</u>
	(1,274,781)

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	(12,465)
Change in long-term compensated absences	30,726
Change in long-term other postemployment benefits	<u>(2,683,906)</u>
	(2,665,645)

Internal service funds were historically 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.

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (744,054)

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2009

Business-type Activities - Enterprise Funds						
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals		Governmental Activities - Insurance Internal Service Fund
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ 148,858	\$ 148,858	\$ 211,491	
Special assessments receivable	1,522	150,837	-	152,359	-	
Accounts receivable	10,901	5,800	-	16,701	-	
Due from component units	158,200	215,107	-	373,307	-	
Inventories	5,367	-	-	5,367	-	
Prepaid expenses	7,053	4,781	-	11,834	-	
TOTAL CURRENT ASSETS	183,043	376,525	148,858	708,426	211,491	
NONCURRENT ASSETS						
OTHER ASSETS						
Capital assets						
Land and improvements	-	130,057	-	130,057	-	
Construction in progress	-	2,075,574	-	2,075,574	-	
Infrastructure	-	4,419,418	-	4,419,418	-	
Buildings and improvements	94,976	26,603,645	-	26,698,621	-	
Equipment, machinery, and furniture	2,513,405	494,678	24,360	3,032,443	-	
Less accumulated depreciation	(1,731,218)	(9,612,970)	(24,360)	(11,368,548)	-	
TOTAL NONCURRENT ASSETS	877,163	24,110,402	-	24,987,565	-	
TOTAL ASSETS	1,060,206	24,486,927	148,858	25,695,991	211,491	
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	41,644	18,257	78	59,979	-	
Salaries payable	19,711	19,063	-	38,774	-	
Accrued interest payable	-	85,307	-	85,307	-	
Due to other funds	24,319	2,217,310	-	2,241,629	-	
Due to other governments	9,989	7,297	-	17,286	-	
Other accrued expenses	-	23	-	23	-	
Deferred revenue	-	732,971	-	732,971	-	
Compensated absences	42,401	41,818	-	84,219	-	
Contracts payable	-	29,952	-	29,952	-	
Bonds, notes and loans payable-current	-	580,000	-	580,000	-	
TOTAL CURRENT LIABILITIES	138,064	3,731,998	78	3,870,140	-	
NONCURRENT LIABILITIES						
Compensated absences	59,343	75,286	-	134,629	-	
Bonds, notes and loans payable	-	8,876,000	-	8,876,000	-	
TOTAL NONCURRENT LIABILITIES	59,343	8,951,286	-	9,010,629	-	
TOTAL LIABILITIES	\$ 197,407	\$ 12,683,284	\$ 78	\$ 12,880,769	\$ -	
NET ASSETS						
Invested in Capital assets, net of related debt	877,163	14,569,095	-	15,446,258	-	
Unrestricted	(14,364)	(2,765,452)	148,780	(2,631,036)	211,491	
TOTAL NET ASSETS	\$ 862,799	\$ 11,803,643	\$ 148,780	\$ 12,815,222	\$ 211,491	

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.

52,873

Total net assets per government-wide financial statements

\$ 12,868,095

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, 2009

Business-type Activities - Enterprise Funds						
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	Governmental Activities - Insurance Internal Service Fund	
OPERATING REVENUES						
Charges for services	\$ 2,428,778	\$ 2,260,643	\$ 8,310	\$ 4,697,731	\$	-
Sewer connect fees	-	35,065	-	35,065	-	-
Miscellaneous	1,192	-	-	1,192	-	-
TOTAL OPERATING REVENUES	2,429,970	2,295,708	8,310	4,733,988	-	-
OPERATING EXPENSES						
Personal services	769,810	729,561	-	1,499,371	-	-
Contractual services	1,108,282	67,183	-	1,175,465	-	-
Administration	2,912	-	-	2,912	-	-
Utilities	86,151	234,435	-	320,586	-	-
Repairs and maintenance	5,942	61,802	2,142	69,886	-	-
Other supplies and expenses	200,953	194,083	171	395,207	-	-
Insurance claims and expenses	46,736	39,770	-	86,506	-	-
Depreciation	140,042	834,369	-	974,411	-	-
Miscellaneous	3,711	19,375	415	23,501	-	-
OTHER OPERATING EXPENSES	2,364,539	2,180,578	2,728	4,547,845	-	-
OPERATING INCOME	65,431	115,130	5,582	186,143	-	-
NONOPERATING REVENUES (EXPENSES)						
Interest income	2,004	-	807	2,811	1,027	-
Miscellaneous revenue (expense)	(114)	3,868	-	3,754	-	-
Interest expense	-	(224,002)	-	(224,002)	-	-
TOTAL NONOPERATING REVENUES (EXPENSES)	1,890	(220,134)	807	(217,437)	1,027	-
INCOME (LOSS) BEFORE CAPITAL GRANTS	67,321	(105,004)	6,389	(31,294)	1,027	-
CAPITAL GRANTS	-	167,866	-	167,866	-	-
CHANGE IN NET ASSETS	67,321	62,862	6,389	136,572	1,027	-
TOTAL NET ASSETS - JANUARY 1	795,478	11,740,781	142,391	12,678,650	210,464	-
TOTAL NET ASSETS - DECEMBER 31	\$ 862,799	\$ 11,803,643	\$ 148,780	\$ 12,815,222	\$ 211,491	-
Change in net assets, per above				\$ 136,572		
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.				257		
Change in business-type activities in net assets per government-wide financial statements				<u>\$ 136,829</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, 2009

Business-type Activities - Enterprise Funds					
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	Governmental Activities - Insurance Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,474,755	\$ 2,270,065	\$ 8,310	\$ 4,753,130	\$ -
Cash paid to suppliers	(1,695,487)	(928,115)	(6,114)	(2,629,716)	-
Cash paid to employees	(524,607)	(532,467)	-	(1,057,074)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	254,661	809,483	2,196	1,066,340	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Miscellaneous collection	(114)	3,868	-	3,754	128
Interfund financing of cash deficit	24,319	-	-	24,319	-
Prior year cash deficit payment	-	(143,066)	-	(143,066)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	24,205	(139,198)	-	(114,993)	128
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	(637,094)	(641,512)	-	(1,278,606)	-
Principal paid on long-term debt	-	(552,000)	-	(552,000)	-
Interest paid on long-term debt	-	(226,773)	-	(226,773)	-
Capital grants and contributions	-	750,000	-	750,000	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(637,094)	(670,285)	-	(1,307,379)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	2,004	-	807	2,811	1,027
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(356,224)	-	3,003	(353,221)	1,155
CASH AND CASH EQUIVALENTS, JANUARY 1	356,224	-	145,855	502,079	210,336
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ -	\$ -	\$ 148,858	\$ 148,858	\$ 211,491

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, 2009

Business-type Activities - Enterprise Funds							
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	Governmental Activities - Insurance Internal Service Fund		
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES							
Operating income (loss)	\$ 65,431	\$ 115,130	\$ 5,582	\$ 186,143	\$ -		
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities							
Depreciation	140,042	834,369	-	974,411			
(Acrease) decrease in:							
Special assessments receivable	(770)	-	-	(770)			
Accounts receivable	40,477	2,108	-	42,585			
Due from component unit	12,057	(23,779)	-	(11,722)			
Due from other governments	-	-	-	-			
Inventories	39,418	-	-	39,418			
Prepaid expenses	(7,053)	(4,781)	415	(11,419)			
Increase (decrease) in:							
Accounts payable	(36,725)	(79,889)	(3,801)	(120,415)			
Salaries payable	4,007	3,340	-	7,347			
Other accrued expenses	-	(13,300)	-	(13,300)			
Compensated absences - current	1,804	(19,174)	-	(17,370)			
Due to other governments	(6,979)	(3,972)	-	(10,951)			
Compensated absences - long-term	2,952	(569)	-	2,383			
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 254,661	\$ 809,483	\$ 2,196	\$ 1,066,340	\$ -		

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, 2009

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

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended December 31, 2009.

A. Financial Reporting Entity

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the City, (2) organization 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, 2009

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 to the City.

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

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 the particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Funds

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

Major Governmental Funds:

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

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

Nonmajor Governmental Funds:

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

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

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

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, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the government reports the following fund type:

The Insurance Internal Service Fund was historically used to account for the insurance premiums, co-pays, and deductibles of retiree and employee insurance costs. Financing was provided by insurance premiums from employees and the City and service charges to the various participating governmental proprietary funds. As of December 31, 2006, the City no longer utilized this fund and created a Voluntary Employee Benefit Association Trust (VEBA Plan) to fund a portion of the employee's and retiree's health insurance deductibles. This fund has been maintained to process any run off claims that may have occurred prior to December 31, 2006. The City plans to make a distribution to current employees and retirees that were part of the historical plan as of December 31, 2006, during 2010.

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, 2009

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.
- 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, 2009

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.

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 issuance are reported as other financing sources while discounts on debt issuances

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net 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 (intergovernmental) 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 contract, 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, 2009

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, 2009:

Primary Government

Sewer Operating and Maintenance Enterprises	
Fund - Unrestricted Net Assets	\$2,765,452

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

Primary Government

Garbage and Refuse Collection Enterprise	
Fund - Unrestricted Net Assets	\$14,364

This deficit occurred because expenditures exceeded revenues. The City plans to eliminate this deficit through future increases in sanitation charges.

EDA Component Unit

Storefront Renovation Capital Project Fund	\$32,386
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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	\$ 1,444	\$ -	\$ -	\$ 1,444
Deposits	<u>13,133,382</u>	<u>1,626,973</u>	<u>1,900,025</u>	<u>16,660,380</u>
Total cash and cash equivalents	13,134,826	1,626,973	1,900,025	16,661,824
 Temporarily restricted assets				
Cash and cash equivalents		46,238	1,468,000	1,514,238
 Investments				
Certificate of deposit	776,740	-	-	776,740
Other	<u>-</u>	<u>386,229</u>	<u>618,967</u>	<u>1,005,196</u>
Total investment	<u>776,740</u>	<u>386,229</u>	<u>618,967</u>	<u>1,781,936</u>
 Total	<u>\$ 13,911,566</u>	<u>\$ 2,059,440</u>	<u>\$ 3,986,992</u>	<u>\$ 19,957,998</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 3 CASH AND CASH EQUIVALENTS (Continued)

Deposits

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. The City's formal deposit policy for custodial credit risk requires deposits to be insured by FDIC insurance 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 \$15,971,006; the bank balance was \$16,366,395. At December 31, 2009, the carrying amount of Hibbing Public Utility Commission's deposits was \$3,360,025 and the bank balance was \$3,444,657. At year end, the City's bank balances were entirely insured, or collateralized with securities held by the pledging financial institution's agent in the City's name as required by Minnesota Statute §118A.03. At year end, the Hibbing Public Utility Commission's bank balances were fully covered by depository insurance or by collateral held in the Commission's name by the pledging financial institution's correspondent bank.

