

CITY OF HIBBING, MINNESOTA

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended December 31, 2010

CITY OF HIBBING, MINNESOTA

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CITY OF HIBBING, MINNESOTA

ORGANIZATION
December 31, 2010

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

Finance Director/Acting Administrator	Sherri A. Renskers
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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
Victoria C. Kolo

Connor B. Michels, EA
Kimberly A. Maxie

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hibbing, Minnesota's, management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Utilities Commission, which represent 93 percent, 93 percent, and 97 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, 2010, 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 27, 2011, on our consideration of the City of Hibbing, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, infrastructure condition data, and 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.

A handwritten signature in cursive script that reads "Fort & Company".

Fort & Company, P.A.
June 27, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

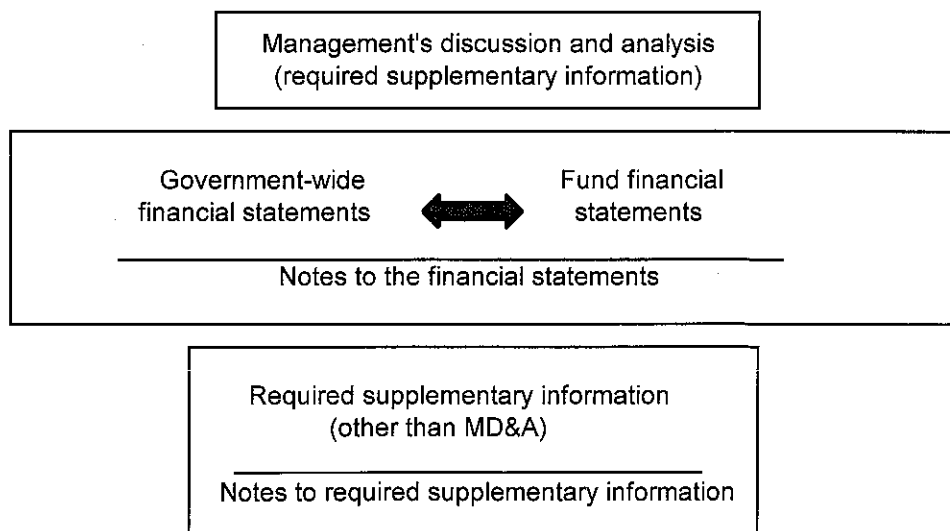
The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2010. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Hibbing, Minnesota's financial statements.

FINANCIAL HIGHLIGHTS

- ➔ Governmental activities' total net assets are \$29,789,169, of which \$21,380,075 is invested in capital assets, net of related debt.
- ➔ Business-type activities have total net assets of \$14,975,827. Invested in capital assets, net of related debt represents \$18,313,039 of the total.
- ➔ The Hibbing Economic Development Authority (EDA) has total net assets of \$2,688,046. Invested in capital assets, net of related debt represents \$147,037 of the total.
- ➔ The City of Hibbing's primary government's net assets increased by \$949,896 for the year ended December 31, 2010. The Governmental activities' net assets decreased by (\$1,157,836) and the business-type activities' net assets increased by \$2,107,732.
- ➔ The EDA's net assets increased by \$523,515.
- ➔ The net cost of governmental activities was \$16,091,741 for the current year. The net cost was funded by general revenues and other items totaling \$14,933,905.
- ➔ Governmental funds' fund balances increased by \$1,214,993.
- ➔ The increase in governmental funds' fund balance was partially attributable to the City's success in monitoring costs and have general fund revenues exceed expenditures by \$379,952. The majority of the remaining increase was in the nonmajor governmental funds, primarily \$512,299 of funding for the Other Postemployment Benefit Debt Service Fund and \$244,030 of increase in the Permanent Improvement Capital Projects Fund.

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, is 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, 2010

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, 2010

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, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased from \$43,815,100 to \$44,764,996. 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 18,939,995	\$ 17,437,577	\$ (399,145)	\$ (1,480,330)	\$ 18,540,850	\$ 15,957,247
Capital assets	24,297,456	24,995,914	27,603,984	24,987,565	51,901,440	49,983,479
Total assets	<u>\$ 43,237,451</u>	<u>\$ 42,433,491</u>	<u>\$ 27,204,839</u>	<u>\$ 23,507,235</u>	<u>\$ 70,442,290</u>	<u>\$ 65,940,726</u>
Long-term liabilities	\$ 11,041,448	\$ 9,332,163	\$ 9,360,984	\$ 9,590,629	\$ 20,402,432	\$ 18,922,792
Other liabilities	2,406,834	2,154,323	2,868,028	1,048,511	5,274,862	3,202,834
Total liabilities	<u>\$ 13,448,282</u>	<u>\$ 11,486,486</u>	<u>\$ 12,229,012</u>	<u>\$ 10,639,140</u>	<u>\$ 25,677,294</u>	<u>\$ 22,125,626</u>
Net assets						
Invested in capital assets						
net of debt	\$ 21,380,075	\$ 21,330,848	\$ 18,305,436	\$ 15,446,258	\$ 39,685,511	\$ 36,777,106
Restricted	3,225,428	2,820,997	-	-	3,225,428	2,820,997
Unrestricted	5,183,666	6,795,160	(3,329,609)	(2,578,163)	1,854,057	4,216,997
Total net assets	<u>\$ 29,789,169</u>	<u>\$ 30,947,005</u>	<u>\$ 14,975,827</u>	<u>\$ 12,868,095</u>	<u>\$ 44,764,996</u>	<u>\$ 43,815,100</u>

Net assets of the City's governmental activities decreased by 3.74 percent (\$29,789,169 compared to \$30,947,005). 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 \$6,795,160 at December 31, 2009 to \$5,183,666 at the end of 2010.

Net assets of the City's business-type activities increased 16.38 percent (\$14,975,827 in 2010 compared to \$12,868,095 in 2009).

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program revenues:						
Fees, fines, charges, and other	\$ 2,378,163	\$ 2,311,135	\$ 5,372,658	\$ 4,733,988	\$ 7,750,821	\$ 7,045,123
Operating grants and contributions	797,224	871,214	-	-	797,224	871,214
Capital grants and contributions	1,000,705	1,103,281	1,550,282	167,866	2,550,987	1,271,147
General revenues:						
Taxes	6,681,724	6,665,351	-	-	6,681,724	6,665,351
Intergovernmental	8,212,154	9,102,821	-	-	8,212,154	9,102,821
Other general revenues	40,027	58,063	17,170	3,068	57,197	61,131
Total revenues	<u>19,109,997</u>	<u>20,111,865</u>	<u>6,940,110</u>	<u>4,904,922</u>	<u>26,050,107</u>	<u>25,016,787</u>
Program expenses:						
General government	3,803,236	3,783,484	-	-	3,803,236	3,783,484
Public safety	7,795,498	8,069,475	-	-	7,795,498	8,069,475
Public works	4,846,683	4,931,162	-	-	4,846,683	4,931,162
Culture and recreation	3,258,282	3,458,930	-	-	3,258,282	3,458,930
Other	441,327	392,161	-	-	441,327	392,161
Interest	122,807	174,469	-	-	122,807	174,469
Garbage and refuse collection	-	-	2,278,701	2,364,653	2,278,701	2,364,653
Sewer operating and maintenance	-	-	2,548,549	2,400,712	2,548,549	2,400,712
Memorial building concessions	-	-	5,128	2,728	5,128	2,728
Total program expenses	<u>20,267,833</u>	<u>20,809,681</u>	<u>4,832,378</u>	<u>4,768,093</u>	<u>25,100,211</u>	<u>25,577,774</u>
Transfers to component unit	-	(46,238)	-	-	-	(46,238)
Increase (decrease) in net assets	<u>\$ (1,157,836)</u>	<u>\$ (744,054)</u>	<u>\$ 2,107,732</u>	<u>\$ 136,829</u>	<u>\$ 949,896</u>	<u>\$ (607,225)</u>

The City's total revenues increased by \$1,033,320 or 4.13 percent. The total cost of all programs and services decreased by (\$477,563) or 1.87 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 decreased by \$1,001,868 or 4.98 percent and total expenses decreased by (\$541,848) or 2.60 percent. The decrease in net assets for governmental activities was \$(1,157,836) in 2010.

The cost of all governmental activities this year was \$20,267,833. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs, \$2,378,163, or by other governments and organizations that subsidized certain programs with grants and contributions, \$10,050,110. Our taxpayers paid \$6,681,724 in taxes in 2010.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

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	
	2010	2009	2010	2009
Public safety	\$ 7,795,498	\$ 8,069,475	\$ 5,887,509	\$ 6,238,512
Public works	4,846,683	4,931,162	3,539,929	3,416,084
General government	3,803,236	3,783,484	3,460,736	3,471,320
Culture and recreation	3,258,282	3,458,930	2,885,004	3,061,960
Other	441,327	392,161	195,756	161,706
Interest on long-term debt	122,807	174,469	122,807	174,469
Totals	\$ 20,267,833	\$ 20,809,681	\$ 16,091,741	\$ 16,524,051

Business-Type Activities

Revenues of the City's business-type activities were \$6,940,110 and expenses were \$4,832,378 (see Table 2). There was an increase in net assets of \$2,107,732 during the year ended December 31, 2010. The factors driving these results include:

Operations produced \$973,580 of income for the year ended December 31, 2010.

The City recognized capital grants totaling \$1,516,140 for the year.

The City recognized an impairment loss on capital assets of \$218,778 for the year.

The City had non-operating interest expense totaling \$214,508 for the year.

EDA Component Unit Activity

The EDA had a net increase in net assets of \$523,515 for the year ended December 31, 2010. General revenues such as taxes and grants not restricted to specific programs accounted for \$248,994 of this, with net program revenues over expenses of \$274,521.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$15,986,165 which is greater than last year's total of \$14,771,173. Included in this year's total fund balance is a surplus of \$10,646,736 in the City's general fund. The general fund had a increase of \$333,982 due to the City's plan to continue to monitor costs and a budget plan for revenues to exceed expenditures. The Library Fund recorded a \$53,628 increase in fund balance due to a combination of meeting budget and a planned transfer in of \$57,136 from the General Fund. The largest increase in other governmental funds was for \$512,299 in the Other Postemployment Benefits Debt Service Fund which was due to the current year funding. The next largest increase was \$244,030 in the Permanent Improvement Capital Projects Fund due to the recognition of \$1,450,430 for taxes, intergovernmental and interest; offset by public works expenditures of \$1,206,400.

GENERAL FUND BUDETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$16,503 below the final budget amounts. The most significant positive variances occurred in the City's public works, \$270,249, and miscellaneous, \$182,436. The most significant negative variance (\$72,594) occurred in the City's general government planned expenditures. Resources available for appropriation were below the final budgeted amounts by \$132,556. The City received less in intergovernmental revenue, taxes and interest, and more licenses and permit revenue, charges for services, gifts and contributions and miscellaneous than expected.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the City had \$51,901,440 invested in a broad range of capital assets, net of accumulated depreciation, including land, land improvements, buildings, infrastructure and equipment (see Table 4 below). This amount represents a net increase (including additions and deductions) of \$1,917,961 over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land, improvements, intangibles						
artwork, gravel roads	\$ 6,362,511	\$ 6,336,169	\$ 340,769	\$ 130,057	\$ 6,703,280	\$ 6,466,226
Buildings and improvements	8,046,547	8,266,508	16,808,520	17,604,133	24,855,067	25,870,641
Infrastructure	6,709,370	6,457,071	4,271,033	4,230,315	10,980,403	10,687,386
Equipment, machinery and furniture	2,479,940	2,828,519	1,876,425	947,486	4,356,365	3,776,005
Construction in progress	699,088	1,107,647	4,307,237	2,075,574	5,006,325	3,183,221
Totals	<u>\$ 24,297,456</u>	<u>\$ 24,995,914</u>	<u>\$ 27,603,984</u>	<u>\$ 24,987,565</u>	<u>\$ 51,901,440</u>	<u>\$ 49,983,479</u>

This year's major additions included:

11th Avenue East	\$ 517,458
Two police cars	44,584
5th Avenue West	1,128,278
Ambulance	139,653
Bennet Park - cold storage	1,132
Bennet Park - cold storage building	5,799
Bennet Park - warm storage	24,112
Bennet Park - warm storage building	144,979
Bike pump grundfos	6,475
Brooklyn parcel	743
Cemetery software	28,249
Computer editing equipment	1,392
Council chambers microphones	8,858
Dixon Road bridge	4,388
Eagle 320 thermal imaging camera	6,479
Fields for kids baseball	15,552
Fire training tower	4,264
Koivu Road bridge	2,963
Kromer tractor groomer	21,960
Laptop computer	1,368
Library improvements	48,658
Memorial benches	2,935
Memorial Building heating repairs	17,625
Memorial Building roofing	12,225
Model 100 precinct scanner	4,643
MSA 5th Avenue West	170,867

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

Newton Road bridge	\$ 185,852
North Salmi Road	108,674
Public works heated storage	168,365
Rainy Road bridge	3,747
Renewable energy project	8,200
Total additions	<u>2,840,477</u>

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 \$21,848,307 in long-term debt outstanding versus \$20,770,292 last year (see Table 5).