Investments

Custodial Credit Risk - Investments

For the investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's formal investment policy requires brokers to have Securities Investor Protection Insurance (SIPC) and excess SIPC coverage. At year end the City had \$776,740 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, 2009, the City had the following investments:

	Fair Value	Rating
Minnesota Municipal Money Market (4M) Fund	\$ 1,229	Not rated
Wells Fargo Government Advantage Money Market Fund	<u>386,229</u>	Not rated
Total Fair Value	<u>\$ 387,458</u>	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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, 2009, 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, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land and improvements	\$ 1,619,319	\$ -	\$ -	\$ -	\$ 1,619,319
Artwork	1,807,350	-	-	-	1,807,350
Gravel roads	2,909,500	-	-	-	2,909,500
Construction in progress	968,086	1,222,922	(2,737)	(1,080,624)	1,107,647
Total capital assets, not being depreciated	7,304,255	1,222,922	(2,737)	(1,080,624)	7,443,816
Capital assets, being depreciated:					
Infrastructure	19,044,944	238,575	-	638,990	19,922,509
Buildings and improvements	20,203,894	72,016	-	441,634	20,717,544
Equipment, machinery, and furniture	9,549,450	605,328	(162,182)	-	9,992,596
Total capital assets, being depreciated	48,798,288	915,919	(162,182)	1,080,624	50,632,649
Less accumulated depreciation for:					
Infrastructure	(12,491,252)	(974,186)	-	-	(13,465,438)
Buildings and improvements	(11,881,677)	(569,359)	-	-	(12,451,036)
Equipment, machinery, and furniture	(6,714,135)	(612,124)	162,182	-	(7,164,077)
Total accumulated depreciation	(31,087,064)	(2,155,669)	162,182	-	(33,080,551)
Total capital assets, being depreciated, net	17,711,224	(1,239,750)	-	1,080,624	17,552,098
Governmental activities capital assets, net	\$ 25,015,479	\$ (16,828)	\$ (2,737)	\$ -	\$ 24,995,914

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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	2,468,945	440,447	-	(833,818)	2,075,574
Total Capital assets, not being depreciated	2,599,002	440,447	-	(833,818)	2,205,631
Capital assets, being depreciated:					
Infrastructure	3,468,708	116,892	-	833,818	4,419,418
Buildings and improvements	26,693,561	5,060	-	-	26,698,621
Equipment, machinery, and furniture	2,333,931	716,206	(17,694)	-	3,032,443
Total capital assets, being depreciated	32,496,200	838,158	(17,694)	833,818	34,150,482
Less accumulated depreciation for:					
Infrastructure	(92,398)	(96,705)	-	-	(189,103)
Buildings and improvements	(8,387,224)	(707,264)	-	-	(9,094,488)
Equipment, machinery, and furniture	(1,932,210)	(170,441)	17,694	-	(2,084,957)
Total accumulated depreciation	(10,411,832)	(974,410)	17,694	-	(11,368,548)
Total capital assets being depreciated, net	22,084,368	(136,252)	-	833,818	22,781,934
Business-type activities capital assets, net	\$ 24,683,370	\$ 304,195	\$ -	\$ -	\$ 24,987,565

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

Governmental activities	
General government	\$ 263,679
Public safety	265,810
Public works	1,271,178
Culture and recreation	324,241
Economic development	1,324
Transportation	29,436
Total depreciation expense-governmental activities	\$ 2,155,668
Business-type activities	
Garbage and refuse collection	\$ 140,042
Sewer operating and maintenance	834,369
Total depreciation expense-business-type activities	\$ 974,411

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 4 CAPITAL ASSETS (Continued)

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2009, was as follows:

Discretely presented component units

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Capital assets, not being depreciated:					
Land and improvements	\$ 23,296	104,042	-	\$ -	\$ 127,338
Total capital assets, not being depreciated	23,296	104,042	-	-	127,338
Capital assets, being depreciated:					
Infrastructure	-	19,699	-	-	19,699
Buildings and improvements	-	-	-	-	-
Equipment, machinery, and furniture	-	-	-	-	-
Total capital assets, being depreciated	-	19,699	-	-	19,699
Less accumulated depreciation for:					
Buildings and improvements	-	-	-	-	-
Equipment, machinery, and furniture	-	-	-	-	-
Total accumulated depreciation	-	-	-	-	-
Total capital assets, being depreciated, net	-	19,699	-	-	19,699
Hibbing Economic Development Authority capital assets, net	\$ 23,296	\$ 123,741	\$ -	\$ -	\$ 147,037

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	\$ 819,728	\$ -	\$ -	\$ (29,259)	\$ 790,469
Total capital assets, not being depreciated	819,728	-	-	(29,259)	790,469
Capital assets, being depreciated:					
Buildings and grounds	8,003,919	677,726	(118,622)	-	8,563,023
Transmission and distribution system	44,273,272	1,124,271	(178,890)	-	45,218,653
Equipment, machinery, and furniture	45,449,584	646,164	(179,866)	-	45,915,882
Total capital assets, being depreciated	97,726,775	2,448,161	(477,378)	-	99,697,558
Less total accumulated depreciation	(64,132,593)	(2,678,718)	477,378	-	(66,333,933)
Total Capital assets, being depreciated, net	33,594,182	(230,557)	-	-	33,363,625
Hibbing Public Utilities Commission capital assets, net	\$ 34,413,910	\$ (230,557)	\$ -	\$ (29,259)	\$ 34,154,094

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, 2009. The future payments for this lease are as follows:

Year Ending December 31,	Amount
2010	74,728
2011	74,728
2012	74,728
	\$ 224,184

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 6 NOTES PAYABLE

During 2007 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 matured March 2009. Interest expensed was \$5,027 and \$74,927 for 2009 and 2008, respectively.

Notes payable activity for the years ended December 31, 2009 and 2008 was as follows:

	January 1	Additions	Reductions	December 31
2009	1,500,000	-	(1,500,000)	-
2008	1,500,000	1,500,000	(1,500,000)	1,500,000

As of December 31, 2009, the PUC had a \$500,000 line of credit available that matures in November 2010. As of December 31, 2009 there was not any outstanding balance on the line.

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. Included in the lease purchase obligations are lease agreements between the City and the EDA-Component Unit for repayment of debt issued by the EDA-Component Unit for construction on the expansion of a public works facility and an animal shelter. The amount of the obligations related to the EDA-Component Unit at December 31, 2009 was \$1,285,400.

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:

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Primary Government					
Governmental Activities					
General obligation bonds					
2007 A Equipment Series 2009B	12/1/2007 5/1/2009	4.00% 0.75-3.50%	\$ 440,000 \$ 1,370,000	2/1/2017 2/1/2019	\$ 375,000 1,370,000
Total General obligation bonds					1,745,000
Certificates of indebtedness					
Series 2005A	12/1/2005	4.68%	\$ 565,000	8/1/2015	235,000
Series 2006A	11/1/2006	4.21%	\$ 455,000	11/1/2016	284,000
Total Certificates of indebtedness					519,000
Lease purchase obligations	Various	1.75-6.40%	Various	2/1/2024	1,401,067
Compensated absences payable					439,126
OPEB liability					5,227,970
Governmental Activities Long-term Liabilities					
					\$ 9,332,163

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 7 LONG-TERM DEBT (Continued)

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
Business-type Activity					
General obligation revenue					
2003 Sewer Notes	1/29/2003	1.74%	\$ 9,847,450	8/20/2022	\$ 7,156,000
2007A Sewer Revenue Bonds	12/1/2007	4.00-4.10%	\$ 2,365,000	2/1/2028	2,300,000
Compensated absences payable					134,629
Business-type Activities Long-term Liabilities					
Total Primary Government Long-Term Liabilities					
					9,590,629
					18,922,792
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	1,055,000
1997B General Obligation					
Tax Increment Bonds	8/1/1997	7.50%	\$ 320,000	2/1/2017	225,000
1999A General Obligation					
Tax Increment Bonds	10/1/1999	7.49%	\$ 165,000	2/1/2016	105,000
2009A Public Project					
Revenue Bonds	5/7/2009	1.75-4.50%	\$ 462,500	2/1/2024	462,500
Total EDA-Component Unit Long-Term Liabilities					
					1,847,500
PUC					
Bonds, notes, and real estate mortgage payable					10,195,489
Compensated absences payable					1,060,468
OPEB liability					5,183,415
Total PUC-Component Unit Long-Term Liabilities					
Total Reporting Entity					
					\$ 37,209,664

Long-term liability activity for the year ended December 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Primary Government					
Governmental Activities					
General obligation bonds payable	\$ 440,000	\$ 1,370,000	\$ (65,000)	\$ 1,745,000	\$ 65,000
Certificates of indebtedness	716,000	-	(197,000)	519,000	349,000
Leases payable	1,234,286	462,500	(295,719)	1,401,067	340,686
Compensated absences payable	469,852	37,943	(68,669)	439,126	-
OPEB liability	2,544,064	3,654,941	(971,035)	5,227,970	-
Governmental Activities-Long-Term Liabilities					
	\$ 5,404,202	\$ 5,525,384	\$ (1,597,423)	\$ 9,332,163	\$ 754,686

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 7 LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-type Activities					
GO revenue notes payable	\$ 7,643,000	\$ -	\$ (487,000)	\$ 7,156,000	\$ 495,000
GO revenue bonds payable	2,365,000	- -	(65,000)	2,300,000	85,000
Compensated absences payable	132,246	4,305	(1,922)	134,629	-
Business-type Activities-					
Long-term Liabilities	10,140,246	4,305	(553,922)	9,590,629	580,000
Total Primary Government	<u>\$ 15,544,448</u>	<u>\$ 5,529,689</u>	<u>\$ (2,151,345)</u>	<u>\$ 18,922,792</u>	<u>\$ 1,334,686</u>
Discretely Presented Component Units					
EDA					
Bonds payable	\$ 1,720,000	\$ 462,500	\$ (335,000)	\$ 1,847,500	\$ 386,551
PUC					
Bonds, notes, and real estate mortgage payable	\$ 9,269,082	\$ 1,500,000	\$ (573,593)	\$ 10,195,489	\$ 708,249
Compensated absences payable	1,033,623	26,845	-	1,060,468	-
OPEB liability	2,801,176	2,382,239	-	5,183,415	-
PUC-Component Unit					
Long-term Liabilities	\$ 13,103,881	\$ 3,909,084	\$ (573,593)	\$ 16,439,372	\$ 708,249
Total	\$ 30,368,329	\$ 9,901,273	\$ (3,059,938)	\$ 37,209,664	\$ 2,429,486

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					
	Government Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 754,686	\$ 134,213	\$ 580,000	\$ 215,299	\$ 1,334,686	\$ 349,512
2011	696,909	96,240	594,000	203,186	1,290,909	299,426
2012	668,257	66,492	603,000	190,817	1,271,257	257,309
2013	361,309	47,103	617,000	178,191	978,309	225,294
2014	309,707	37,833	631,000	165,208	940,707	203,041
2015-2019	676,634	97,883	3,345,000	621,246	4,021,634	719,129
2020-2024	197,565	22,839	2,451,000	260,191	2,648,565	283,030
2025-2028	-	-	635,000	53,328	635,000	53,328
Total	\$ 3,665,067	\$ 502,603	\$ 9,456,000	\$ 1,887,466	\$ 13,121,067	\$ 2,390,069
Component Units						
EDA						
Year Ending December 31	EDA		PUC			
	Principal	Interest	Principal	Interest		
	\$ 386,551	\$ 107,328	\$ 708,249	\$ 451,762		
2010	405,745	83,332	885,286	361,116		
2011	436,989	57,666	915,068	327,269		
2012	63,309	30,129	954,608	291,369		
2013	69,707	26,312	1,575,759	230,045		
2014	287,634	72,638	3,480,647	696,918		
2020-2024	197,565	22,839	1,543,062	176,219		
2025-2028	-	-	155,000	6,984		
Total	\$ 1,847,500	\$ 400,244	\$ 10,217,679	\$ 2,541,682		

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 7 LONG-TERM DEBT (Continued)

Conduit Debt

The City entered into a joint powers agreement pursuant to Minnesota Statute §471.59 with the City of Buhl. The purpose of the agreement is to help a Minnesota non-profit 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 Minnesota Statute §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. This agreement shall terminate upon the earlier of: defeasance of the obligations; final maturity and payment of the obligations; or payment in full of the obligations prior to their final maturity.

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

The City 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 four issues outstanding. The aggregate amount payable at December 31, 2009, is \$3,866,462. Records for revenue bonds or notes issued prior to 1995 are not available.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 8 INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2009, 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	\$ 2,241,629	\$ -	\$ -	\$ -
Enterprise Funds				
Garbage and Refuse	-	158,200	24,319	-
Sewer Operating and Maintenance	-	215,107	2,217,310	-
Total Primary Government	2,241,629	373,307	2,241,629	-
Component Units				
Hibbing Economic Development Authority EDA				
Economic Development Special				
Revenue Fund	58,000	-	-	-
Storefront Renovation Capital				
Projects Funds	-	-	58,000	-
	58,000	-	58,000	-
Hibbing Public Utilities Commission	-	-	-	345,607
Total Component Units	58,000	-	58,000	345,607
Total Reporting Entity	\$ 2,299,629	\$ 373,307	\$ 2,299,629	\$ 345,607

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.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 8 INTERFUND BALANCES AND ACTIVITY (Continued)

Interfund transfers for the year ended December 31, 2009 consisted of the following:

Transfer To/From Other Funds/Component Units:

Fund or Component Unit	Transfers In	Transfers Out
Primary Government		
General Fund	\$ -	\$ 789,983
Special Revenue Funds		
Library	70,529	-
Debt Service Fund		
Other Postemployment Benefits	657,299	-
Capital Project Funds		
Capital Equipment and Improvement	62,155	46,238
Total Primary Government	<u>\$ 789,983</u>	<u>\$ 836,221</u>

Hibbing Economic Development Authority (EDA)

Economic Development Special Revenue Fund	\$ -	\$ 25,000
Debt Service Funds		
Animal Shelter	46,238	
TIF III	-	11,445
TIF XI	11,445	-
Storefront Renovation Project	25,000	-
Total Hibbing Economic Development Authority (EDA)	<u>\$ 82,683</u>	<u>\$ 36,445</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	\$ 97,653
Housing incentives	48,153
Economic development	94,527
Capital fund contribution	50,000
Total Net Assets, Restricted for Other Purposes - Primary Government	<u>\$ 290,333</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 9 FUND EQUITY (Continued)

EDA Component Unit

Restricted for other purposes-	
Tax increment financing projects	\$ <u>81,109</u>

Fund Balance

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

General Fund

Reserved for 10% contribution fund	\$ 7,704
reserved for police forfeiture fund	<u>19,383</u>
Total General Fund	<u>\$ 27,087</u>

Minnesota Investment Revolving Loans

Special Revenue Fund

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

General Fund

Designated for future projects from sale of assets	\$ 514,853
Designated for cash flow	7,203,635
Designated for workers compensation	372,750
Designated for infrastructure/cooperative programs	314,726
Designated for future State Aid reductions	<u>729,000</u>
Total Designated - General Fund	<u>\$ 9,134,964</u>

Debt Service Funds

Other Postemployment Benefits	
Designated for debt service	\$ 1,559,991
2002 GO Refunding Bonds	
Designated for debt service	<u>357,631</u>
Total Designated - Debt Service Funds	<u>\$ 1,917,622</u>

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, 2009

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, 2009

NOTE 11 TAX INCREMENT FINANCING DISTRICTS

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

Tax Increment Financing District	No. III	No. VI
Redevelopment project district established in:	1985	1992
Economic development district established in:	-	-
Qualified housing district established in:	-	-
Anticipated last tax increment year:	2017	2018
Original net tax capacity:	\$ 7,424	\$ 12,950
Current net tax capacity:	\$ 9,461	\$ 39,414
Fiscal disparity deduction	\$ -	\$ -
Captured net tax capacity retained by Authority:	\$ 2,037	\$ 26,464
Total bonds issued		
Tax increment bonds	230,000	735,000
Tax increment note	121,000	-
Amount redeemed	(351,000)	(735,000)
Outstanding bonds at December 31, 2009	\$ -	\$ -

No. VII	No. VIII	No. X	No. XI
1993	-	-	1999
-	-	1999	-
-	1993	-	-
2019	2020	2009	2025
\$ 3,412	\$ -	\$ 671	\$ 525
\$ 50,156	\$ 7,514	\$ 9,630	\$ 9,734
\$ -	\$ -	\$ 1,676	\$ 1,723
\$ 46,744	\$ 7,514	\$ 8,959	\$ 9,209
320,000	-	-	165,000
(95,000)	-	-	(60,000)
<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105,000</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES

Contingent liability

By certain tax laws, Minnesota local taxing jurisdictions have been receiving a market value credit since 2003. This credit is calculated by the St. Louis County auditor and is paid by the State of Minnesota Department of Revenue to the local taxing jurisdictions. The dollar value of the credit is utilized by St. Louis County, as the tax collector and record keeper, to reduce the amount of property taxes billed and payable by property holders.

During May 2010, the City determined that the market value tax credit payments that the City of Hibbing received from the Minnesota Department of Revenue, on annual basis since 2003, had included amounts that were used by St. Louis County in calculating the tax levy billings specific to the Chisholm-Hibbing Airport Authority. These amounts related to the Chisholm-Hibbing Airport Authority total \$376,540 for the period from 2003 to 2009.

As of June 30, 2010, the City and the Chisholm-Hibbing Airport Authority are reviewing the impact on the Chisholm-Hibbing Airport Authority of not receiving the market value credit payments over the period since 2003.

As of June 30, 2010, the City of Hibbing has a potential liability that could range from zero to \$376,540. As no point in the range is more estimable than another; the City of Hibbing has recorded a liability of zero as of December 31, 2009 related to this matter.

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, 2009, 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 twelve outstanding construction projects as of December 31, 2009. The projects are evidenced by contractual commitments with contractors and engineers and include:

Project	Spent to Date	Commitments Remaining	
Capital Projects Funds			
Capital Equipment and improvement			
Bennett Park Warm Storage	\$ 120,867	\$ 23,081	
City Hall Remodel	58,835	2,045	
Animal Shelter	441,634	-	
Library Improvements	5,000	5,000	
Cemetery Software	10,799	8,725	
Curling Club Leak Repairs	5,400	12,225	
Permanent Improvement			
5th Avenue West	957,412	32,528	
Total Capital Fund Project	1,599,947	83,604	

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES (continued)

Construction Projects (continued)

Enterprise Fund

Sewer Operating and Maintenance Fund

19th Street Interceptor	1,385,433	-
Phase 6 Sewer Improvements	204,909	-
Park Hotel Sanitary Sewer	98,542	-
Wastewater Demo	4,851	199,400
Waste Treatment Project	<u>113,263</u>	<u>3,800</u>
Total Sewer Operating and Maintenance Fund	<u>1,806,998</u>	<u>203,200</u>
Total All Funds	<u><u>\$ 3,406,945</u></u>	<u><u>\$ 286,804</u></u>

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

NOTE 13 JOINT VENTURES

Joint Powers Contracts

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

The proceeds from the sale of bonds were placed in the EDA Public Works Capital Projects Fund. Upon project completion, the funds remaining in the capital projects fund were transferred to the Central Range Public Works Debt Service Fund. At December 31, 2009, the debt service fund had following balances:

Assets	\$ 460,536
Fund Balance	\$ 460,536

Complete financial information can be obtained from the City of Hibbing Finance Director, Sherri Renskers, 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 2009, 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.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

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 2009, 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, 2009

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 City. 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 coverage. 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 2009 and 2008, there were 161 and 152 retirees and eligible dependents, respectively, that received postemployment benefits. The City provided required contributions of \$971,035 and \$966,233 for 2009 and 2008, respectively, toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$345,030 and \$319,305 for 2009 and 2008, respectively. 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 for the years ended December 31, 2009 and 2008, respectively:

	2009	2008
Normal cost (service cost for one year)	1,174,688	1,101,769
Amortization of unfunded actuarial accrued liability	<u>2,478,305</u>	<u>2,613,308</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 16 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

	2009	2008
Annual required contribution	\$ 3,652,993	\$ 3,715,077
Interest on net OPEB obligation	114,483	-
Adjustment to annual required contribution	<u>(112,535)</u>	<u>-</u>
Annual OPEB cost (expense)	3,654,941	3,715,077
Contribution toward the OPEB cost	<u>(971,035)</u>	<u>(1,171,013)</u>
Increase in net OPEB obligation	2,683,906	2,544,064
Net OPEB Obligation, Beginning of Year	<u>2,544,064</u>	<u>-</u>
Net OPEB Obligation, End of Year	<u>\$ 5,227,970</u>	<u>\$ 2,544,064</u>
Percentage of annual OPEB cost contributed	<u>26.6%</u>	<u>31.5%</u>

Funding Status and Funding Progress

As of December 31, 2009 and 2008, respectively, the actuarial accrued liability for benefits was \$40,368,826 and \$42,567,876, and the actuarial value of assets was \$1,559,991 and \$902,692, resulting in an unfunded actuarial accrued liability of \$38,808,835 and \$41,665,184. The covered payroll (annual payroll of active participating employees) was \$8,501,336 and \$8,623,539 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 456.5 and 483.2 percent for 2009 and 2008, respectively.