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

	Governmental Activities		Business-type Activities		EDA Component Unit	
	2010	2009	2010	2009	2010	2009
General obligation bonds (backed by the City)	\$ 1,480,000	\$ 1,745,000	\$ -	\$ -	\$ 1,460,949	\$ 1,847,500
Certificates of indebtedness	377,000	519,000	-	-	-	-
Capital leases	1,060,382	1,401,067	13,603	-	-	-
Police and Fire indebtedness	-	-	-	-	-	-
General obligation revenue notes	-	-	7,069,945	7,156,000	-	-
General obligation revenue bonds	-	-	2,215,000	2,300,000	-	-
Compensated absences	216,577	439,126	62,436	134,629	-	-
OPEB liability	7,907,490	5,227,970	-	-	-	-
Total	<u>\$ 11,041,449</u>	<u>\$ 9,332,163</u>	<u>\$ 9,360,984</u>	<u>\$ 9,590,629</u>	<u>\$ 1,460,949</u>	<u>\$ 1,847,500</u>

The State limits the amount of net debt that the City's can issue to 3 percent of the market value of all taxable property in the city. The City's outstanding qualifying net debt of \$1,480,000 is significantly below the \$23,227,398 State-imposed limit.

The City had one new debt issuance during the year:

The City issued a \$1,726,575 G.O. Sewer Revenue Note in 2010 to provide for sanitary and storm sewer improvement projects. Advances are made on this loan as the City submits cost reimbursements to the Minnesota Public Facilities Authority. As of December 31, 2010, the City had advanced \$408,945 against the approved loan of \$1,726,575.

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 \$175,311 as compared to the actual costs during the current year of \$183,088.

CITY OF HIBBING, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2010

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the 2011 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. With the state's budget deficit forecast even greater for fiscal year 2012 and 2013, it is likely that the reduction for 2011 will be even greater than that for 2010. The actual amount is unknown as the state has reached a budget impasse which will require a special legislative session.

The General Fund expenditures for 2011 are budgeted to decrease \$13,460 from the 2010 final budget, resulting in a 10.2% annual decrease from the 2009 original budget.

Property tax levies did not increase for 2011.

The state's budget deficit imposes a great deal of financial uncertainty for the city.

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 State's budget deficit imposes a great deal of financial uncertainty for the City.

The City's 2011 capital budget calls for it to spend another \$2,926,430 for capital projects, principally for the following:

General government	\$ 5,500
Public works	585,000
Public safety	887,700
Parks and recreation - arena	188,100
Library	730,430
Other	456,200
Cemetery	73,500
Total	<u>\$ 2,926,430</u>

Some of the projects are subject to obtaining grants. Library projects are subject to both grants and a bond issue. Many of the projects have not yet gone forward due to uncertainty surrounding state aid revenues.

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, 2010

	Primary government			Component Units	
	Governmental Activities	Business type Activities	Total	EDA	PUC
ASSETS					
Cash and cash equivalents	\$ 13,240,400	\$ 1,610,280	\$ 14,850,680	\$ 1,820,684	\$ 742,513
Investments	676,338	-	676,338	386,123	-
Taxes receivable	363,303	1,404	364,707	132,587	-
Special assessments receivable	155,507	131,026	286,533	-	-
Accounts receivable	523,005	13,625	536,630	10,000	5,213,428
Interest receivable	1,776	-	1,776	-	-
Unbilled revenues	-	-	-	-	1,603,591
Internal balances	3,246,270	(3,246,270)	-	-	-
Due from other governments	462,295	645,195	1,107,490	-	-
Due from other component units	-	429,588	429,588	-	-
Due from primary government	-	-	-	435,949	-
Loans receivable	133,526	-	133,526	1,712,671	-
Inventories	-	4,851	4,851	-	954,615
Prepaid expenses	137,575	11,156	148,731	-	431,522
Equity in joint venture	-	-	-	-	11,376,222
Temporarily restricted assets	-	-	-	-	-
Cash and cash equivalents	-	-	-	46,238	2,000,498
Investments held with fiscal agents	-	-	-	-	337,001
Capital assets not being depreciated	-	-	-	-	-
Land, improvements, artwork, gravel roads intangibles and construction in progress	7,061,599	4,648,006	11,709,605	127,338	2,691,760
Capital assets net of accumulated depreciation	-	-	-	-	-
Infrastructure	21,236,640	4,562,807	25,799,447	19,699	-
Buildings and improvements	21,074,129	25,048,635	46,122,764	-	8,752,748
Transmissions and distribution system	-	-	-	-	44,639,841
Equipment, machinery and furniture	9,968,168	4,164,102	14,132,270	-	47,012,554
Less: accumulated depreciation	(35,043,080)	(10,819,566)	(45,862,646)	-	(66,903,489)
TOTAL ASSETS	\$ 43,237,451	\$ 27,204,839	\$ 70,442,290	\$ 4,691,289	\$ 58,852,804
LIABILITIES AND NET ASSETS					
Accounts payable	\$ 230,716	\$ 68,623	\$ 299,339	\$ 13,238	\$ 3,071,158
Salaries payable	1,232,386	64,013	1,296,399	462	-
Notes payable	-	-	-	-	-
Due to other governments	400,251	16,952	417,203	74,723	-
Due to primary government	-	-	-	-	429,588
Contracts payable	86,630	1,038,877	1,125,507	-	-
Customer deposits	-	-	-	-	215,063
Other accrued liabilities	28,014	-	28,014	-	106,463
Deferred revenues	387,126	1,446,807	1,833,933	418,516	19,008
Accrued interest payable	41,711	78,926	120,637	35,355	13,571
Compensated absences	-	153,830	153,830	-	429,206
Long-term liabilities	-	-	-	-	-
Due to component unit	435,949	-	435,949	-	-
Due within one year	709,909	647,348	1,357,257	405,745	874,322
Due in more than one year	9,895,590	8,713,636	18,609,226	1,055,204	17,482,700
TOTAL LIABILITIES	\$ 13,448,282	\$ 12,229,012	\$ 25,677,294	\$ 2,003,243	\$ 22,641,079
NET ASSETS					
Invested in capital assets, net of related debt	21,380,075	18,305,436	39,685,511	147,037	32,697,486
Restricted for:	-	-	-	-	-
Capital projects	2,560,858	-	2,560,858	-	-
Debt service	315,920	-	315,920	735,086	1,766,427
Other purposes	348,650	-	348,650	86,409	-
Unrestricted	5,183,666	(3,329,609)	1,854,057	1,719,514	1,747,812
TOTAL NET ASSETS	29,789,169	14,975,827	44,764,996	2,688,046	36,211,725
TOTAL LIABILITIES AND NET ASSETS	\$ 43,237,451	\$ 27,204,839	\$ 70,442,290	\$ 4,691,289	\$ 58,852,804

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities				
General government	\$ 3,803,236	\$ 287,396	\$ 29,504	\$ 25,600
Public safety	7,795,498	1,646,356	261,483	150
Public works	4,846,683	44,624	290,332	971,798
Culture and recreation	3,258,282	360,120	10,001	3,157
Economic development	154,487	919	-	-
Transportation	286,840	38,748	205,904	-
Interest on long-term debt	122,807	-	-	-
Total Governmental Activities	20,267,833	2,378,163	797,224	1,000,705
Business-type Activities				
Gargage and refuse collection	2,278,701	2,677,395	-	34,142
Sewer operating and maintenance	2,548,549	2,690,164	-	1,516,140
Memorial building concessions	5,128	5,099	-	-
Total Business-type Activities	4,832,378	5,372,658	-	1,550,282
Total Primary Government	\$ 25,100,211	\$ 7,750,821	\$ 797,224	\$ 2,550,987
Component Units				
EDA	\$ 330,408	\$ 405,493	\$ 177,436	\$ 22,000
PUC	24,999,014	26,041,460	-	304,000
Total Component Units	\$ 25,329,422	\$ 26,446,953	\$ 177,436	\$ 326,000

General Revenues

Taxes

Property taxes, levied for general purposes

Property taxes, levied for specific purposes

Franchise taxes

Tax increment financing

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on sale of capital assets

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
\$ (3,460,736)	\$ -	\$ (3,460,736)		
(5,887,509)	-	(5,887,509)		
(3,539,929)	-	(3,539,929)		
(2,885,004)	-	(2,885,004)		
(153,568)	-	(153,568)		
(42,188)	-	(42,188)		
(122,807)	-	(122,807)		
(16,091,741)	-	(16,091,741)		
-	432,836	432,836		
-	1,657,755	1,657,755		
-	(29)	(29)		
-	2,090,562	2,090,562		
(16,091,741)	2,090,562	(14,001,179)		
			\$ 274,521	\$ -
			-	1,346,446
			\$ 274,521	\$ 1,346,446
4,183,311	-	4,183,311	-	-
2,342,755	-	2,342,755	168,761	-
155,658	-	155,658	-	-
-	-	-	145,398	-
8,212,154	-	8,212,154	9,156	-
16,909	2,582	19,491	1,126	43,564
23,118	14,588	37,706	-	-
-	-	-	(75,447)	-
14,933,905	17,170	14,951,075	248,994	43,564
(1,157,836)	2,107,732	949,896	523,515	1,390,010
30,947,005	12,868,095	43,815,100	2,164,531	34,821,715
\$ 29,789,169	\$ 14,975,827	\$ 44,764,996	\$ 2,688,046	\$ 36,211,725

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

CITY OF HIBBING, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2010

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 8,040,672	\$ 211,355	\$ 4,829,384	\$ 13,081,411
Investments	676,338	-	-	676,338
Taxes receivable	324,187	8,361	30,665	363,213
Special assessments receivable	-	-	155,507	155,507
Accounts receivable	407,948	39	115,016	523,003
Interest receivable	1,776	-	-	1,776
Due from other funds	3,246,270	-	-	3,246,270
Due from other governments	107,795	-	354,512	462,307
Loans receivable	-	-	133,527	133,527
Prepaid items	128,755	8,820	-	137,575
TOTAL ASSETS	\$ 12,933,741	\$ 228,575	\$ 5,618,611	\$ 18,780,927
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 199,055	\$ 4,759	\$ 26,913	\$ 230,727
Salaries payable	1,166,356	66,030	-	1,232,386
Due to other funds	-	-	-	-
Due to other governments	369,890	6,505	23,858	400,253
Contracts payable	(112)	-	86,743	86,631
Deferred revenue	523,892	-	292,949	816,841
Other accrued liabilities	27,924	-	-	27,924
TOTAL LIABILITIES	2,287,005	77,294	430,463	2,794,762
FUND BALANCES				
Reserved for				
Encumbrances	-	-	-	-
Prepaid items	128,755	8,820	-	137,575
Other purposes	37,774	-	50,000	87,774
Unreserved, designated	9,819,001	-	2,429,921	12,248,922
Unreserved, undesignated reported in				
General fund	661,206	-	-	661,206
Special revenue funds	-	142,461	147,369	289,830
Capital projects funds	-	-	2,560,858	2,560,858
TOTAL FUND BALANCES	10,646,736	151,281	5,188,148	15,986,165
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,933,741	\$ 228,575	\$ 5,618,611	\$ 18,780,927

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, 2010

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

TOTAL FUND BALANCES, GOVERNMENTAL FUNDS	\$ 15,986,165
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	24,297,456
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements	429,718
A portion of assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets	158,989
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(41,711)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(11,041,448)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 29,789,169</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, 2010