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 was as of January 1, 2007, and the current year actuarial valuation was as of January 1, 2009. Both valuations used the projected unit credit cost actuarial cost method to estimate both the unfunded actuarial liability as of December 31, 2009 and 2008, and to estimate the City's 2009 and 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 January 1, 2009, actuarial assumptions include an annual healthcare cost trend rate of 6.4 percent initially for 2009 to 2011; 5.6 percent for 2012 and then reduced by .1 percent every five years, to an ultimate rate of 4.4 percent after 50 years. The unfunded actuarial accrued liability is being amortized using the level dollar method. The remaining amortization period at December 31, 2009 is 28 years.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

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, 2009 and 2008, the Commission expended \$544,990 and \$471,118, respectively, for benefits for approximately 40 retirees in 2009 and 38 retirees in 2008.

Annual OPEB Cost and Net OPEB Obligation

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

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 2,927,229	\$ 2,801,176
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	2,927,229	2,801,176
Contribution during the year	544,990	-
Increase in net OPEB obligation	2,382,239	2,801,176
Net OPEB Obligation, Beginning of Year	2,801,176	-
Net OPEB Obligation, End of Year	<u>\$ 5,183,415</u>	<u>\$ 2,801,176</u>

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

Fiscal Year End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB	
			Cost Contributed	Net OPEB Obligation
December 31, 2009	\$ 2,927,229	\$ 544,990	18.6%	\$ 5,183,415
December 31, 2008	\$ 2,801,176	\$ -	\$ -	\$ 2,801,176

Financial Statement Presentation

GASB 45 was adopted by the Commission in 2008. For the 2008 financial statements the OPEB cost was reported as a separate line item in the statements of revenues, expenses and changes in net assets. For 2009, the Commission allocated the expense between the Commission's various expense categories.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

NOTE 16 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Status and Funding Progress

The actuarial accrued liability for benefits at December 31, 2008 (the date of the most recent valuation) was \$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 \$5,065,929. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 597.75 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 continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In the 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). 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 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, 2009

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 the escalating fee structure. The operating agreement calls for the Authority to pay the Commission fees based on the operating costs of the Commission's facility up to specified maximum amounts. In addition, the Authority is required to pay the Commission an annual rental fee of \$25,000.

As of December 31, 2009, the commission has reported on its balance sheet an investment of \$10,437,730 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 Authority's 2009 financial statements.

Current assets	\$ 6,895,171
Non-current restricted assets	\$ 8,398,700
Other assets	\$ 3,884,412
Capital assets	\$ 60,682,713
Total assets	\$ 79,860,996
Current liabilities	\$ 8,052,635
Non-current liabilities	\$ 51,200,275
Total liabilities	\$ 59,252,910
Net assets	\$ 20,608,086
Total operating revenues	\$ 36,649,939
Operating expenses	\$ 29,240,424
Change in net assets	\$ 5,212,884

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2009

NOTE 18 DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. Plan Description

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

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

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

Two methods are used to compute benefits for 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 members 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 members and 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan 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, 2009

NOTE 18 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 9.1% and 6.0%, respectively, of their annual covered salary in 2009. PEPFF members were required to contribute 9.4% of their annual covered salary 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, 6.75% for Coordinated Plan PERF members, and 14.1% for PEPFF Plan members. Employer contribution rates for the Coordinated Plan will increase to 7.0% effective January 1, 2010. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008, and 2007 were \$312,630, \$301,270, and \$275,319, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2009, 2008, and 2007 were \$465,537, \$428,693, and \$372,809, respectively. The Hibbing Public Utilities contribution to the Public Employees Retirement Fund for the years ending December 31, 2009, 2008, and 2007 were \$330,461, \$318,216, and \$283,111, 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, 2009

NOTE 19 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 plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of their annual 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 2009 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employee	Employer	
\$ 1,274	\$ 1,274	5.00%	5.00%	5.00%

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, 2009

	Budgeted Amounts		Actual Amounts, Budgetary Basis		Variance with Final Budget- Positive (Negative)
	Original	Final			
REVENUES					
Taxes	\$ 4,929,604	\$ 5,001,272	\$ 5,032,389	\$ 31,117	
Licenses and permits	188,641	188,641	131,846	(56,795)	
Intergovernmental	9,806,714	8,997,660	9,455,006	457,346	
Charges for services	1,630,350	1,630,350	1,803,670	173,320	
Fines	101,000	101,000	123,657	22,657	
Gifts and contributions	7,000	7,000	7,525	525	
Interest	120,000	120,000	30,434	(89,566)	
Miscellaneous	68,500	68,500	82,823	14,323	
TOTAL REVENUES	16,851,809	16,114,423	16,667,350	552,927	
EXPENDITURES					
Current					
General government	2,023,478	1,911,478	1,801,068	110,410	
Public safety	6,656,841	5,875,477	6,085,436	(209,959)	
Public works	3,216,203	3,024,509	2,734,265	290,244	
Culture and recreation	1,927,952	1,849,951	1,916,983	(67,032)	
Economic development	116,420	111,420	111,859	(439)	
Transportation	241,671	241,671	230,489	11,182	
Miscellaneous	2,477,107	2,336,107	1,945,971	390,136	
Debt Service					
Principal	-	-	241,800	(241,800)	
Interest and other charges	-	-	60,403	(60,403)	
TOTAL EXPENDITURES	16,659,672	15,350,613	15,128,274	222,339	
EXCESS OF REVENUES OVER EXPENDITURES	192,137	763,810	1,539,076	775,266	
OTHER FINANCING SOURCES (USES)					
Transfers in	-	260,000	-	(260,000)	
Transfers out	(178,529)	(747,828)	(789,983)	(42,155)	
Sale of capital assets	-	-	15,165	15,165	
TOTAL OTHER FINANCING SOURCES (USES)	(178,529)	(487,828)	(774,818)	(286,990)	
NET CHANGE IN FUND BALANCES	13,608	275,982	764,258	488,276	
FUND BALANCES - JANUARY 1	9,548,497	9,548,497	9,548,497	-	
FUND BALANCES - DECEMBER 31	\$ 9,562,105	\$ 9,824,479	\$ 10,312,755	\$ 488,276	

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year ended December 31, 2009

	Budgeted Amounts		Actual Amounts, Budgetary Basis		Variance with Final Budget- Positive (Negative)
	Original	Final	Original	Final	
REVENUE					
Taxes	\$ 561,159	\$ 561,159	\$ 561,257	\$ 98	
Intergovernmental	90,000	90,000	89,902	(98)	
Charges for services	18,800	18,800	22,668	3,868	
Gifts and contributions	11,786	11,786	9,770	(2,016)	
TOTAL REVENUE	681,745	681,745	683,597	1,852	
EXPENDITURES					
Current					
Culture and recreation	840,274	752,274	703,417	48,857	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(158,529)	(70,529)	(19,820)	50,709	
OTHER FINANCING SOURCES					
Transfers in	158,529	70,529	70,529	-	
NET CHANGE IN FUND BALANCES	-	-	50,709	50,709	
Fund Balances - January 1	46,944	46,944	46,944	-	
Fund Balances - December 31	\$ 46,944	\$ 46,944	\$ 97,653	\$ 50,709	

CITY OF HIBBING, MINNESOTA

INFRASTRUCTURE CONDITION DATA

Year ended December 31, 2009

MODIFIED APPROACH FOR CITY GRAVEL ROADS INFRASTRUCTURE CAPITAL ASSETS

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

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

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

The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

The City commissioned a physical condition assessment of its gravel roads as of 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 conditions. This helps to maintain a City-defined desirable level of road performance while optimizing the expenditure of limited fiscal resources. The entire gravel road network within the City is composed of approximately 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 up to legal speed limit.	4

CITY OF HIBBING, MINNESOTA

INFRASTRUCTURE CONDITION DATA (CONTINUED)

Year ended December 31, 2009

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, 2009, the City's gravel roads all rated at a Level 3.

The City expended \$192,151 on gravel road maintenance for the year ended December 31, 2009. Those routine maintenance expenditure delayed deterioration. The budget required to maintain and improve the current level of overall condition through the Year 2012 is a minimum of \$525,000. (\$175,000 projected budget each year for the years ending December 31, 2010, 2011, and 2012.)

A schedule of the estimated annual amount calculated to maintain and preserve its gravel roads at the current level compared to actual expenditures for gravel road maintenance for the years ended December 31, 2006, 2007, 2008 and 2009, is presented below:

Year	Estimated		Funded by
	Annual Expenditures	Actual Expenditures	
2006	\$ 125,000	\$ 141,244	\$ 141,244
2007	\$ 132,832	\$ 146,959	\$ 146,959
2008	\$ 139,680	\$ 150,345	\$ 150,345
2009	\$ 175,311	\$ 192,151	\$ 192,151

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS
Year ended December 31, 2009

Other Postemployment Benefits

Primary Government

Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
12/31/2009	1/1/2009	\$ 1,559,991	\$ 40,368,826	\$ 38,808,835	3.9%	\$ 8,501,336	456.5%
12/31/2008	1/1/2007	\$ 902,692	\$ 42,567,876	\$ 41,665,184	2.1%	\$ 8,623,539	483.2%

Component Unit - Hibbing Public Utilities Commission

Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
12/31/2009	12/31/2008	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 5,065,929	597.8%
12/31/2008	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, 2009

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 did not exceed appropriations in any fund for the year ended December 31, 2009.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HIBBING, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

December 31, 2009

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

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

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

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

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

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

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

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

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

The 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, 2009

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	Other Postemploy- ment Benefits Debt Service Fund
ASSETS				
Cash and cash equivalents	\$ 48,153	\$ 24,712	\$ 69,815	\$ 1,559,991
Taxes receivable	-	-	-	-
Special assessments receivable	-	-	-	-
Accounts receivable	-	-	50,000	-
Due from other governments	-	-	-	-
Loans receivables	-	130,132	13,581	-
TOTAL ASSETS	\$ 48,153	\$ 154,844	\$ 133,396	\$ 1,559,991
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-
Contracts payable	-	-	-	-
Deferred revenue	-	130,132	13,581	-
TOTAL LIABILITIES	-	130,132	13,581	-
FUND BALANCES				
Reserved for Encumbrances	-	-	-	-
Community capital fund contributions	-	-	50,000	-
Unreserved, designated for debt service	-	-	-	1,559,991
Unreserved, undesignated	48,153	24,712	69,815	-
TOTAL FUND BALANCES	48,153	24,712	119,815	1,559,991
TOTAL LIABILITIES AND FUND BALANCES	\$ 48,153	\$ 154,844	\$ 133,396	\$ 1,559,991

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
\$ 357,631	\$ 1,060,604 927	\$ 138,903	\$ 132,434	\$ 1,042,189 9,778	\$ 20,798	\$ 4,455,230 10,705
-	-	147,594	-	-	-	147,594
-	-	-	2,167	-	-	52,167
-	177,519	-	-	-	-	177,519
-	-	-	-	-	-	143,713
\$ 357,631	\$ 1,239,050	\$ 286,497	\$ 134,601	\$ 1,051,967	\$ 20,798	\$ 4,986,928
\$ -	\$ 111,921	\$ 54,543	\$ 105	\$ 32,904	\$ -	\$ 144,930 54,543
-	84,120	-	-	53,753	-	137,873
-	-	144,354	750	-	-	288,817
-	196,041	198,897	855	86,657	-	\$ 626,163
-	-	-	-	20,000	-	20,000
357,631	-	-	-	-	-	\$ 50,000
-	1,043,009	87,600	133,746	945,310	20,798	1,917,622
357,631	1,043,009	87,600	133,746	965,310	20,798	2,373,143
\$ 357,631	\$ 1,239,050	\$ 286,497	\$ 134,601	\$ 1,051,967	\$ 20,798	\$ 4,986,928

CITY OF HIBBING, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**
Year Ended December 31, 2009

	Housing Incentive Special Revenue Fund	Small Cities Development Special Revenue Fund	Minnesota Investment Revolving Loans Special Revenue Fund	Other Postemploy- ment Benefits Debt Service Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Gifts and contributions	-	-	-	-
Interest	263	135	394	-
Miscellaneous	-	415	21,084	-
TOTAL REVENUES	\$ 263	\$ 550	\$ 21,478	\$ -
EXPENDITURES				
Current				
Economic development	\$ -	\$ 415	\$ -	\$ -
Miscellaneous	-	-	16,403	-
Principal	-	-	-	-
Interest and other charges	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
TOTAL EXPENDITURES	-	415	16,403	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	263	135	5,075	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	657,299
Transfers out	-	-	-	-
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	657,299
Net Change In Fund Balances	263	135	5,075	657,299
FUND BALANCE - JANUARY 1	47,890	24,577	114,740	902,692
FUND BALANCE - DECEMBER 31	\$ 48,153	\$ 24,712	\$ 119,815	\$ 1,559,991

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
\$ -	\$ 86,196	\$ 53,183	\$ -	\$ 908,925	\$ -	\$ 995,121
-	1,359,827	-	-	190,077	-	53,183
-	-	-	14,366	-	-	1,549,904
-	-	-	-	19,619	-	14,366
-	7,322	616	718	2,965	113	19,619
-	-	-	-	-	-	12,526
						21,499
\$ -	\$ 1,453,345	\$ 53,799	\$ 15,084	\$ 1,121,586	\$ 113	\$ 2,666,218
 \$ -	 \$ -	 \$ -	 \$ -	 \$ -	 \$ -	 \$ 415
-	-	-	-	315,920	-	16,403
-	-	-	-	101,598	-	315,920
-	-	-	-	28,926	-	101,598
-	-	-	-	386,811	-	28,926
-	1,439,159	50,069	-	230,280	-	386,811
-	-	-	6,080	241,852	-	1,719,508
-	-	-	-	32,987	-	247,932
						32,987
-	1,439,159	50,069	6,080	1,338,374	-	\$ 2,850,500
-	14,186	3,730	9,004	(216,788)	113	(184,282)
 -	 -	 -	 -	 62,155	 -	 \$ 719,454
-	-	-	-	(46,238)	-	(46,238)
-	-	-	-	1,832,500	-	1,832,500
-	-	-	-	(812)	-	(812)
-	-	-	-	1,847,605	-	2,504,904
 -	 14,186	 3,730	 9,004	 1,630,817	 113	 2,320,622
357,631	1,028,823	83,870	124,742	(665,507)	20,685	2,040,143
\$ 357,631	\$ 1,043,009	\$ 87,600	\$ 133,746	\$ 965,310	\$ 20,798	\$ 4,360,765

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

REVENUES

Taxes

General property	\$ 1,878,478
Taconite	
Production	723,078
Homestead credit	474,550
Municipal aid	1,519,975
Franchise	152,451
Other	<u>283,857</u>
Total Taxes	<u>5,032,389</u>
Licenses and Permits	<u>131,846</u>

Intergovernmental

Federal grants	
Federal Transportation grant	77,552
Bulletproof vest grant	1,173
Edward Byrne Memorial Justice Assistance	11,965
Cooperative Forestry Assistance	2,000
State grants	
Market value credit	420,169
Local government aid	8,408,974
Police aid	221,738
Firemen's aid	71,544
State transportation grant	106,838
PERA rate increase aid	24,366
Petro tank reimbursement	65,047
Other	11,892
County grants	
Ambulance	2,814
Local grants	
Police liaison grant	<u>28,934</u>
Total Intergovernmental	<u>9,455,006</u>

Charges for Services

General government	
Bus transportation	36,607
Miscellaneous	14,381
Public safety	
Ambulance calls	1,307,065
Fire protection contracts	12,817
Other	10,315
Highways and streets	
Miscellaneous	13,585
Culture and recreation	
Rent	119,778
Other	207,698
Cemetery	<u>81,424</u>
Total Charges for Services	<u>1,803,670</u>

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

REVENUES (continued)

Fines

Court fines	\$ 103,341
Police forfeitures	21,421
Administrative fines	<u>(1,105)</u>
Total Fines	<u>123,657</u>

Gifts and Contributions

Interest

Interest on Investments	31,933
(Decrease) in fair value of investments	<u>(1,499)</u>
Total Interest	<u>30,434</u>

Miscellaneous

Insurance recoveries	200
Insurance dividends	57,781
Other	<u>24,842</u>
Total Miscellaneous	<u>82,823</u>
TOTAL REVENUES	<u>16,667,350</u>

EXPENDITURES

Current

General Government

Mayor and council	231,079
Elections	79
City administration	133,576
City clerk	432,870
City hall	132,674
Accounting	39,500
Data processing	49,229
Legal	122,432
Personnel administration	116,932
Zoning and housing	278,775
Assessor	<u>263,922</u>
Total General Government	<u>1,801,068</u>

Public Safety

Police	3,101,491
Animal Shelter	100,692
Fire	1,739,216
Paid on-call fire	70,354
Ambulance	1,061,837
Civil defense	<u>11,846</u>
Total Public Safety	<u>6,085,436</u>

Public Works

Highways and streets	1,810,915
Streets and alleys	374,230
Engineering	503,963
Garage	<u>45,157</u>
Street lighting	<u>2,734,265</u>
Total Public Works	<u>2,734,265</u>

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

EXPENDITURES (continued)

Current	
Culture and Recreation	
Recreation	\$ 495,945
Memorial building	827,496
Municipal golf course	62,076
Parks	<u>531,466</u>
Total Culture and Recreation	<u>1,916,983</u>
Economic Development	
Administration	<u>111,859</u>
Transportation	
Bus	<u>230,489</u>
Miscellaneous	
Cemetery	239,720
Public access	80,645
Insurance	1,567,330
Donations and contributions	21,364
Other	<u>36,912</u>
Total Miscellaneous	<u>1,945,971</u>
Debt Service	
Principal	241,800
Interest and agent fees	<u>60,403</u>
Total General Government	<u>302,203</u>
TOTAL EXPENDITURES	<u>15,128,274</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,539,076</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	(789,983)
Sale of capital assets	<u>15,165</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(774,818)</u>
NET CHANGE IN FUND BALANCE	<u>764,258</u>
FUND BALANCE - JANUARY 1	<u>9,548,497</u>
FUND BALANCE - DECEMBER 31	<u>\$ 10,312,755</u>

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

REVENUES

Taxes

General property	\$ 406,765
Taconite homestead credit	101,538
Other	52,954
Total Taxes	561,257

Intergovernmental

State grants	89,902
Market value credit	_____

Charges for Services

Gifts and Contributions	22,668
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TOTAL REVENUES	683,597
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EXPENDITURES

Current

Culture and Recreation	
Library	
Personal services	541,803
Supplies	77,700
Other services and charges	83,876
Other	38
TOTAL EXPENDITURES	703,417

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(19,820)
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OTHER FINANCING SOURCES

Transfer in	70,529
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NET CHANGE IN FUND BALANCES	50,709
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FUND BALANCE - JANUARY 1	46,944
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FUND BALANCE - DECEMBER 31	\$ 97,653
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CITY OF HIBBING, MINNESOTA

HOUSING INCENTIVE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

REVENUES

Interest	\$ 263
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EXPENDITURES

NET CHANGE IN FUND BALANCE	263
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FUND BALANCE - JANUARY 1	<u>47,890</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 48,153</u>
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CITY OF HIBBING, MINNESOTA

SMALL CITIES DEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

REVENUES

Interest	\$	135
Miscellaneous		
Principal on loans repayments		332
Interest on loans repayments		83
Total Miscellaneous		<u>415</u>
TOTAL REVENUES		<u>550</u>