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 4,327,905	\$ 617,641	\$ 1,698,743	\$ 6,644,289
Special assessments	-	-	22,547	22,547
Licenses and permits	156,282	-	-	156,282
Intergovernmental	8,600,984	33,518	1,354,208	9,988,710
Charges for services	1,911,037	19,622	13,966	1,944,625
Fines	146,547	-	-	146,547
Gifts and contributions	6,374	9,002	3,157	18,533
Interest	10,672	670	5,195	16,537
Miscellaneous	99,704	-	4,312	104,016
TOTAL REVENUES	15,259,505	680,453	3,102,128	19,042,086
EXPENDITURES				
Current				
General government	1,861,366	-	-	1,861,366
Public safety	5,727,848	-	-	5,727,848
Public works	2,726,776	-	-	2,726,776
Culture and recreation	1,784,114	683,961	-	2,468,075
Economic development	111,578	-	-	111,578
Transportation	266,129	-	-	266,129
Miscellaneous	2,057,170	-	-	2,057,170
Debt Service				
Principal	283,951	-	463,735	747,686
Interest and other charges	60,621	-	77,905	138,526
Capital Outlay				
General government	-	-	4,643	4,643
Public safety	-	-	191,479	191,479
Public works	-	-	1,398,819	1,398,819
Culture and recreation	-	-	141,391	141,391
Miscellaneous	-	-	8,725	8,725
TOTAL EXPENDITURES	14,879,553	683,961	2,286,697	17,850,211
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	379,952	(3,508)	815,431	1,191,875
OTHER FINANCING SOURCES (USES)				
Transfers in	-	57,136	-	57,136
Transfers out	(57,136)	-	-	(57,136)
Debt issuance	-	-	-	-
Sale of capital assets	11,166	-	11,952	23,118
TOTAL OTHER FINANCING SOURCES (USES)	(45,970)	57,136	11,952	23,118
NET CHANGE IN FUND BALANCES	333,982	53,628	827,383	1,214,993
FUND BALANCES - JANUARY 1	10,312,755	97,653	4,360,765	14,771,173
FUND BALANCES - DECEMBER 31	\$ 10,646,737	\$ 151,281	\$ 5,188,148	\$ 15,986,166

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

CITY OF HIBBING, MINNESOTA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended December 31, 2010

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 1,214,993

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	1,649,767	
GASB 51, Easement Capital grant	25,600	
Less current year depreciation	<u>(2,373,826)</u>	
Net capital assets		(698,459)

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	11,064	
Change in deferred revenue - special assessments	11,153	
Change in deferred revenue - loans receivable	<u>(3,392)</u>	
		18,825

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	-	
Principal repaid	<u>747,686</u>	
		747,686

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	15,719	
Change in long-term compensated absences	222,549	
Change in long-term other postemployment benefits	<u>(2,679,520)</u>	
		(2,441,252)

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.

	371	
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ (1,157,836)</u></u>

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

CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

December 31, 2010

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ -	\$ 1,408,180	\$ 149,103	\$ 1,557,283	\$ 211,986
Special assessments receivable	-	131,026	-	131,026	-
Taxes receivable	1,404	-	-	1,404	-
Accounts receivable	5,740	7,885	-	13,625	-
Due from other governments	-	645,195	-	645,195	-
Due from component units	214,945	214,643	-	429,588	-
Inventories	4,851	-	-	4,851	-
Prepaid expenses	6,056	5,100	-	11,156	-
TOTAL CURRENT ASSETS	<u>232,996</u>	<u>2,412,029</u>	<u>149,103</u>	<u>2,794,128</u>	<u>211,986</u>
NONCURRENT ASSETS					
OTHER ASSETS					
Capital assets					
Land and improvements	249,908	90,861	-	340,769	-
Construction in progress	-	4,307,237	-	4,307,237	-
Infrastructure	-	4,562,807	-	4,562,807	-
Buildings and improvements	121,085	24,927,550	-	25,048,635	-
Equipment, machinery, and furniture	3,210,333	929,409	24,360	4,164,102	-
Less accumulated depreciation	(1,880,526)	(8,914,680)	(24,360)	(10,819,566)	-
TOTAL NONCURRENT ASSETS	<u>1,700,800</u>	<u>25,903,184</u>	<u>-</u>	<u>27,603,984</u>	<u>-</u>
TOTAL ASSETS	<u>1,933,796</u>	<u>28,315,213</u>	<u>149,103</u>	<u>30,398,112</u>	<u>211,986</u>
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	41,175	27,448	-	68,623	-
Salaries payable	41,653	22,360	-	64,013	-
Accrued interest payable	-	78,926	-	78,926	-
Due to other funds	446,960	2,799,310	-	3,246,270	-
Due to other governments	11,158	5,794	-	16,952	-
Other accrued expenses	-	-	-	-	-
Deferred revenue	-	1,446,807	-	1,446,807	-
Compensated absences	60,268	93,562	-	153,830	-
Contracts payable	-	1,038,877	-	1,038,877	-
Bonds, notes and leases payable-current	-	647,348	-	647,348	-
TOTAL CURRENT LIABILITIES	<u>601,214</u>	<u>6,160,432</u>	<u>-</u>	<u>6,761,646</u>	<u>-</u>
NONCURRENT LIABILITIES					
Compensated absences	31,084	31,352	-	62,436	-
Bonds, notes and leases payable	-	8,651,200	-	8,651,200	-
TOTAL NONCURRENT LIABILITIES	<u>31,084</u>	<u>8,682,552</u>	<u>-</u>	<u>8,713,636</u>	<u>-</u>
TOTAL LIABILITIES	<u>632,298</u>	<u>14,842,984</u>	<u>-</u>	<u>15,475,282</u>	<u>-</u>
NET ASSETS					
Invested in Capital assets, net of related debt	1,700,800	16,604,636	-	18,305,436	-
Unrestricted	(399,302)	(3,132,407)	149,103	(3,382,606)	211,986
TOTAL NET ASSETS	<u>\$ 1,301,498</u>	<u>\$ 13,472,229</u>	<u>\$ 149,103</u>	<u>\$ 14,922,830</u>	<u>\$ 211,986</u>

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.

52,997

Total net assets per government-wide financial statements

\$ 14,975,827

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, 2010

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
OPERATING REVENUES					
Charges for services	\$ 2,677,395	\$ 2,648,631	\$ 5,099	\$ 5,331,125	\$ -
Sewer connect fees	-	41,533	-	41,533	-
Miscellaneous	-	-	-	-	-
TOTAL OPERATING REVENUES	2,677,395	2,690,164	5,099	5,372,658	-
OPERATING EXPENSES					
Personal services	804,465	775,973	-	1,580,438	-
Contractual services	882,431	58,047	-	940,478	-
Administration	4,632	-	-	4,632	-
Utilities	100,006	213,660	-	313,666	-
Repairs and maintenance	4,958	68,089	3,363	76,410	-
Other supplies and expenses	122,700	199,405	1,269	323,374	-
Insurance claims and expenses	54,925	37,797	-	92,722	-
Depreciation	298,940	748,952	-	1,047,892	-
Miscellaneous	6,054	12,915	497	19,466	-
OTHER OPERATING EXPENSES	2,279,111	2,114,838	5,129	4,399,078	-
OPERATING INCOME	398,284	575,326	(30)	973,580	-
NONOPERATING REVENUES (EXPENSES)					
Interest income	-	2,106	353	2,459	495
Miscellaneous revenue (expense)	385	(400)	-	(15)	-
Impairment loss on capital assets	-	(218,778)	-	(218,778)	-
Sale of capital assets	5,888	8,700	-	14,588	-
Operating grants	34,142	-	-	34,142	-
Interest expense	-	(214,508)	-	(214,508)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	40,415	(422,880)	353	(382,112)	495
INCOME BEFORE CAPITAL GRANTS	438,699	152,446	323	591,468	495
CAPITAL GRANTS	-	1,516,140	-	1,516,140	-
CHANGE IN NET ASSETS	438,699	1,668,586	323	2,107,608	495
TOTAL NET ASSETS - JANUARY 1	862,799	11,803,643	148,780	12,815,222	211,491
TOTAL NET ASSETS - DECEMBER 31	\$ 1,301,498	\$ 13,472,229	\$ 149,103	\$ 14,922,830	\$ 211,986

Change in net assets, per above

\$ 2,107,608

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.

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

\$ 2,107,732

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, 2010

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,627,483	\$ 2,687,040	\$ 5,099	\$ 5,319,622	\$ -
Cash paid to suppliers	(1,415,772)	(819,758)	(5,207)	(2,240,737)	-
Cash paid to employees	(551,805)	(526,149)	-	(1,077,954)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	659,906	1,341,133	(108)	2,000,931	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Miscellaneous (payment) collection	-	(423)	-	(423)	-
Interfund financing of cash deficit	422,641	-	-	422,641	-
Prior year cash deficit payment	-	582,000	-	582,000	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	422,641	581,577	-	1,004,218	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase or construction of capital assets	(1,116,689)	(1,751,587)	-	(2,868,276)	-
Proceeds from sale of capital assets	-	8,700	-	8,700	-
Issuances of new leases and debt	-	422,548	-	422,548	-
Principal paid on long-term debt	-	(580,000)	-	(580,000)	-
Interest paid on long-term debt	-	(220,889)	-	(220,889)	-
Capital grants and contributions	34,142	1,604,592	-	1,638,734	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,082,547)	(516,636)	-	(1,599,183)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	-	2,106	353	2,459	495
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	1,408,180	245	1,408,425	495
CASH AND CASH EQUIVALENTS, JANUARY 1	-	-	148,858	148,858	211,491
CASH AND CASH EQUIVALENTS, DECEMBER 31	\$ -	\$ 1,408,180	\$ 149,103	\$ 1,557,283	\$ 211,986

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, 2010

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 398,284	\$ 575,326	\$ (30)	\$ 973,580	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	298,940	748,952	-	1,047,892	-
(Increase) decrease in:					
Special assessments receivable	1,522	-	-	1,522	-
Taxes receivable	(1,404)	-	-	(1,404)	-
Accounts receivable	5,546	(2,085)	-	3,461	-
Due from component unit	(56,745)	464	-	(56,281)	-
Inventories	516	-	-	516	-
Prepaid expenses	997	(319)	-	678	-
Increase (decrease) in:					
Accounts payable	(469)	9,191	(78)	8,644	-
Salaries payable	21,942	3,297	-	25,239	-
Other accrued expenses	-	-	-	-	-
Compensated absences - current	17,867	51,744	-	69,611	-
Due to other governments	1,169	(1,503)	-	(334)	-
Compensated absences - long-term	(28,259)	(43,934)	-	(72,193)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 659,906	\$ 1,341,133	\$ (108)	\$ 2,000,931	\$ -

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, 2010

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, 2010.

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, 2010

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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, 2010

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 2011. The City Council will authorize the final dissolution and distributions during July, 2011. The amount distributable to employees and retirees totals \$34,871. This amount will be credited against the payroll deduction for employee's health insurance premiums or as a reduction of retiree health insurance premium billings. The amount distributable to the City is approximately \$177,115.

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, 2010

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 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.
- 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.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 7) Capital assets, which include land, artwork, intangible-easements, 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

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, intangible-easements, construction in progress, and gravel roads.

Effective January 1, 2010, the City adopted Governmental Accounting Standards Board Pronouncement 51 (GASB 51), "Accounting and Financial Reporting for Intangible Assets." Governments, such as the City, may possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, purchased plant capacity, patents, trademarks, and computer software (purchased or internally written). GASB 51 requires that all intangible assets be classified as capital assets (except for a few minor exclusions). Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets will be applied to intangible assets, as applicable.

Upon adoption, the City evaluated the permanent right of ways and easements acquired or obtained by the City since June 30, 1980, and determined such intangibles to be indefinite lived in nature. No other material intangibles were identified. The City did not elect to retroactively apply GASB 51 to these historical indefinite lived assets, but in accordance with GASB 51 is capitalizing intangibles acquired, obtained or created after January 1, 2010, that exceeds the City's capitalization threshold of \$5,000.

- 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 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.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2010

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, 2010:

Primary Government
Sewer Operating and Maintenance Enterprises
Fund - Unrestricted Net Assets \$3,132,407

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 \$399,302

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 \$73,345

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

EDA Component Unit
Tax Increment District XI \$2,180

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	\$ 1,741	\$ -	\$ -	\$ 1,741
Deposits	14,848,939	1,820,684	742,513	17,412,136
Total cash and cash equivalents	14,850,680	1,820,684	742,513	17,413,877
Temporarily restricted assets				
Cash and cash equivalents	-	46,238	2,000,498	2,046,736
Investments				
Certificate of deposit	676,338	-	-	676,338
Other	-	386,123	337,001	723,124
Total investment	676,338	386,123	337,001	1,399,462
Total	\$ 15,527,018	\$ 2,253,045	\$ 3,080,012	\$ 20,860,075

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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 or 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 \$17,780,063; the bank balance was \$18,092,280. At December 31, 2010, the carrying amount of Hibbing Public Utility Commission's deposits was \$2,735,011 and the bank balance was \$3,440,923. 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 Protector Insurance (SIPC) and excess SIPC coverage. At year end the City had \$676,338 held by a broker-dealer.