EXPENDITURES

Current		
Economic Development		
Administration		<u>415</u>
TOTAL EXPENDITURES		<u>415</u>
NET CHANGE IN FUND BALANCE		135
FUND BALANCE - JANUARY 1		<u>24,577</u>
FUND BALANCE - DECEMBER 31	\$	<u>24,712</u>

CITY OF HIBBING, MINNESOTA

MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

REVENUES

Interest	\$ 394
Miscellaneous	
Principal on loans repayments	19,952
Interest on loans repayments	1,132
Total Miscellaneous	21,084
TOTAL REVENUE	21,478

EXPENDITURES

Current

Economic Development	
Miscellaneous	
Repayments to DEED	16,403
TOTAL EXPENDITURES	16,403
NET CHANGE IN FUND BALANCE	5,075
FUND BALANCE - JANUARY 1	114,740
FUND BALANCE - DECEMBER 31	\$ 119,815

CITY OF HIBBING, MINNESOTA

DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

	Other Postemploy- ment Benefits	2002 G.O. Refunding Bonds	Totals
REVENUES			
Taxes			
General property	\$ -	\$ -	\$ -
Taconite homestead credit	- -	- -	- -
Other	- -	- -	- -
Total Taxes	- -	- -	- -
Intergovernmental			
State grants	- -	- -	- -
Market value credit	- -	- -	- -
TOTAL REVENUES	- -	- -	- -
 EXPENDITURES			
Debt Service			
Principal	- -	- -	- -
Interest	- -	- -	- -
TOTAL EXPENDITURES	- -	- -	- -
 EXCESS OF REVENUES OVER EXPENDITURES			
 OTHER FINANCING SOURCES (USES)			
Transfer in	657,299	- -	657,299
Transfer out	- -	- -	- -
TOTAL OTHER FINANCING SOURCES (USES)	657,299	- -	657,299
 NET CHANGE IN FUND BALANCES	657,299	- -	657,299
 FUND BALANCE - JANUARY 1	902,692	357,631	1,260,323
 FUND BALANCE - DECEMBER 31	<u>\$ 1,559,991</u>	<u>\$ 357,631</u>	<u>\$ 1,917,622</u>

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2009

REVENUES	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement		MDI Maintenance	Total
Taxes							
General property	\$ 62,473	\$ -	\$ -	\$ 658,711	\$ -	\$ -	\$ 721,184
Taconite homestead credit	15,591	-	-	164,451	-	-	180,042
Other	8,132	-	-	85,763	-	-	93,895
Total Taxes	86,196	-	-	908,925	-	-	995,121
Special Assessments							
Principal	-	46,994	-	-	-	-	46,994
Interest and penalties	-	6,189	-	-	-	-	6,189
Total Special Assessments	-	53,183	-	-	-	-	53,183
Intergovernmental							
Federal grants							
Public Safety Interoperable Communications	-	-	-	34,335	-	-	34,335
Other	-	-	-	10,136	-	-	10,136
State grants							
Market value credit	13,804	-	-	145,606	-	-	159,410
MSA maintenance municipal	266,844	-	-	-	-	-	266,844
MSA construction municipal	1,079,179	-	-	-	-	-	1,079,179
Total Intergovernmental	1,359,827	-	-	190,077	-	-	1,549,904
Charges for Services							
Rent	-	-	14,366	-	-	-	14,366
Gifts and Contributions	-	-	-	19,619	-	-	19,619
Interest	7,322	616	718	2,965	113	113	11,734
Miscellaneous							
Insurance recoveries	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 1,453,345	\$ 53,799	\$ 15,084	\$ 1,121,586	\$ 113	\$ 2,643,927	

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
Year Ended December 31, 2009

	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement	MDI Maintenance	Total
EXPENDITURES						
Debt Service						
Principal	\$ -	\$ -	\$ -	\$ 315,920	\$ -	\$ 315,920
Interest and other charges	-	-	-	101,598	-	101,598
Total Debt Service	-	-	-	417,518	-	417,518
Capital Outlay						
General government						
City hall	-	-	-	473	-	473
Data processing	-	-	-	6,193	-	6,193
Personnel administration	-	-	-	22,260	-	22,260
Public safety						
Police	-	-	-	43,695	-	43,695
Fire	-	-	-	85,037	-	85,037
Paid on-call fire	-	-	-	5,284	-	5,284
Ambulance	-	-	-	132,937	-	132,937
Civil defense	-	-	-	1,057	-	1,057
Animal shelter	-	-	-	118,801	-	118,801
Public works						
Streets and alleys	1,439,159	50,069	-	230,280	-	1,719,508
Culture and recreation						
Recreation	-	-	-	12,030	-	12,030
Memorial building	-	-	6,080	27,165	-	33,245
Parks	-	-	-	197,657	-	197,657
Library	-	-	-	5,000	-	5,000
Miscellaneous						
Cemetery	-	-	-	31,987	-	31,987
Other	-	-	-	1,000	-	1,000
Total Capital Outlay	1,439,159	50,069	6,080	920,856	-	2,416,164
TOTAL EXPENDITURES	1,439,159	50,069	6,080	1,338,374	-	2,833,682
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,186	3,730	9,004	(216,788)	113	(189,755)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	62,155	-	62,155
Transfers out	-	-	-	(46,238)	-	(46,238)
Debt issuance	-	-	-	1,832,500	-	1,832,500
Sale of capital assets	-	-	-	(812)	-	(812)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	1,847,605	-	1,847,605
NET CHANGE IN FUND BALANCES	14,186	3,730	9,004	1,630,817	113	1,657,850
FUND BALANCES - JANUARY 1	1,028,823	83,870	124,742	(665,507)	20,685	592,613
FUND BALANCES - DECEMBER 31	\$ 1,043,009	\$ 87,600	\$ 133,746	\$ 965,310	\$ 20,798	\$ 2,250,463

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009

	General Fund	Economic Development Special Revenue Fund	Tax Increment III	Tax Increment VI
ASSETS				
Cash and cash equivalents	\$ 106,890	\$ 1,041,346	\$ 15,776	\$ 30,198
Cash - restricted	-	-	-	-
Investments	-	-	-	-
Taxes receivable				
Unapportioned	974	-	-	-
Delinquent	-	-	3,929	6,497
Accounts receivable	-	-	-	-
Due from other funds	-	58,000	-	-
Due from other governments	-	-	-	-
Loans receivable	-	524,774	-	-
Prepaid items	3,865	-	-	-
TOTAL ASSETS	\$ 111,729	\$ 1,624,120	\$ 19,705	\$ 36,695
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 7,855	\$ -	767	767
Salaries payable	415	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	-	514	514
Deferred revenue	-	524,774	3,929	6,497
TOTAL LIABILITIES	8,270	524,774	5,210	7,778
FUND BALANCES				
Unreserved, designated	-	-	14,495	-
Unreserved, undesignated	103,459	1,099,346	-	28,917
TOTAL FUND BALANCES	103,459	1,099,346	14,495	28,917
TOTAL LIABILITIES AND FUND BALANCES	\$ 111,729	\$ 1,624,120	\$ 19,705	\$ 36,695

Debt Service Funds

Tax Increment VII	Tax Increment XI	Central Range Public Works	Animal Shelter
\$ 28,597	\$ 1,281	\$ 74,307	\$ 35,795
-	-	-	46,238
		386,229	-
101,347	15,953	-	373
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
\$ 129,944	\$ 17,234	\$ 460,536	\$ 82,406

767	767	-	-
-	-	-	-
-	-	-	-
514	514	-	-
101,347	15,953	-	-
102,628	17,234	-	-
27,316	-	460,536	82,406
27,316	-	460,536	82,406
\$ 129,944	\$ 17,234	\$ 460,536	\$ 82,406

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
December 31, 2009

Capital Projects Funds						
	Storefront Renovation Project	District VIII Tax Increment	District X Tax Increment	Tax Abatement	Totals	
ASSETS						
Cash and cash equivalents	\$ 25,614	\$ 19,881	\$ 14,977	\$ 59,494	\$ 1,454,156	
Cash - restricted	-	-	-	-	46,238	
Investments	-	-	-	-	386,229	
Taxes receivable						
Unapportioned	-	-	-	280	1,627	
Delinquent	-	169	12,579	-	140,474	
Accounts receivable	-	-	-	-	-	
Due from other funds	-	-	-	-	58,000	
Due from other governments	-	-	-	-	-	
Loans receivable	147,909	461,924	-	-	1,134,607	
Prepaid items	-	-	-	-	3,865	
TOTAL ASSETS	\$ 173,523	\$ 481,974	\$ 27,556	\$ 59,774	\$ 3,225,196	
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	-	4,679	4,202	2,888	22,692	
Salaries payable	-	-	-	-	415	
Due to other funds	58,000	-	-	-	58,000	
Due to other governments	-	514	514	-	3,084	
Deferred revenue	147,909	462,093	12,579	-	1,275,081	
TOTAL LIABILITIES	205,909	467,286	17,295	2,888	1,359,272	
FUND BALANCES						
Unreserved, designated	-	-	-	-	557,437	
Unreserved, undesignated	(32,386)	14,688	10,261	56,886	1,308,487	
TOTAL FUND BALANCES	(32,386)	14,688	10,261	56,886	1,865,924	
TOTAL LIABILITIES AND FUND BALANCES	\$ 173,523	\$ 481,974	\$ 27,556	\$ 59,774	\$ 3,225,196	

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, 2009

	General Fund	Economic Development Special Revenue Fund	Tax Increment III	Tax Increment VI
REVENUES				
Taxes				
General	\$ 65,754	\$ -	\$ 2,364	\$ 30,715
Taconite homestead credit	16,375	-	-	-
Other	8,540	-	-	-
Intergovernmental				
State grants				
Market value credit	14,498	-	-	-
IRRA grant	70,000	-	-	-
Charges for Services				
Gifts and contributions				
Interest				
Principal on loan repayments	1,000	-	-	-
Interest on loan repayments	10,200	-	-	-
Other	422	421	99	-
Miscellaneous				
Principal on loan repayments	-	49,154	-	-
Interest on loan repayments	-	21,223	-	-
Other	-	-	-	-
TOTAL REVENUES	186,789	70,798	2,463	30,715
EXPENDITURES				
Current				
Economic development				
Community development	-	-	-	-
Administration	67,042	267	-	-
Professional services	26,868	-	1,891	1,798
Loans	-	150,000	-	-
Tax increment projects	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Fiscal charges	-	-	-	-
Capital Outlay				
Community development	125,433	-	-	-
TOTAL EXPENDITURES	219,343	150,267	1,891	1,798
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(32,554)	(79,469)	572	28,917
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	(25,000)	(11,445)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(25,000)	(11,445)	-
NET CHANGE IN FUND BALANCES	(32,554)	(104,469)	(10,873)	28,917
FUND BALANCES - JANUARY 1	136,013	1,203,815	25,368	-
FUND BALANCES - DECEMBER 31	\$ 103,459	\$ 1,099,346	\$ 14,495	\$ 28,917