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, 2010, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Minnesota Municipal Money		
Market (4M) Fund	\$ 1,229	Not rated
Wells Fargo Government Advantage		
Money Market Fund	386,123	Not rated
Total Fair Value	<u>\$ 387,352</u>	

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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, 2010, 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, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Governmental Activities					
Capital assets, not being depreciated:					
Land and improvements	\$ 1,619,319	\$ 742	\$ -	\$ -	\$ 1,620,061
Intangible - easements	-	25,600	-	-	25,600
Artwork	1,807,350	-	-	-	1,807,350
Gravel roads	2,909,500	-	-	-	2,909,500
Construction in progress	1,107,648	1,281,679	-	(1,690,239)	699,088
Total capital assets, not being depreciated	7,443,817	1,308,021	-	(1,690,239)	7,061,599
Capital assets, being depreciated:					
Infrastructure	19,922,508	-	-	1,314,132	21,236,640
Buildings and improvements	20,717,544	-	-	356,585	21,074,129
Equipment, machinery, and furniture	9,992,597	239,537	(411,671)	147,705	9,968,168
Total capital assets, being depreciated	50,632,649	239,537	(411,671)	1,818,422	52,278,937
Less accumulated depreciation for:					
Infrastructure	(13,465,438)	(1,061,832)	-	-	(14,527,270)
Buildings and improvements	(12,451,037)	(576,545)	-	-	(13,027,582)
Equipment, machinery, and furniture	(7,164,076)	(607,640)	411,671	(128,183)	(7,488,228)
Total accumulated depreciation	(33,080,551)	(2,246,017)	411,671	(128,183)	(35,043,080)
Total capital assets, being depreciated, net	17,552,098	(2,006,480)	-	1,690,239	17,235,857
Governmental activities capital assets, net	\$ 24,995,915	\$ (698,459)	\$ -	\$ -	\$ 24,297,456

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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	\$ -	\$ -	\$ 210,712	\$ 340,769
Construction in progress	2,075,574	2,585,764	-	(354,101)	4,307,237
Total Capital assets, not being depreciated	<u>2,205,631</u>	<u>2,585,764</u>	<u>-</u>	<u>(143,389)</u>	<u>4,648,006</u>
Capital assets, being depreciated:					
Infrastructure	4,419,418	-	-	143,389	4,562,807
Buildings and improvements	26,698,621	7,045	(1,657,031)	-	25,048,635
Equipment, machinery, and furniture	3,032,442	1,291,286	(31,443)	(128,183)	4,164,102
Total capital assets, being depreciated	<u>34,150,481</u>	<u>1,298,331</u>	<u>(1,688,474)</u>	<u>15,206</u>	<u>33,775,544</u>
Less accumulated depreciation for:					
Infrastructure	(189,103)	(102,671)	-	-	(291,774)
Buildings and improvements	(9,094,488)	(592,870)	1,438,252	8,991	(8,240,115)
Equipment, machinery, and furniture	(2,084,958)	(352,350)	30,439	119,192	(2,287,677)
Total accumulated depreciation	<u>(11,368,549)</u>	<u>(1,047,891)</u>	<u>1,468,691</u>	<u>128,183</u>	<u>(10,819,566)</u>
Total capital assets being depreciated, net	<u>22,781,932</u>	<u>250,440</u>	<u>(219,783)</u>	<u>143,389</u>	<u>22,955,978</u>
Business-type activities capital assets, net	<u>\$ 24,987,563</u>	<u>\$ 2,836,204</u>	<u>\$ (219,783)</u>	<u>\$ -</u>	<u>\$ 27,603,984</u>

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

Governmental activities

General government	\$ 263,216
Public safety	283,480
Public works	1,473,613
Culture and recreation	324,081
Economic development	-
Transportation	29,436
Total depreciation expense- governmental activities	<u>\$ 2,373,826</u>

Business-type activities

Garbage and refuse collection	\$ 298,940
Sewer operating and maintenance	748,952
Total depreciation expense- business-type activities	<u>\$ 1,047,892</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 4 CAPITAL ASSETS (Continued)

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2010, was as follows:

Discretely presented component units

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

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	\$ 790,469	\$ 1,901,291	\$ -	\$ -	\$ 2,691,760
Total capital assets, not being depreciated	<u>790,469</u>	<u>1,901,291</u>	<u>-</u>	<u>-</u>	<u>2,691,760</u>
Capital assets, being depreciated:					
Buildings and grounds	8,563,023	205,826	(16,101)	-	8,752,748
Transmission and distribution system	45,218,653	1,124,771	(1,703,583)	-	44,639,841
Equipment, machinery, and furniture	45,915,882	1,387,086	(290,414)	-	47,012,554
Total capital assets, being depreciated	<u>99,697,558</u>	<u>2,717,683</u>	<u>(2,010,098)</u>	<u>-</u>	<u>100,405,143</u>
Less total accumulated depreciation	<u>(66,333,933)</u>	<u>(2,579,654)</u>	<u>2,010,098</u>	<u>-</u>	<u>(66,903,489)</u>
Total Capital assets, being depreciated, net	<u>33,363,625</u>	<u>138,029</u>	<u>-</u>	<u>-</u>	<u>33,501,654</u>
Hibbing Public Utilities Commission capital assets, net	<u>\$ 34,154,094</u>	<u>\$ 2,039,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,193,414</u>

NOTE 5 OPERATING LEASE

The City has a sublease agreement with St. Louis County for office facilities for its police department and a lease for library computers. Total cost for these leases was \$74,126 for the year ended December 31, 2010. The future payments for these leases are as follows:

Year Ending December 31,	Amount
2011	79,505
2012	79,505
2013	4,379
	<u>\$ 163,389</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 6 NOTES PAYABLE

In 2007 the PUC entered into various short term loan agreements for operating cash flow purposes. The notes matured and were renewed on a short term basis during the period up until they were re-written to a long term note in January, 2009. The notes carried interest rates of 3.25% and were secured by accounts receivable. The PUC expensed \$5,027 of interest on the notes in 2009.

Notes payable activity for the years ended December 31, 2010 and 2009 was as follows:

	<u>January 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31</u>
2010	-	-	-	-
2009	1,500,000	-	(1,500,000)	-

NOTE 7 LONG-TERM DEBT

The City has 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.

During 2010, as reflected in the Business-type Activity, the City issued a \$1,726,575 General Obligation Sewer Revenue Note to provide for sanitary and storm sewer improvement projects. Advances are made on this loan as the City submits cost reimbursements to the Minnesota Public Facilities Authority. As of December 31, 2010, the City had advanced \$408,945 against the approved loan of \$1,726,575.

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, 2010 was \$1,001,449.

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.

Specifically during 2010, the City authorized the issuance of a Taxable General Obligation Drinking Water Revenue Note in the amount of \$948,350, payable to the Minnesota Public Facilities Authority. Advances are made on this loan as the Public Utilities Commission submits cost reimbursements to the Minnesota Public Facilities Authority. As of December 31, 2010, the Public Utilities Commission had advanced \$543,928 against the approved loan of \$948,350. The net revenues of the Public Utilities municipal water system are pledged first to repay the Note and second are ad valorem taxes levied by the City in the event proceeds of the net revenue are insufficient to pay principal and interest when due. In accordance with Generally Accepted Accounting Principles, the 2010 Taxable General Obligation Drinking Water Revenue Note is recorded in the financial statements of the Public Utilities Commission.

Components of long-term liabilities are as follows:

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
Primary Government					
Governmental Activities					
General obligation bonds					
2007 A Equipment	12/1/2007	4.00%	\$ 440,000	2/1/2017	\$ 310,000
Series 2009B	5/1/2009	0.75-3.50%	\$ 1,370,000	2/1/2019	1,170,000
Total General obligation bonds					1,480,000
Certificates of indebtedness					
Series 2005A	12/1/2005	4.68%	\$ 565,000	8/1/2015	150,000
Series 2006A	11/1/2006	4.21%	\$ 455,000	11/1/2016	227,000
Total Certificates of indebtedness					377,000
Lease purchase obligations	Various	1.75-6.40%	Various	2/1/2024	1,060,381
Compensated absences payable					216,577
OPEB liability					7,907,490
Governmental Activities Long-term Liabilities					\$ 11,041,448

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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	\$ 6,661,000
2007A Sewer Revenue Bonds	12/1/2007	4.00-4.10%	\$ 2,365,000	2/1/2028	2,215,000
2010 Sewer Revenue Note	11/30/2010	1.34%	\$ 1,726,575	8/20/2025	408,945
Lease purchase obligations	10/7/2010	4.67%	\$ 15,546	9/7/2012	13,603
Compensated absences payable					62,436
Business-type Activities Long-term Liabilities					9,360,984
Total Primary Government Long-Term Liabilities					20,402,432
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	725,000
1997B General Obligation					
Tax Increment Bonds	8/1/1997	7.50%	\$ 320,000	2/1/2017	205,000
1999A General Obligation					
Tax Increment Bonds	10/1/1999	7.49%	\$ 165,000	2/1/2016	95,000
2009A Public Project					
Revenue Bonds	5/7/2009	1.75-4.50%	\$ 462,500	2/1/2024	435,949
Total EDA-Component Unit Long-Term Liabilities					1,460,949
PUC					
Bonds, notes, and real estate mortgage payable					9,816,072
Compensated absences payable					1,047,820
OPEB liability					7,493,130
Total PUC-Component Unit Long-Term Liabilities					18,357,022
Total Reporting Entity					<u>\$ 40,220,403</u>

Long-term liability activity for the year ended December 31, 2010 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Primary Government					
Governmental Activities					
General obligation bonds payable	\$ 1,745,000	\$ -	\$ (265,000)	\$ 1,480,000	\$ 270,000
Certificates of indebtedness	519,000	-	(142,000)	377,000	109,000
Leases payable	1,401,067	-	(340,686)	1,060,381	330,909
Compensated absences payable	439,126	1,067	(223,616)	216,577	-
OPEB liability	5,227,970	2,679,520	-	7,907,490	-
Governmental Activities- Long-Term Liabilities	<u>\$ 9,332,163</u>	<u>\$ 2,680,587</u>	<u>\$ (971,302)</u>	<u>\$ 11,041,448</u>	<u>\$ 709,909</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 7 LONG-TERM DEBT (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Business-type Activities					
GO revenue notes payable	\$ 7,156,000	\$ 408,945	\$ (495,000)	\$ 7,069,945	\$ 549,575
GO revenue bonds payable	2,300,000	-	(85,000)	2,215,000	90,000
Leases payable	-	15,546	(1,943)	13,603	7,773
Compensated absences payable	134,629	-	(72,193)	62,436	-
Business-type Activities- Long-term Liabilities	<u>9,590,629</u>	<u>424,491</u>	<u>(654,136)</u>	<u>9,360,984</u>	<u>647,348</u>
Total Primary Government	<u>\$ 18,922,792</u>	<u>\$ 3,105,078</u>	<u>\$ (1,625,438)</u>	<u>\$ 20,402,432</u>	<u>\$ 1,357,257</u>
Discretely Presented Component Units					
EDA					
Bonds payable	<u>\$ 1,847,500</u>	<u>\$ -</u>	<u>\$ (386,551)</u>	<u>\$ 1,460,949</u>	<u>\$ 405,745</u>
PUC					
Bonds, notes, and real estate mortgage payable	\$ 10,195,489	\$ 543,928	\$ (923,345)	\$ 9,816,072	\$ 874,322
Compensated absences payable	1,060,468	-	(12,648)	1,047,820	-
OPEB liability	5,183,415	2,927,229	(617,514)	7,493,130	-
PUC-Component Unit Long-term Liabilities	<u>\$ 16,439,372</u>	<u>\$ 3,471,157</u>	<u>\$ (1,553,507)</u>	<u>\$ 18,357,022</u>	<u>\$ 874,322</u>
Total	<u>\$ 37,209,664</u>	<u>\$ 6,576,235</u>	<u>\$ (3,565,496)</u>	<u>\$ 40,220,403</u>	<u>\$ 2,637,324</u>

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

Year Ending December 31	Primary Government					
	Government Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 709,909	\$ 96,621	\$ 647,348	\$ 216,655	\$ 1,357,257	\$ 313,276
2012	668,257	66,492	718,830	213,611	1,387,087	280,103
2013	361,309	47,103	728,000	199,242	1,089,309	246,345
2014	309,707	37,833	744,000	184,772	1,053,707	222,605
2015	204,951	30,277	754,000	170,018	958,951	200,295
2016-2020	537,880	75,474	4,009,000	617,053	4,546,880	692,527
2021-2025	125,368	14,972	2,530,000	227,976	2,655,368	242,948
2026-2030	-	-	485,000	30,443	485,000	30,443
Total	<u>\$ 2,917,381</u>	<u>\$ 368,772</u>	<u>\$ 10,616,178</u>	<u>\$ 1,859,770</u>	<u>\$ 13,533,559</u>	<u>\$ 2,228,542</u>
Year Ending December 31	Component Units					
	EDA		PUC			
	Principal	Interest	Principal	Interest		
2011	\$ 405,745	\$ 72,132	757,059	359,620		
2012	436,989	45,666	781,145	332,968		
2013	63,309	30,129	814,581	303,675		
2014	69,707	26,312	1,519,088	247,339		
2015	71,190	22,205	715,299	219,118		
2016-2020	251,491	58,300	2,905,185	724,107		
2021-2025	162,518	14,972	1,831,236	302,153		
2026-2030	-	-	513,295	20,428		
Total	<u>\$ 1,460,949</u>	<u>\$ 269,716</u>	<u>\$ 9,836,888</u>	<u>\$ 2,509,408</u>		

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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, 2010, is \$3,673,573. Records for revenue bonds or notes issued prior to 1995 are not available.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 8 INTERFUND BALANCES AND ACTIVITY

The composition of interfund balances as of December 31, 2010, is as follows:

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

<u>Fund or Component Unit</u>	<u>Due From Other Funds</u>	<u>Due From Component Units</u>	<u>Due To Other Funds</u>	<u>Due To Primary Government</u>
Primary Government				
General Fund	\$ 3,246,270	\$ -	\$ -	\$ -
Enterprise Funds	-	-	-	-
Garbage and Refuse	-	214,945	446,960	-
Sewer Operating and Maintenance	-	214,643	2,799,310	-
Total Primary Government	<u>3,246,270</u>	<u>429,588</u>	<u>3,246,270</u>	<u>-</u>
Component Units				
Hibbing Economic Development Authority EDA				
General Fund	1,664	-	-	-
Tax Increment XI	-	-	1,664	-
Economic Development Special	-	-	-	-
Revenue Fund	78,000	-	-	-
Storefront Renovation Capital	-	-	-	-
Projects Funds	-	-	78,000	-
Subtotal HEDA	<u>79,664</u>	<u>-</u>	<u>79,664</u>	<u>-</u>
Hibbing Public Utilities Commission	-	-	-	429,588
Total Component Units	<u>79,664</u>	<u>-</u>	<u>79,664</u>	<u>429,588</u>

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 8 INTERFUND BALANCES AND ACTIVITY (Continued)

Interfund transfers for the year ended December 31, 2010, consisted of the following:

Transfer To/From Other Funds/Component Units:

<u>Fund or Component Unit</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government		
General Fund	\$ -	\$ 57,136
Special Revenue Funds		
Library	57,136	-
Total Primary Government	<u>\$ 57,136</u>	<u>\$ 57,136</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 EQUITYRestricted 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	\$ 151,281
Housing incentives	48,266
Economic development	99,103
Capital fund contribution	50,000
Total Net Assets, Restricted for Other Purposes - Primary Government	<u>\$ 348,650</u>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 9 FUND EQUITY (Continued)**EDA Component Unit**

Restricted for other purposes-

Tax increment financing projects

\$ 86,409**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

\$ 10,183

Reserved for police forfeiture fund

27,591**Total General Fund**\$ 37,774**Minnesota Investment Revolving Loans****Special Revenue Fund**

Reserved for community capital fund contributions

\$ 50,000

The amount reported as fund balances unreserved, designated on the Balance Sheet is comprised of the following:

General FundDesignated for future projects from
sale of assets

\$ 514,853

Designated for bus acquisition

7,952

Designated for cash flow

7,243,413

Designated for workers compensation

372,750

Designated for infrastructure/cooperative programs

339,043

Designated for future State Aid reductions

1,340,990**Total Designated - General Fund**\$ 9,819,001**Debt Service Funds**

Other Postemployment Benefits

Designated for debt service

\$ 2,072,290

2002 GO Refunding Bonds

Designated for debt service

357,631**Total Designated - Debt Service Funds**\$ 2,429,921**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, 2010

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, 2010

NOTE 11 TAX INCREMENT FINANCING DISTRICTS

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

<u>Tax Increment Financing District</u>	<u>No. III</u>	<u>No. VI</u>
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:	<u>\$ 7,424</u>	<u>\$ 12,950</u>
Current net tax capacity:	<u>\$ 11,125</u>	<u>\$ 41,340</u>
Fiscal disparity deduction:	<u>\$ -</u>	<u>\$ -</u>
Captured net tax capacity retained by Authority:	<u>\$ 3,701</u>	<u>\$ 28,390</u>
Total bonds issued		
Tax increment bonds	230,000	735,000
Tax increment note	121,000	-
Amount redeemed	<u>(351,000)</u>	<u>(735,000)</u>
Outstanding bonds at December 31, 2010	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

<u>No. VII</u>	<u>No. VIII</u>	<u>No. X</u>	<u>No. XI</u>
1993	-	-	1999
-	-	1999	-
-	1993	-	-
2019	2020	2009	2025
<u>\$ 3,412</u>	<u>\$ -</u>	<u>\$ 671</u>	<u>\$ 525</u>
<u>\$ 60,778</u>	<u>\$ 9,872</u>	<u>\$ 11,860</u>	<u>\$ 17,140</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,968</u>	<u>\$ 2,924</u>
<u>\$ 57,366</u>	<u>\$ 9,872</u>	<u>\$ 11,189</u>	<u>\$ 16,615</u>
320,000	-	-	165,000
-	-	-	-
<u>(115,000)</u>	<u>-</u>	<u>-</u>	<u>(70,000)</u>
<u><u>\$ 205,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 95,000</u></u>

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES

Commitments

In March 2010, the City entered into an agreement for management of the City recycling center. The term of the agreement is for six years and provides for an annual fee of \$144,000 with an adjustment based upon increases in the cost of living index. The agreement may be terminated upon specific events of default.

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 (CHAA). These amounts related to the Chisholm-Hibbing Airport Authority total \$376,540 for the period from 2003 to 2009.

During 2010, the Chisholm-Hibbing Airport Authority Board approved a motion to not seek payment of the historical market value credits attributable to the CHAA, but would require that the Cities of Hibbing and Chisholm pay any share of the market value tax credit attributable to CHAA for 2010 and years going forward. The amount, as determined by St. Louis County, applicable to the amount owed by the City of Hibbing, was \$54,567 for the year ended December 31, 2010. Such amount was calculated by St. Louis County in 2011 and paid by the City to CHAA in 2011.

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, 2010, 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 nine outstanding construction projects as of December 31, 2010. 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		
City Hall Remodel	\$ -	\$ 2,045
REB Renewable Energy Grant	4,200	1,750
Library Improvements	53,658	5,000
 Permanent Improvement		
Rainy Road Bridge	3,746	13,097
Koivu Road Bridge	2,963	3,946
Total Capital Fund Project	64,567	25,838

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES (continued)

Construction Projects (continued)

Enterprise Fund

Sewer Operating and Maintenance Fund

19th Street Interceptor	1,654,247	-
Phase 6 Sewer Improvements	714,405	-
KATI Development	45,675	-
Waste Treatment Project	1,892,908	-
Total Sewer Operating and Maintenance Fund	4,307,235	-
Total All Funds	\$ 4,371,802	\$ 25,838

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, 2010, the debt service fund had following balances:

Assets	\$ 460,576
Fund Balance	\$ 460,576

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 2010, 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, 2010

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 2010, 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, 2010

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 was 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 2010, 2009 and 2008, there were 176, 161 and 152 retirees and eligible dependents, respectively, that received postemployment benefits. The City provided required contributions of \$1,102,010, \$971,035 and \$966,233 for 2010, 2009 and 2008, respectively, toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$309,371, \$290,345 and \$293,957 for 2010, 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, 2010, 2009 and 2008, respectively:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Normal cost (service cost for one year)	\$ 1,174,688	\$ 1,174,688	\$ 1,101,769
Amortization of unfunded actuarial accrued liability	\$ 2,478,305	\$ 2,478,305	\$ 2,613,308

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
December 31, 2010

NOTE 16 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

	2010	2009	2008
Annual required contribution	\$ 3,652,993	\$ 3,652,993	\$ 3,715,077
Interest on net OPEB obligation	235,259	114,483	-
Adjustment to annual required contribution	(106,722)	(112,535)	-
Annual OPEB cost (expense)	3,781,530	3,654,941	3,715,077
Contribution toward the OPEB cost	(1,102,010)	(971,035)	(1,171,013)
Increase in net OPEB obligation	2,679,520	2,683,906	2,544,064
Net OPEB Obligation, Beginning of Year	5,227,970	2,544,064	-
Net OPEB Obligation, End of Year	\$ 7,907,490	\$ 5,227,970	\$ 2,544,064
Percentage of annual OPEB cost contributed	29.1%	26.6%	31.5%

Funding Status and Funding Progress

As of December 31, 2010, 2009 and 2008, respectively, the actuarial accrued liability for benefits was \$39,707,119, \$40,368,826 and \$42,567,876, and the actuarial value of assets was \$2,072,290, \$1,559,991 and \$902,692, resulting in an unfunded actuarial accrued liability of \$37,634,829, \$38,808,835 and \$41,665,184. The covered payroll (annual payroll of active participating employees) was \$8,103,552, \$8,501,336 and \$8,623,539 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 464.4, 456.5 and 483.2 percent for 2010, 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 latest 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, 2010, 2009 and 2008, and to estimate the City's 2010, 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, 2010 is 28 years.

CITY OF HIBBING, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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 years ended December 31, 2010 and 2009, the Commission expended \$617,514 and \$514,990, respectively, for benefits for approximately 39 retirees in 2010 and 40 retirees in 2009.

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:

	2010	2009	2008
Annual required contribution	\$ 2,801,176	\$ 2,927,229	\$ 2,801,176
Interest on net OPEB obligation	126,053	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	2,927,229	2,927,229	2,801,176
Contribution during the year	617,514	544,990	-
Increase in net OPEB obligation	2,309,715	2,382,239	2,801,176
Net OPEB Obligation, Beginning of Year	5,183,415	2,801,176	-
Net OPEB Obligation, End of Year	<u>\$ 7,493,130</u>	<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, 2010	\$ 2,927,229	\$ 617,514	21.1%	\$ 7,493,130
December 31, 2009	\$ 2,927,229	\$ 544,990	18.6%	\$ 5,183,415
December 31, 2008	\$ 2,801,176	\$ -	0.0%	\$ 2,801,176

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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 \$4,975,828. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 608.6 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 at 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, 2010

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, 2010 and 2009, respectively, the Commission has reported on its balance sheet an investment of \$11,376,222 and \$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 the Authority's financial statements:

	2010	2009
Current assets	\$ 6,408,282	\$ 6,895,171
Non-current restricted assets	8,995,247	8,398,700
Other assets	3,393,654	3,884,412
Capital assets	59,162,878	60,682,713
Total assets	77,960,061	79,860,996
Current liabilities	7,055,891	8,052,635
Non-current liabilities	48,419,099	51,200,275
Total liabilities	55,474,990	59,252,910
Net assets	22,485,071	20,608,086
Total operating revenues	34,618,381	36,649,939
Operating expenses	30,029,304	29,240,424
Change in net assets	1,876,985	5,212,884

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

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, 2010

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 2010. PEPFF members were required to contribute 9.4% of their annual covered salary in 2010. The City of Hibbing, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.0% for Coordinated Plan PERF members, and 14.1% for PEPFF Plan members. Employer contribution rates for the Coordinated Plan and the PEPFF Plan will increase to 7.25% and 14.4%, respectively, effective January 1, 2011. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$315,069, \$312,630 and \$301,270, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2010, 2009, and 2008 were \$425,234, \$465,537 and \$428,693, respectively. The Hibbing Public Utilities' contributions to the Public Employees Retirement Fund for the years ending December 31, 2010, 2009, and 2008 were \$338,343, \$330,461 and \$318,216, 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, 2010