Debt Service Funds

Tax Increment VII	Tax Increment XI	Central Range Public Works	Animal Shelter
\$ 43,487	\$ 8,574	\$ -	\$ 24,914
			6,268
			3,269
			5,550
		389,780	-
187	18	308	-
			-
			-
			-
43,674	8,592	390,088	40,001
2,967	-	-	-
1,798	1,798	-	-
	-	-	-
	-	-	-
15,000	10,000	310,000	-
17,438	8,239	77,440	3,833
431	-	2,340	-
			-
37,634	20,037	389,780	3,833
6,040	(11,445)	308	36,168
	11,445	-	46,238
	-	-	-
	11,445	-	46,238
6,040	-	308	82,406
21,276	-	460,228	-
\$ 27,316	\$ -	\$ 460,536	\$ 82,406

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, 2009

		Capital Projects Funds				
		Storefront Renovation Project	District VIII Tax Increment	District X Tax Increment	Tax Abatement	Totals
REVENUES						
Taxes						
General	\$	-	\$ 8,663	\$ 8,307	\$ 18,685	\$ 211,463
Taconite homestead credit		-	-	-	4,701	27,344
Other		-	-	-	2,452	14,261
Intergovernmental						
State grants						
Market value credit		-	-	-	4,162	24,210
IRRA grant		50,000	-	-	-	120,000
Charges for Services						
Gifts and contributions						
Interest						
Miscellaneous						
Principal on loan repayments		18,419	-	-	-	67,573
Interest on loan repayments		3,632	-	-	-	24,855
TOTAL REVENUES		<u>72,051</u>	<u>8,755</u>	<u>8,376</u>	<u>30,232</u>	<u>892,534</u>
EXPENDITURES						
Current						
Economic development						
Community development		-	-	-	8,713	8,713
Administration		-	-	-	-	70,276
Professional services		-	1,797	1,797	-	37,747
Loans		119,472	-	-	-	269,472
Tax increment projects		-	7,825	6,871	-	14,696
Debt Service						
Principal		-	-	-	-	335,000
Interest		-	-	-	-	106,950
Fiscal charges		-	-	-	-	2,771
Capital Outlay						
Community development		-	-	-	-	125,433
TOTAL EXPENDITURES		<u>119,472</u>	<u>9,622</u>	<u>8,668</u>	<u>8,713</u>	<u>971,058</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		<u>(47,421)</u>	<u>(867)</u>	<u>(292)</u>	<u>21,519</u>	<u>(78,524)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in		25,000	-	-	-	82,683
Transfers out		-	-	-	-	(36,445)
TOTAL OTHER FINANCING SOURCES (USES)		<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>46,238</u>
NET CHANGE IN FUND BALANCES		<u>(22,421)</u>	<u>(867)</u>	<u>(292)</u>	<u>21,519</u>	<u>(32,286)</u>
FUND BALANCES - JANUARY 1		<u>(9,965)</u>	<u>15,555</u>	<u>10,553</u>	<u>35,367</u>	<u>1,898,210</u>
FUND BALANCES - DECEMBER 31		<u>\$ (32,386)</u>	<u>\$ 14,688</u>	<u>\$ 10,261</u>	<u>\$ 56,886</u>	<u>\$ 1,865,924</u>

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF NET ASSETS
ENTERPRISE FUND
December 31, 2009

	Family Center
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 172,816
Due from other governments	-
Loans receivable	<u>614,682</u>
TOTAL ASSETS	<u>787,498</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	-
Due to other funds	-
TOTAL LIABILITIES	<u>-</u>
NET ASSETS	
Unrestricted	<u>787,498</u>
TOTAL NET ASSETS	<u>\$ 787,498</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
ENTERPRISE FUND
December 31, 2009

	Family Center
OPERATING REVENUES	
Charges for services	\$ -
Miscellaneous	- -
TOTAL OPERATING REVENUES	- -
OPERATING EXPENSES	
Personal services	- -
Supplies	- -
Maintenance and repairs	- -
Contracted services	- -
Utilities	- -
Depreciation	- -
Miscellaneous	- -
TOTAL OPERATING EXPENSES	- -
OPERATING INCOME	- -
NONOPERATING REVENUES	
Interest income	- -
Interest on notes	37,837
Interest expense	- -
Amortization	- -
Gain on disposal of student housing facility	- -
TOTAL NONOPERATING REVENUES	37,837
INCOME BEFORE TRANSFERS	37,837
Transfers in	- -
Transfers out	- -
CHANGE IN NET ASSETS	37,837
TOTAL NET ASSETS - JANUARY 1	749,661
TOTAL NET ASSETS - DECEMBER 31	<u>\$ 787,498</u>

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUND
December 31, 2009

	Family Center
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ -
Cash paid to suppliers	- -
Cash paid to employees	- -
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>- -</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer in from other funds	- -
Transfer out to other funds	- -
Prior year cash deficit payment	- -
Interfund financing of cash deficit	- -
Principal received on note	37,440
Interest received on note	<u>37,837</u>
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>75,277</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase or construction of fixed assets	- -
Principal paid on long-term debt	- -
Interest paid on long-term debt	- -
Sale of facility	<u>- -</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>- -</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>- -</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>75,277</u>
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>97,539</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 172,816</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	- -
Adjustments to reconcile operating income (loss)	- -
to net cash (used) provided by operating activities:	
Depreciation	- -
Decrease in:	
Accounts receivable	- -
Prepaid items	- -
Increase (decrease) in:	
Accounts payable	- -
Due to other governments	- -
Customer deposits	- -
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ -</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
TAX INCREMENT FINANCING DISTRICTS III, VI, VIII, X, AND XI
Year Ended December 31, 2009

	Tax Increment District III	Tax Increment District VI
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	\$ 9,461	\$ 39,414
Captured Net Tax Capacity Retained by the City	\$ 2,037	\$ 26,464
	Accounted for in Prior Years	Accounted for in Prior Years
	Current Year	Current Year
SOURCES OF FUNDS		
Bond proceeds	\$ 225,630	\$ 726,091
Note proceeds	121,000	-
Tax increments received	732,621	2,364
General property taxes received	17,921	-
Interest on invested funds	15,255	99
Grants	17,602	-
Local contributions	-	-
Miscellaneous	26,528	-
TOTAL SOURCES OF FUNDS	1,156,557	2,463
	1,384,822	30,715
USES OF FUNDS		
Building acquisition	-	-
Other public improvements	295,796	325,000
Bond payments		
Principal	351,000	735,000
Interest and fiscal charges	195,991	303,301
Professional services	4,455	3,950
Administrative costs	19,980	1,798
TOTAL USES OF FUNDS	867,222	1,891
	1,454,343	1,798
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS BEFORE TRANSFERS	289,335	572
	(69,521)	28,917
TRANSFERS		
Transfers to other districts	(67,811)	(926)
Transfers to other funds	(366,646)	-
Transfers from other districts	140,000	46,410
Transfers from other funds	30,490	24,037
TOTAL TRANSFERS	(263,967)	(11,445)
	69,521	-
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS AND TRANSFERS	\$ 25,368	(10,873)
	\$ -	28,917
DISTRICT BALANCE - JANUARY 1	25,368	-
DISTRICT BALANCE - DECEMBER 31	\$ 14,495	\$ 28,917

Tax Increment District VII		Tax Increment District VIII		Tax Increment District X		Tax Increment District XI	
Redevelopment		Qualified Housing		Economic Development		Redevelopment	
469		469		469		469	
1993		1993		1999		1999	
2019		2020		2009		2025	
\$ 3,412		\$ -		\$ 671		\$ 525	
50,156		7,514		9,630		9,734	
<u>\$ 46,744</u>		<u>\$ 7,514</u>		<u>\$ 8,959</u>		<u>\$ 9,209</u>	
Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year
\$ 320,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 165,000	\$ -
559,537	43,487	161,127	8,663	75,596	8,307	75,816	8,574
10,903	187	5,281	92	932	69	1,744	18
299,999	-	385,000	-	-	-	-	-
8,251	-	-	-	64,350	-	67,786	-
19,619	-	18,670	-	-	-	2,786	-
<u>1,218,309</u>	<u>43,674</u>	<u>570,078</u>	<u>8,755</u>	<u>140,878</u>	<u>8,376</u>	<u>313,132</u>	<u>8,592</u>
721,672	-	555,095	-	136,447	6,871	253,248	-
80,000	15,000	54,293	7,825	-	-	50,000	10,000
248,579	17,869	-	-	-	-	98,305	8,239
27,994	1,798	6,327	1,797	17,793	1,797	27,970	1,798
118,788	2,967	30,205	-	-	-	45	-
<u>1,197,033</u>	<u>37,634</u>	<u>645,920</u>	<u>9,622</u>	<u>154,240</u>	<u>8,668</u>	<u>429,568</u>	<u>20,037</u>
21,276	6,040	(75,842)	(867)	(13,362)	(292)	(116,436)	(11,445)
-	-	(4,926)	-	-	-	-	-
-	-	96,323	-	9,459	-	35,055	-
-	-	91,397	-	14,456	-	81,381	11,445
-	-	-	-	23,915	-	116,436	11,445
<u>\$ 21,276</u>	<u>6,040</u>	<u>\$ 15,555</u>	<u>(867)</u>	<u>\$ 10,553</u>	<u>(292)</u>	<u>\$ -</u>	<u>-</u>
21,276		15,555		10,553		-	
<u>\$ 27,316</u>		<u>\$ 14,688</u>		<u>\$ 10,261</u>		<u>\$ -</u>	

Fort & Company, P.A.

Certified Public Accountants

John W. Fort, CPA
Christine A. Towner, CPA

Diane D. Krueger-Pirnat, CPA
Tammy M. Mattonen, CPA

Kimberly A. Maxie

Connor B. Michels, EA
Victoria C. Kolo

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, 2009, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated June 28, 2010. 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 2009-1, 2009-2, 2009-3, 2009-4, 2009-5 and 2009-6 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.