NOTE 19 DEFINED CONTRIBUTION PLAN

Three 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 2010 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employee	Employer	
\$ 1,257	\$ 1,257	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, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 4,381,884	\$ 4,381,884	\$ 4,327,905	\$ (53,979)
Licenses and permits	99,941	99,941	156,282	56,341
Intergovernmental	8,811,386	8,811,386	8,600,984	(210,402)
Charges for services	1,825,350	1,825,350	1,911,037	85,687
Fines	100,000	100,000	146,547	46,547
Gifts and contributions	5,000	5,000	6,374	1,374
Interest	80,000	80,000	10,672	(69,328)
Miscellaneous	88,500	88,500	99,704	11,204
TOTAL REVENUES	15,392,061	15,392,061	15,259,505	(132,556)
EXPENDITURES				
Current				
General government	1,788,772	1,788,772	1,861,366	(72,594)
Public safety	5,767,699	5,767,699	5,727,848	39,851
Public works	2,997,025	2,997,025	2,726,776	270,249
Culture and recreation	1,759,561	1,759,561	1,784,114	(24,553)
Economic development	111,393	111,393	111,578	(185)
Transportation	232,000	232,000	266,129	(34,129)
Miscellaneous	2,239,606	2,239,606	2,057,170	182,436
Debt Service				-
Principal	-	-	283,951	(283,951)
Interest and other charges	-	-	60,621	(60,621)
TOTAL EXPENDITURES	14,896,056	14,896,056	14,879,553	16,503
EXCESS OF REVENUES OVER EXPENDITURES	496,005	496,005	379,952	(116,053)
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	100,000	-	(100,000)
Transfers out	(57,136)	(57,136)	(57,136)	-
Sale of capital assets	-	-	11,166	11,166
TOTAL OTHER FINANCING SOURCES (USES)	42,864	42,864	(45,970)	(88,834)
NET CHANGE IN FUND BALANCES	538,869	538,869	333,982	(204,887)
FUND BALANCES - JANUARY 1	10,312,755	10,312,755	10,312,755	-
FUND BALANCES - DECEMBER 31	\$ 10,851,624	\$ 10,851,624	\$ 10,646,737	\$ (204,887)

CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended December 31, 2010

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUE				
Taxes	\$ 651,159	\$ 651,159	\$ 617,641	\$ (33,518)
Intergovernmental	79,991	79,991	33,518	(46,473)
Charges for services	17,700	17,700	19,622	1,922
Gifts and contributions	12,086	12,086	9,002	(3,084)
Interest	-	-	670	670
TOTAL REVENUE	<u>760,936</u>	<u>760,936</u>	<u>680,453</u>	<u>(80,483)</u>
EXPENDITURES				
Current				
Culture and recreation	<u>738,081</u>	<u>738,081</u>	<u>683,961</u>	<u>54,120</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>22,855</u>	<u>22,855</u>	<u>(3,508)</u>	<u>(26,363)</u>
OTHER FINANCING SOURCES				
Transfers in	<u>57,136</u>	<u>57,136</u>	<u>57,136</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>79,991</u>	<u>79,991</u>	<u>53,628</u>	<u>(26,363)</u>
Fund Balances - January 1	<u>97,653</u>	<u>97,653</u>	<u>97,653</u>	<u>-</u>
Fund Balances - December 31	<u>\$ 177,644</u>	<u>\$ 177,644</u>	<u>\$ 151,281</u>	<u>\$ (26,363)</u>

CITY OF HIBBING, MINNESOTA
INFRASTRUCTURE CONDITION DATA
Year ended December 31, 2010

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, 2010

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, 2010, the City's gravel roads all rated at a Level 3.

The City expended \$183,088 on gravel road maintenance for the year ended December 31, 2010. Those routine maintenance expenditure delayed deterioration. The budget required to maintain and improve the current level of overall condition through the Year 2013 is a minimum of \$525,000 (\$175,000 projected budget each year for the years ending December 31, 2011, 2012, and 2013).

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, 2009, and 2010, is presented below:

<u>Year</u>	<u>Estimated Annual Expenditures</u>	<u>Actual Expenditures</u>	<u>Funded by General Fund</u>
2006	\$ 125,000	\$ 141,244	\$ 141,244
2007	\$ 132,832	\$ 146,959	\$ 146,959
2008	\$ 139,680	\$ 150,345	\$ 150,345
2009	\$ 175,311	\$ 192,151	\$ 192,151
2010	\$ 175,311	\$ 183,088	\$ 183,088

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS

Year ended December 31, 2010

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)
12/31/2010	1/1/2009	\$ 2,072,290	\$ 39,707,119	\$ 37,634,829	5.2%	\$ 8,103,552	464.4%
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)
12/31/2010	12/31/2008	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 4,975,828	608.6%
12/31/2009	12/31/2008	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 5,065,929	597.7%
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, 2010

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, 2010.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HIBBING, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

December 31, 2010

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, 2010

	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	\$ 48,266	\$ 24,769	\$ 74,333	\$ 2,065,712
Taxes receivable	-	-	-	6,578
Special assessments receivable	-	-	-	-
Accounts receivable	-	-	50,000	-
Due from other governments	-	-	-	-
Loans receivables	-	123,601	9,926	-
TOTAL ASSETS	\$ 48,266	\$ 148,370	\$ 134,259	\$ 2,072,290
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-
Contracts payable	-	-	-	-
Deferred revenue	-	123,600	9,926	-
TOTAL LIABILITIES	-	123,600	9,926	-
FUND BALANCES				
Reserved for				
Encumbrances	-	-	-	-
Community capital fund contributions	-	-	50,000	-
Unreserved, designated for debt service	-	-	-	2,072,290
Unreserved, undesignated	48,266	24,770	74,333	-
TOTAL FUND BALANCES	48,266	24,770	124,333	2,072,290
TOTAL LIABILITIES AND FUND BALANCES	\$ 48,266	\$ 148,370	\$ 134,259	\$ 2,072,290

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	\$ 977,894	\$ 102,511	\$ 146,732	\$ 1,010,689	\$ 20,847	\$ 4,829,384
-	2,567	7,677	-	13,843	-	30,665
-	-	155,507	-	-	-	155,507
-	63,851	-	1,165	-	-	115,016
-	354,512	-	-	-	-	354,512
-	-	-	-	-	-	133,527
<u>\$ 357,631</u>	<u>\$ 1,398,824</u>	<u>\$ 265,695</u>	<u>\$ 147,897</u>	<u>\$ 1,024,532</u>	<u>\$ 20,847</u>	<u>\$ 5,618,611</u>
\$ -	\$ 23,403	\$ -	\$ -	\$ 3,510	\$ -	\$ 26,913
-	-	23,858	-	-	-	23,858
-	84,466	-	-	2,277	-	86,743
-	3,916	155,507	-	-	-	292,949
-	111,785	179,365	-	5,787	-	\$ 430,463
-	-	-	-	-	-	-
-	-	-	-	-	-	\$ 50,000
357,631	-	-	-	-	-	2,429,921
-	1,287,039	86,330	147,897	1,018,745	20,847	2,708,227
<u>357,631</u>	<u>1,287,039</u>	<u>86,330</u>	<u>147,897</u>	<u>1,018,745</u>	<u>20,847</u>	<u>5,188,148</u>
<u>\$ 357,631</u>	<u>\$ 1,398,824</u>	<u>\$ 265,695</u>	<u>\$ 147,897</u>	<u>\$ 1,024,532</u>	<u>\$ 20,847</u>	<u>\$ 5,618,611</u>

CITY OF HIBBING, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended December 31, 2010

	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	\$ -	\$ -	\$ -	\$ 485,927
Special assessments	-	-	-	-
Intergovernmental	-	-	-	26,372
Charges for services	-	-	-	-
Gifts and contributions	-	-	-	-
Interest	113	58	207	-
Miscellaneous	-	-	4,311	-
TOTAL REVENUES	<u>\$ 113</u>	<u>\$ 58</u>	<u>\$ 4,518</u>	<u>\$ 512,299</u>
EXPENDITURES				
Current				
Economic development	\$ -	\$ -	\$ -	\$ -
Principal	-	-	-	-
Interest and other charges	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>113</u>	<u>58</u>	<u>4,518</u>	<u>512,299</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change In Fund Balances	<u>113</u>	<u>58</u>	<u>4,518</u>	<u>512,299</u>
FUND BALANCE - JANUARY 1	<u>48,153</u>	<u>24,712</u>	<u>119,815</u>	<u>1,559,991</u>
FUND BALANCE - DECEMBER 31	<u>\$ 48,266</u>	<u>\$ 24,770</u>	<u>\$ 124,333</u>	<u>\$ 2,072,290</u>

2002 G.O. Refunding Bonds Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 189,707	\$ -	\$ -	\$ 1,023,108	\$ -	\$ 1,698,742
-	-	22,547	-	-	-	22,547
-	1,258,132	-	-	69,705	-	1,354,209
-	-	-	13,966	-	-	13,966
-	-	-	-	3,157	-	3,157
-	2,591	236	330	1,613	49	5,197
-	-	-	-	1	-	4,312
<u>\$ -</u>	<u>\$ 1,450,430</u>	<u>\$ 22,783</u>	<u>\$ 14,296</u>	<u>\$ 1,097,584</u>	<u>\$ 49</u>	<u>\$ 3,102,130</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	463,735	-	463,735
-	-	-	-	77,905	-	77,905
-	-	-	-	4,643	-	4,643
-	-	-	-	191,479	-	191,479
-	1,206,400	24,053	-	168,365	-	1,398,818
-	-	-	145	141,249	-	141,394
-	-	-	-	8,725	-	8,725
-	1,206,400	24,053	145	1,056,101	-	\$ 2,286,699
-	244,030	(1,270)	14,151	41,483	49	815,431
-	-	-	-	-	-	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	11,952	-	11,952
-	-	-	-	11,952	-	11,952
-	244,030	(1,270)	14,151	53,435	49	827,383
357,631	1,043,009	87,600	133,746	965,310	20,798	4,360,765
<u>\$ 357,631</u>	<u>\$ 1,287,039</u>	<u>\$ 86,330</u>	<u>\$ 147,897</u>	<u>\$ 1,018,745</u>	<u>\$ 20,847</u>	<u>\$ 5,188,148</u>

CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2010

REVENUES**Taxes**

General property	\$ 1,678,091
Taconite	
Production	520,317
Homestead credit	440,498
Municipal aid	1,259,617
Franchise	155,658
Other	273,724

Total Taxes	<u>4,327,905</u>
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Licenses and Permits	<u>156,282</u>
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Intergovernmental

Federal grants	
Federal Transportation grant	75,480
Bulletproof vest grant	6,433
Community -Oriented Policing Services - NLEAC	22,566
Voting access for Individuals with Disabilities	5,973
State grants	
Market value credit	94,167
Local government aid	7,994,316
Police aid	196,896
Firemen's aid	-
State transportation grant	116,520
PERA rate increase aid	24,366
Petro tank reimbursement	14,292
Department of Natural Resources	2,500
Other	9,820
County grants	
Ambulance	3,049
Local grants	
Police liaison grant	34,606

Total Intergovernmental	<u>8,600,984</u>
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Charges for Services

General government	
Bus transportation	38,748
Miscellaneous	13,250
Public safety	
Ambulance calls	1,427,109
Fire protection contracts	415
Other	5,795
Highways and streets	
Miscellaneous	10,924
Culture and recreation	
Rent	134,092
Other	186,213
Cemetery	94,491

Total Charges for Services	<u>1,911,037</u>
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CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2010

REVENUES (continued)**Fines**

Court fines	\$ 117,680
Police forfeitures	27,142
Administrative fines	<u>1,725</u>
Total Fines	<u>146,547</u>

Gifts and Contributions

	<u>6,374</u>
--	--------------

Interest

Interest on Investments	15,074
(Decrease) in fair value of investments	<u>(4,402)</u>
Total Interest	<u>10,672</u>

Miscellaneous

Insurance recoveries	150
Insurance dividends	64,486
Other	<u>35,068</u>
Total Miscellaneous	<u>99,704</u>

TOTAL REVENUES

	<u>15,259,505</u>
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EXPENDITURES**Current****General Government**

Mayor and council	239,711
Elections	59,054
City administration	136,658
City clerk	427,301
City hall	105,149
Accounting	39,445
Data processing	60,331
Legal	132,416
Personnel administration	121,658
Zoning and housing	261,805
Assessor	<u>277,838</u>

Total General Government

	<u>1,861,366</u>
--	------------------

Public Safety

Police	2,882,580
Animal Shelter	121,698
Fire	1,581,825
Paid on-call fire	83,200
Ambulance	1,051,383
Civil defense	<u>7,162</u>

Total Public Safety

	<u>5,727,848</u>
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Public Works

Highways and streets	
Streets and alleys	1,774,054
Engineering	423,808
Garage	480,068
Street lighting	<u>48,846</u>

Total Public Works

	<u>2,726,776</u>
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CITY OF HIBBING, MINNESOTA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2010

EXPENDITURES (continued)**Current****Culture and Recreation**

Recreation	\$ 488,791
Memorial building	749,230
Municipal golf course	52,310
Parks	493,783

Total Culture and Recreation	<u>1,784,114</u>
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Economic Development

Administration	<u>111,578</u>
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Transportation

Bus	<u>266,129</u>
-----	----------------

Miscellaneous

Cemetery	223,960
Public access	89,823
Insurance	1,693,913
Donations and contributions	18,122
Other	31,352

Total Miscellaneous	<u>2,057,170</u>
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Debt Service

Principal	283,951
Interest and agent fees	60,621

Total General Government	<u>344,572</u>
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TOTAL EXPENDITURES	<u>14,879,553</u>
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EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	379,952
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OTHER FINANCING SOURCES (USES)

Transfers out	(57,136)
Sale of capital assets	11,166

TOTAL OTHER FINANCING SOURCES (USES)	<u>(45,970)</u>
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NET CHANGE IN FUND BALANCE	333,982
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FUND BALANCE - JANUARY 1	<u>10,312,755</u>
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FUND BALANCE - DECEMBER 31	<u><u>\$ 10,646,737</u></u>
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CITY OF HIBBING, MINNESOTA

LIBRARY SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2010

REVENUES**Taxes**

General property	\$ 464,163
Taconite homestead credit	99,269
Other	54,209

Total Taxes	617,641
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Intergovernmental

State grants	
Market value credit	33,518

Charges for Services	19,622
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Gifts and Contributions	9,002
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Interest	670
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TOTAL REVENUES	680,453
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EXPENDITURES**Current****Culture and Recreation****Library**

Personal services	530,530
Supplies	65,906
Other services and charges	87,275
Other	250

TOTAL EXPENDITURES	683,961
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EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,508)
--	---------

OTHER FINANCING SOURCES

Transfer in	57,136
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NET CHANGE IN FUND BALANCES	53,628
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FUND BALANCE - JANUARY 1	97,653
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FUND BALANCE - DECEMBER 31	\$ 151,281
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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, 2010

REVENUES

Interest	\$	113
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EXPENDITURES

-

NET CHANGE IN FUND BALANCE

113

FUND BALANCE - JANUARY 1

48,153

FUND BALANCE - DECEMBER 31

\$ 48,266

CITY OF HIBBING, MINNESOTA

**SMALL CITIES DEVELOPMENT SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2010**

REVENUES

Interest	\$	58
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EXPENDITURES

-

NET CHANGE IN FUND BALANCE

58

FUND BALANCE - JANUARY 1

24,712

FUND BALANCE - DECEMBER 31

\$ 24,770

CITY OF HIBBING, MINNESOTA

MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2010

REVENUES

Interest	\$ 207
Miscellaneous	
Principal on loans repayments	3,398
Interest on loans repayments	913
Total Miscellaneous	<u>4,311</u>
TOTAL REVENUE	<u>4,518</u>

EXPENDITURES

Current	-
Economic Development	-
Miscellaneous	
Repayments to DEED	-
TOTAL EXPENDITURES	<u>-</u>
NET CHANGE IN FUND BALANCE	4,518
FUND BALANCE - JANUARY 1	<u>119,815</u>
FUND BALANCE - DECEMBER 31	<u>\$ 124,333</u>

CITY OF HIBBING, MINNESOTA

DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Year Ended December 31, 2010

REVENUES	Other Postemploy- ment Benefits	2002 G.O. Refunding Bonds	Totals
Taxes			
General property	\$ 365,170	\$ -	\$ 365,170
Taconite homestead credit	78,105	-	78,105
Other	42,652	-	42,652
Total Taxes	485,927	-	485,927
Intergovernmental			
State grants			
Market value credit	26,372	-	26,372
TOTAL REVENUES	<u>512,299</u>	<u>-</u>	<u>512,299</u>
 EXPENDITURES			
Debt Service			
Principal	-	-	-
Interest	-	-	-
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
 EXCESS OF REVENUES OVER EXPENDITURES	<u>512,299</u>	<u>-</u>	<u>512,299</u>
 OTHER FINANCING SOURCES (USES)			
Transfer in	-	-	-
Transfer out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
 NET CHANGE IN FUND BALANCES	512,299	-	512,299
 FUND BALANCE - JANUARY 1	<u>1,559,991</u>	<u>357,631</u>	<u>1,917,622</u>
 FUND BALANCE - DECEMBER 31	<u><u>\$ 2,072,290</u></u>	<u><u>\$ 357,631</u></u>	<u><u>\$ 2,429,921</u></u>

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended December 31, 2010

REVENUES	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement	MDI Maintenance	Total
Taxes						
General property	\$ 142,572	\$ -	\$ -	\$ 768,998	\$ -	\$ 911,570
Taconite homestead credit	30,486	-	-	164,357	-	194,843
Other	16,649	-	-	89,753	-	106,402
Total Taxes	189,707	-	-	1,023,108	-	1,212,815
Special Assessments						
Principal	-	21,393	-	-	-	21,393
Interest and penalties	-	1,154	-	-	-	1,154
Total Special Assessments	-	22,547	-	-	-	22,547
Intergovernmental						
Federal grants						
Public Safety Interoperable Communications	-	-	-	14,210	-	14,210
Other	-	-	-	-	-	-
State grants						
Market value credit	10,293	-	-	55,495	-	65,788
MSA maintenance municipal	276,040	-	-	-	-	276,040
MSA construction municipal	971,799	-	-	-	-	971,799
Total Intergovernmental	1,258,132	-	-	69,705	-	1,327,837
Charges for Services						
Rent	-	-	13,966	-	-	13,966
Gifts and Contributions	-	-	-	3,157	-	3,157
Interest	2,591	236	330	1,613	49	4,819
Miscellaneous						
Other	-	-	-	1	-	1
TOTAL REVENUES	\$ 1,450,430	\$ 22,783	\$ 14,296	\$ 1,097,584	\$ 49	\$ 2,585,142

CITY OF HIBBING, MINNESOTA

CAPITAL PROJECTS FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)
 Year Ended December 31, 2010

	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement	MDI Maintenance	Total
EXPENDITURES						
Debt Service						
Principal	\$ -	\$ -	\$ -	\$ 463,735	\$ -	\$ 463,735
Interest and other charges	-	-	-	77,905	-	77,905
Total Debt Service	-	-	-	541,640	-	541,640
Capital Outlay						
General government						
Elections	-	-	-	4,643	-	4,643
City hall	-	-	-	-	-	-
Data processing	-	-	-	-	-	-
Personnel administration	-	-	-	-	-	-
Public safety						
Police	-	-	-	44,584	-	44,584
Fire	-	-	-	7,242	-	7,242
Paid on-call fire	-	-	-	-	-	-
Ambulance	-	-	-	139,653	-	139,653
Civil defense	-	-	-	-	-	-
Animal shelter	-	-	-	-	-	-
Public works						
Streets and alleys	1,206,400	24,053	-	-	-	1,230,453
Garage	-	-	-	168,365	-	168,365
Culture and recreation						
Recreation	-	-	-	-	-	-
Memorial building	-	-	145	12,225	-	12,370
Parks	-	-	-	72,166	-	72,166
Library	-	-	-	56,858	-	56,858
Miscellaneous						
Cemetery	-	-	-	8,725	-	8,725
Other	-	-	-	-	-	-
Total Capital Outlay	1,206,400	24,053	145	514,461	-	1,745,059
TOTAL EXPENDITURES	1,206,400	24,053	145	1,056,101	-	2,286,699
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	244,030	(1,270)	14,151	41,483	49	298,443
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Debt issuance	-	-	-	-	-	-
Sale of capital assets	-	-	-	11,952	-	11,952
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	11,952	-	11,952
NET CHANGE IN FUND BALANCES	244,030	(1,270)	14,151	53,435	49	310,395
FUND BALANCES - JANUARY 1	1,043,009	87,600	133,746	965,310	20,798	2,250,463
FUND BALANCES - DECEMBER 31	<u>\$ 1,287,039</u>	<u>\$ 86,330</u>	<u>\$ 147,897</u>	<u>\$ 1,018,745</u>	<u>\$ 20,847</u>	<u>\$ 2,560,858</u>

CITY OF HIBBING, MINNESOTA
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010

	General Fund	Economic Development Special Revenue Fund	Tax Increment III	Tax Increment VI
ASSETS				
Cash and cash equivalents	\$ 110,872	\$ 1,101,560	\$ 18,464	\$ 45,317
Cash - restricted	-	-	-	-
Investments - restricted	-	-	-	-
Taxes receivable				
Unapportioned	1,352	-	-	-
Delinquent	-	-	-	-
Accounts receivable	10,000	-	-	-
Due from other funds	1,664	78,000	-	-
Due from other governments	-	-	-	-
Loans receivable	-	467,402	-	-
Prepaid items	-	-	-	-
TOTAL ASSETS	<u>\$ 123,888</u>	<u>\$ 1,646,962</u>	<u>\$ 18,464</u>	<u>\$ 45,317</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 12,388	\$ -	283	283
Salaries payable	461	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	-	18,181	45,034
Deferred revenue	-	467,402	-	-
TOTAL LIABILITIES	<u>12,849</u>	<u>467,402</u>	<u>18,464</u>	<u>45,317</u>
FUND BALANCES				
Unreserved, designated	-	-	-	-
Unreserved, undesignated	111,039	1,179,560	-	-
TOTAL FUND BALANCES	<u>111,039</u>	<u>1,179,560</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 123,888</u>	<u>\$ 1,646,962</u>	<u>\$ 18,464</u>	<u>\$ 45,317</u>

Debt Service Funds			
Tax Increment VII	Tax Increment XI	Central Range Public Works	Animal Shelter
\$ 42,755	\$ -	\$ 74,453	\$ 78,372
-	-	-	46,238
-	-	386,123	-
7,923	-	-	552
106,120	15,955	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 156,798</u>	<u>\$ 15,955</u>	<u>\$ 460,576</u>	<u>\$ 125,162</u>
-	-	-	-
-	-	-	-
-	1,664	-	-
516	516	-	-
106,120	15,955	-	-
<u>106,636</u>	<u>18,135</u>	<u>-</u>	<u>-</u>
-	-	460,576	125,162
50,162	(2,180)	-	-
<u>50,162</u>	<u>(2,180)</u>	<u>460,576</u>	<u>125,162</u>
<u>\$ 156,798</u>	<u>\$ 15,955</u>	<u>\$ 460,576</u>	<u>\$ 125,162</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
COMBINING BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
December 31, 2010

	Capital Projects Funds				
	Storefront Renovation Project	District VIII Tax Increment	District X Tax Increment	Tax Abatement	Totals
ASSETS					
Cash and cash equivalents	\$ 4,655	\$ 20,647	\$ 14,065	\$ 80,784	\$ 1,591,944
Cash - restricted	-	-	-	-	46,238
Investments	-	-	-	-	386,123
Taxes receivable					
Unapportioned	-	-	-	382	10,209
Delinquent	-	234	-	-	122,309
Accounts receivable	-	-	-	-	10,000
Due from other funds	-	-	-	-	79,664
Due from other governments	-	-	-	-	-
Loans receivable	194,331	461,924	-	-	1,123,657
Prepaid items	-	-	-	-	-
TOTAL ASSETS	<u>\$ 198,986</u>	<u>\$ 482,805</u>	<u>\$ 14,065</u>	<u>\$ 81,166</u>	<u>\$ 3,370,144</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 283	\$ -	\$ 13,237
Salaries payable	-	-	-	-	461
Due to other funds	78,000	-	-	-	79,664
Due to other governments	-	516	13,782	-	78,545
Deferred revenue	194,331	462,159	-	-	1,245,967
TOTAL LIABILITIES	<u>272,331</u>	<u>462,675</u>	<u>14,065</u>	<u>-</u>	<u>1,417,874</u>
FUND BALANCES					
Unreserved, designated	-	-	-	-	585,738
Unreserved, undesignated	(73,345)	20,130	-	81,166	1,366,532
TOTAL FUND BALANCES	<u>(73,345)</u>	<u>20,130</u>	<u>-</u>	<u>81,166</u>	<u>1,952,270</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 198,986</u>	<u>\$ 482,805</u>	<u>\$ 14,065</u>	<u>\$ 81,166</u>	<u>\$ 3,370,144</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended December 31, 2010