Compliance and Other Matters

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

We also noted certain additional matters that we reported to management of City of Hibbing, Minnesota in a separate letter dated June 28, 2010, 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.

Fort & Company

Fort & Company, P.A.
June 28, 2010

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2009

SIGNIFICANT DEFICIENCIES

2009-1. SEGREGATION OF DUTIES

Condition

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

Criteria

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

Effect

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

Cause

This occurred because of staffing limitations caused by fiscal constraints.

Recommendations

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

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

2. Actions Planned in Response of Finding:

The City Finance Director 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 Renskers, Finance Director, is the official responsible for ensuring this plan.

4. Planned Completion Date for CAP:

The City's Finance Director has been monitoring transactions and reviewing the duties of office personnel on an ongoing basis.

5. Plan to Monitor Completion of CAP:

The City Council recognized the weakness in segregation of duties and has continually provided oversight to partially compensate for this deficiency.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Year Ended December 31, 2009

2009-2. FINANCIAL REPORTING PROCESS - REPORT WRITING AND GASB 34 FUNCTIONS OF INCODE SOFTWARE NOT UTILIZED

Condition and Criteria

The report writing and GASB 34 functions of the City's enterprise software package, Incode, is not utilized and fully functional. Thus, as part of the audit, management requested that we prepare the general ledger account groupings necessary to draft the City's financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance; however, management did not perform a detailed review of the financial statement report caption groupings.

Effect

Having the report writing function in Excel, outside of the Incode system, gives rise to the potential of account balances and/or account balance adjustments not being captured in published financial statements.

Cause

This occurred because of staffing and software limitations caused by fiscal constraints.

Recommendations

In order to provide controls over the financial statement preparation process at an appropriate level, we suggest management investigate the cost of utilizing the report writing function within Incode and establish effective review policies and procedures.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding; the City acknowledges that this finding is a result of the SAS 112 requirements, which make this an expected finding given the cost/benefit of preparing the financial statements.

2. Actions Planned in Response to Finding:

The City will investigate the cost of utilizing the report writing function within Incode and evaluate the best approach in generating the City's statutory financial statements and state reporting.

3. Officials Responsible for Ensuring CAP:

Sherri Renskers, Finance Director
Patrick Garrity, City Clerk/Treasurer

4. Planned Completion Date for CAP:

Prior to April 2011.

5. Plan to Monitor Completion of CAP:

Patrick 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, 2009

2009-3. RECONCILIATION OF ST. LOUIS COUNTY TAX COLLECTION REPORT

Condition

The City completed a reconciliation of the annual tax collection report prepared by St. Louis County to the annual levy amount. However, the City had not previously compared the amount used by the County Auditor in reducing the levy for market value homestead credits (MVHC) paid by the State to the amounts actually paid by the State. As a result, the City was not aware that a portion of the annual State market value credit payments, since 2003, represented amounts attributable to the Chisholm-Hibbing Airport Authority levy. The State sent the total market value credit payments to the cities of Hibbing and Chisholm and the Chisholm-Hibbing Airport Authority never collected the full amount of their annual tax levies. The total amount related to Hibbing is \$376,540 for the period from 2003 to 2009.

Criteria

Tax collection reconciliation control.

Effect

To assure that all levied amounts are properly applied to property holders property tax statements and that all State credits are accurately applied and remitted to the correct local taxing jurisdiction.

Cause

The reconciliation between St. Louis County calculated levy reductions for MVHC and State remitted MVHC amounts was not being performed.

Recommendations

Annually, the City should obtain the tax collection report from St. Louis County and reconcile the amount of MVHC used by the County in reducing the City's tax levy distribution to the amount used by the State in remitting the MVHC payments to the City, and obtain explanations of any reconciling amounts.

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 Findings:

The City will obtain the additional details as noted above annually during the year end close and prepare a reconciliation.

3. Official Responsible for Ensuring CAP:

Sherri Renskers, Financial Director, is the official responsible for ensuring this plan.

4. Planned Completion Date for CAP:

The reconciliation will be performed during the year end 2010 financial reporting close.

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, 2009

2009-4. PAYROLL ACCOUNTING - ACCRUAL OF BENEFITS FOR TERMINATED EMPLOYEES

Condition

Misstatement of payroll accruals at December 31, 2009.

Criteria

Controls should be in place to ensure that terminated employee benefits paid out over a period end are reconciled between offline Excel spreadsheets and system generated ledger accruals.

Effect

The City could potentially misstate the amount of payroll expense and accrual related to termination balances owed and misreport financial statement amounts in the statutory financial statements and the Minnesota State Reporting form.

Cause

At December 31, 2009, the City had 4 employees that had terminated employment with the City and were owed their outstanding vacation, sick and comp time balances as a contractual severance amount. In preparing the 2009 financial statement accruals, the Accountant utilized the accrued leave balance totals from the Human Resources department to include the amounts in the vacation, sick and comp time accrual balances; however, as these leave accruals are in an Excel spreadsheet, the Accountant was not aware of the fact that these amounts were included with the employee's last payroll check and were already included in the salaries payable balances at December 31, 2009 (which amounts come from the Incode payroll ledger).

Recommendations

Establish a review process between Human Resources, the Payroll Clerk and the Accountant that requires a review of payment timing on terminated employee's benefits.

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:

At the time a termination occurs, the Human Resource Director will reduce the leave accruals to the appropriate balances (zero), in conjunction with calculating the severance payments.

3. Official Responsible for Ensuring CAP:

Sherri Renskers, Finance Director, is the official responsible for ensuring this plan.

4. Planned Completion Date for CAP:

The control changes will be in place for the year ending December 31, 2010.

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, 2009

2009-5. FIDUCIARY RESPONSIBILITY TO SEGREGATE BOND FUNDS

Condition

The Revenue Bond Resolution (\$462,500 Public Project Revenue Bonds, Series 2009A), Article 5-2 and 5-3 specifies that the Authority (HEDA) establish and maintain, so long as the Bonds are Outstanding, a separate trust account for the benefit of the Bondholder (Bond Fund and Reserve Fund). These amounts were recorded in City Fund 375, HEDA Animal Shelter Debt Service Fund, as restricted cash of \$46,238 and are part of the City's pooled cash accounts. These amounts are not held in a separate trust account as specified in the Bond Resolution.

Criteria

As noted above.

Effect

The City is in violation of the Bond Resolution.

Cause

As there was only one bondholder, the City is acting as the paying agent and wasn't aware of the need in the Bond Resolution to hold the reserve amounts in a separate trust account.

Recommendations

The City transfer funds to a separate trust account as specified in the Bond Resolution.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

2. Actions Planned in response to Finding:

The Finance Director will establish a new trust account and transfer the balance into the account.

3. Official Responsible for Ensuring CAP:

Sherri Renskers, Finance Director, is the official responsible for ensuring this plan.

4. Planned Completion Date for CAP:

The Trust Account has been opened and the \$46,238 of required funds was transferred on June 25, 2010.

5. Plan to Monitor Completion of CAP:

Completed June 25, 2010.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2009

MINNESOTA LEGAL COMPLIANCE

2009-6. INVESTMENT SAFEKEEPING

Condition

At December 31, 2009 the City had \$776,740 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 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.

2. Actions Planned in response to Finding:

Effective August 1, 2010, the State of Minnesota has changed the legal statute to allow municipalities to safekeep investments with broker-dealers not having a principal executive office in Minnesota as long as they have SPIC and excess SPIC coverage. As Wells Fargo Advisors have these coverages, the City of Hibbing will be in compliance as of August 1, 2010.

3. Official Responsible for Ensuring CAP:

No action needed, the City will be compliant August 1, 2010.

4. Planned Completion Date for CAP:

No action needed, the City will be compliant August 1, 2010.

5. Plan to Monitor Completion of CAP:

No action needed, the City will be compliant August 1, 2010.

Fort & Company, P.A.

Certified Public Accountants

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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, 2009, 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 28, 2010, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated June 28, 2010, 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

Finding - 1:

The City's Incode system trial balance has four active capital project funds for completed TIF projects.

Recommendation – 1:

To streamline the financial reporting process, we recommend that the City transfer the balances of the capital project funds to the related debt service fund.

Management Response – 1:

We will evaluate the likelihood of any new capital project activity in the TIF districts and if deemed that no new activity is likely to occur within the next year, we will transfer the balances to the debt service funds.

Finding – 2:

The River Creek tax abatement and the IRR Resolution 09-09-01 had minor inaccuracies.

Recommendation – 2:

We recommend that a process be established whereby the Economic Development Director reviews the calculation of any payments under tax abatement agreements and signs off on the payment calculation and that any grant resolutions drafted by the Economic Development Director be provided to the Finance Department for review prior to presentation to the City Council.

Management Response – 2:

We will incorporate a signoff form with the Finance Department's calculation of the tax abatement payments for signoff by the Economic Development Director and Finance's review of resolution language will be signified by signoff on the resolution draft.

Finding – 3:

The calculation of vacation, comp and sick time accruals need to utilize the Incode report for the pay date in early January of every year to take into account the pay period through December 31st. The Finance Department had been utilizing a report ended December 31st and the underlying data was only through mid-December every year. As this process consistently captured accrual data through mid-December, it has a minimal accounting impact other than in years where there is a large number of retirements or terminations near the end of the year.

Recommendation – 3:

To accurately capture the vacation, comp and sick time accruals as tracked in the Incode payroll system, the City should utilize the January payroll report for the pay period through December 31st.

Management Response – 3:

The City will utilize the January report for year end 2010 and years going forward, but will need to take into account the difference for year end 2009 in recording the appropriate accrual for year end 2010.

Finding – 4:

OPEB Accounting – The Finance Department and Human Resources need to obtain a greater understanding of GASB 45 and related accounting. This area is particularly complicated and parts of the accounting entry have an expense in the GASB 34 statements, but not necessarily an immediate cash entry. To fully understand the disclosure, both departments need to have an open line of communication with the actuary. Additionally, there needs to be a clear understanding of "what" level of OPEB Plan modifications require a more frequent actuarial valuation.

Recommendation – 4:

We recommend that the City review any changes to the Plan with the Actuary and the Auditor.

Management Response – 4:

The City plans to contact the actuary and auditor with any changes to the Plan.

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.



Fort & Company, P.A.

June 28, 2010