	General Fund	Economic Development Special Revenue Fund	Tax Increment III	Tax Increment VI
REVENUES				
Taxes				
General	\$ 74,960	\$ -	\$ 4,442	\$ 16,882
Taconite homestead credit	16,041	-	-	-
Other	8,760	-	-	-
Intergovernmental				
State grants				
Market value credit	5,416	-	-	-
IRRA grant	22,000	-	-	-
Charges for Services	-	-	-	-
Gifts and contributions	13,551	-	-	-
Interest	200	437	12	-
Miscellaneous				
Principal on loan repayments	-	57,373	-	-
Interest on loan repayments	-	22,404	-	-
Other	-	-	-	-
TOTAL REVENUES	<u>140,928</u>	<u>80,214</u>	<u>4,454</u>	<u>16,882</u>
EXPENDITURES				
Current				
Economic development	-	-	-	-
Community development	-	-	-	-
Administration	81,955	-	-	-
Professional services	24,393	-	1,283	1,283
Loans	-	-	-	-
Tax increment projects	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Fiscal charges	-	-	-	-
Capital Outlay				
Community development	27,000	-	-	-
TOTAL EXPENDITURES	<u>133,348</u>	<u>-</u>	<u>1,283</u>	<u>1,283</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>7,580</u>	<u>80,214</u>	<u>3,171</u>	<u>15,599</u>
OTHER FINANCING SOURCES (USES)				
Excess TIF to be remitted to County	-	-	(17,666)	(44,516)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>(17,666)</u>	<u>(44,516)</u>
NET CHANGE IN FUND BALANCES	<u>7,580</u>	<u>80,214</u>	<u>(14,495)</u>	<u>(28,917)</u>
FUND BALANCES - JANUARY 1	<u>103,459</u>	<u>1,099,346</u>	<u>14,495</u>	<u>28,917</u>
FUND BALANCES - DECEMBER 31	<u>\$ 111,039</u>	<u>\$ 1,179,560</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service Funds			
Tax Increment VII	Tax Increment XI	Central Range Public Works	Animal Shelter
\$ 63,461	\$ 16,284	\$ -	\$ 30,404
-	-	-	6,551
-	-	-	3,577
-	-	-	2,212
-	-	389,300	42,744
-	-	-	-
179	26	40	12
-	-	-	-
-	-	-	-
-	-	-	-
63,640	16,310	389,340	85,500
-	-	-	-
3,238	-	-	-
1,000	1,000	-	-
-	-	-	-
-	-	-	-
20,000	10,000	330,000	26,551
16,125	7,490	56,960	16,193
431	-	2,340	-
-	-	-	-
40,794	18,490	389,300	42,744
22,846	(2,180)	40	42,756
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
22,846	(2,180)	40	42,756
27,316	-	460,536	82,406
\$ 50,162	\$ (2,180)	\$ 460,576	\$ 125,162

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, 2010

	Capital Projects Funds				
	Storefront Renovation Project	District VIII Tax Increment	District X Tax Increment	Tax Abatement	Totals
REVENUES					
Taxes					
General	\$ -	\$ 11,677	\$ 5,483	\$ 21,457	\$ 245,050
Taconite homestead credit	-	-	-	4,535	27,127
Other	-	-	-	2,477	14,814
Intergovernmental					
State grants					
Market value credit	-	-	-	1,531	9,159
IRRA grant	-	-	-	-	22,000
Charges for Services	-	-	-	-	432,044
Gifts and contributions	-	-	-	-	13,551
Interest	-	39	29	148	1,122
Miscellaneous					
Principal on loan repayments	38,579	-	-	-	95,952
Interest on loan repayments	5,462	-	-	-	27,866
TOTAL REVENUES	44,041	11,716	5,512	30,148	888,685
EXPENDITURES					
Current					
Economic development					
Community development	-	-	-	5,868	5,868
Administration	-	-	-	-	85,193
Professional services	-	1,000	1,283	-	31,242
Loans	85,000	-	-	-	85,000
Tax increment projects	-	5,274	1,225	-	6,499
Debt Service					
Principal	-	-	-	-	386,551
Interest	-	-	-	-	96,768
Fiscal charges	-	-	-	-	2,771
Capital Outlay					
Community development	-	-	-	-	27,000
TOTAL EXPENDITURES	85,000	6,274	2,508	5,868	726,892
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(40,959)	5,442	3,004	24,280	161,793
OTHER FINANCING SOURCES (USES)					
Excess TIF to be remitted to County	-	-	(13,265)	-	(75,447)
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(13,265)	-	(75,447)
NET CHANGE IN FUND BALANCES	(40,959)	5,442	(10,261)	24,280	86,346
FUND BALANCES - JANUARY 1	(32,386)	14,688	10,261	56,886	1,865,924
FUND BALANCES - DECEMBER 31	\$ (73,345)	\$ 20,130	\$ -	\$ 81,166	\$ 1,952,270

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
STATEMENT OF NET ASSETS
ENTERPRISE FUND
December 31, 2010

	<u>Family Center</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 228,741
Due from other governments	-
Loans receivable	<u>589,015</u>
TOTAL ASSETS	<u>817,756</u>
 LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	-
Deferred revenue	-
Due to other funds	<u>-</u>
TOTAL LIABILITIES	<u>-</u>
 NET ASSETS	
Unrestricted	<u>817,756</u>
 TOTAL NET ASSETS	<u><u>\$ 817,756</u></u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 ENTERPRISE FUND
 December 31, 2010

	<u>Family Center</u>
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	30,258
Interest expense	-
Amortization	-
Gain on disposal of student housing facility	-
TOTAL NONOPERATING REVENUES	30,258
INCOME BEFORE TRANSFERS	30,258
Transfers in	-
Transfers out	-
CHANGE IN NET ASSETS	30,258
TOTAL NET ASSETS - JANUARY 1	787,498
TOTAL NET ASSETS - DECEMBER 31	<u>\$ 817,756</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT
 STATEMENT OF CASH FLOWS
 ENTERPRISE FUND
 December 31, 2010

	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	25,667
Interest received on note	30,258
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>55,925</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	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,925
CASH AND CASH EQUIVALENTS, JANUARY 1	<u>172,816</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u><u>\$ 228,741</u></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>\$ -</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, VII, VIII, X, AND XI
Year Ended December 31, 2010

	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	11,125		41,340	
Captured Net Tax Capacity Retained by the City	\$ 3,701		\$ 28,390	
	Accounted for in	Current	Accounted for in	Current
	Prior Years	Year	Prior Years	Year
SOURCES OF FUNDS				
Bond proceeds	\$ 225,630	\$ -	\$ 726,091	\$ -
Note proceeds	121,000	-	-	-
Tax increments received	734,985	4,442	670,305	16,882
General property taxes received	17,921	-	-	-
Interest on invested funds	15,354	12	19,141	-
Grants	17,602	-	-	-
Local contributions	-	-	-	-
Miscellaneous	26,528	-	-	-
TOTAL SOURCES OF FUNDS	1,159,020	4,454	1,415,537	16,882
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	6,346	1,283	5,748	1,283
Administrative costs	19,980	-	87,092	-
TOTAL USES OF FUNDS	869,113	1,283	1,456,141	1,283
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS BEFORE TRANSFERS	289,907	3,171	(40,604)	15,599
TRANSFERS				
Decertified district - remittance to County	-	(17,666)	-	(44,516)
Transfers to other districts	(79,256)	-	(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	(275,412)	(17,666)	69,521	(44,516)
EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS AND TRANSFERS	\$ 14,495	(14,495)	\$ 28,917	(28,917)
DISTRICT BALANCE - JANUARY 1		14,495		28,917
DISTRICT BALANCE - DECEMBER 31		\$ -		\$ -

Tax Increment District VII		Tax Increment District VIII		Tax Increment District X		Tax Increment District XI	
Redevelopment 469 1993 2019		Qualified Housing 469 1993 2020		Economic Development 469 1999 2009		Redevelopment 469 1999 2025	
\$ 3,412 60,778		\$ - 9,872		\$ 671 11,860		\$ 525 17,140	
<u>\$ 57,366</u>		<u>\$ 9,872</u>		<u>\$ 11,189</u>		<u>\$ 16,615</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	\$ -
-	-	-	-	-	-	-	-
603,024	63,461	169,790	11,677	83,903	5,483	84,390	16,284
-	-	-	-	-	-	-	-
11,090	179	5,373	39	1,001	29	1,762	26
299,999	-	385,000	-	-	-	-	-
8,251	-	-	-	64,350	-	67,786	-
19,619	-	18,670	-	-	-	2,786	-
<u>1,261,983</u>	<u>63,640</u>	<u>578,833</u>	<u>11,716</u>	<u>149,254</u>	<u>5,512</u>	<u>321,724</u>	<u>16,310</u>
-	-	555,095	-	-	-	-	-
721,672	-	62,118	5,274	143,318	1,225	253,248	-
95,000	20,000	-	-	-	-	60,000	10,000
266,448	16,556	-	-	-	-	106,544	7,490
29,792	1,000	8,124	1,000	19,590	1,283	29,768	1,000
121,755	3,238	30,205	-	-	-	45	-
<u>1,234,667</u>	<u>40,794</u>	<u>655,542</u>	<u>6,274</u>	<u>162,908</u>	<u>2,508</u>	<u>449,605</u>	<u>18,490</u>
27,316	22,846	(76,709)	5,442	(13,654)	3,004	(127,881)	(2,180)
-	-	-	-	-	(13,265)	-	-
-	-	-	-	-	-	-	-
-	-	(4,926)	-	-	-	-	-
-	-	-	-	9,459	-	35,055	-
-	-	96,323	-	14,456	-	92,826	-
-	-	91,397	-	23,915	(13,265)	127,881	-
<u>\$ 27,316</u>	<u>22,846</u>	<u>\$ 14,688</u>	<u>5,442</u>	<u>\$ 10,261</u>	<u>(10,261)</u>	<u>\$ -</u>	<u>(2,180)</u>
	27,316		14,688		10,261		-
	<u>\$ 50,162</u>		<u>\$ 20,130</u>		<u>\$ -</u>		<u>\$ (2,180)</u>

Fort & Company, P.A.

Certified Public Accountants

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Victoria C. Kolo

Connor B. Michels, EA
Kimberly A. Maxie

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, 2010, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated June 27, 2011. 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 the 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 2010-1, 2010-2 and 2010-3 to be significant deficiencies in internal control over financial reporting.

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

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

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, except as described in the schedule of findings and responses as items 2010-4, 2010-5, 2010-6, 2010-7 and 2010-8.

We also noted certain additional matters that we reported to management of the City of Hibbing, Minnesota in a separate letter dated June 27, 2011, 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 the 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, P.A.
June 27, 2011

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2010

SIGNIFICANT DEFICIENCIES

2010-1. 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. In addition, the City Clerk provides oversight, consistent with his statutory duties of City Clerk/Treasurer, operating in a statutory City with a standard plan.

3. Official Responsible for Ensuring CAP

Sherri A. 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.

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Year Ended December 31, 2010

**2010-2. FINANCIAL REPORTING PROCESS - REPORT WRITING FUNCTION OF INCODE SOFTWARE
NOT UTILIZED**

Condition and Criteria

The report writing function 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 started to 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 during 2010. However, due to the election year, the special election process and a staffing shortage, the Finance department did not have an opportunity to research this function during 2010. The Finance department will explore this possibility during 2011.

3. Officials Responsible for Ensuring CAP

Sherri A. Renskers, Finance Director
Patrick L. Garrity, City Clerk/Treasurer

4. Planned Completion Date for CAP

Prior to April 2012.

5. Plan to Monitor Completion of CAP

Patrick L. Garrity, City Clerk/Treasurer is monitoring the procedures to ensure that they are consistent with the Internal Financial Control Policy. The City Council will also monitor the completion of the corrective action plan.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Year Ended December 31, 2010

2010-3. GRANT PROCESS

Condition

With the award of approximately \$5.9 million in grants and a Minnesota Public Facilities Authority (MPFA) loan for the South Wastewater Treatment Plant (SWTP) and the Hospital stormwater system, the City had a higher level of grant funding than in recent years. This higher level of funding highlighted a control process improvement whereby the City should institute a mechanism to reconcile all project costs against grant fund revenue.

Criteria

Grant revenue recognition control.

Effect

To assure that all grant revenue is recognized in the proper accounting period.

Cause

Grant revenue not being recorded in the correct year.

Recommendations

Annually, the City should complete a process of reviewing all construction project expenses and determine whether the expenditures related to a City funded project, a State Bond funded project, MPFA loan, etc.

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 complete the project expenditure review process annually during the year end close.

3. Official Responsible for Ensuring CAP

Sherri A. 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 2011 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, 2010

MINNESOTA LEGAL COMPLIANCE

2010-4. CITY APPROVAL OF SAFEKEEPING ENTITIES ON PLEDGED COLLATERAL

Condition

Per Minnesota Legal Statute paragraph 118A.03, subd. 7, the government entity is to approve of the selection of the safekeeping entity. The City has two banks with which it has deposits which may potentially exceed FDIC coverage limits and for which safekeeping agreements are in place, US Bank and Security State Bank. The US Bank and Security State Bank's securities pledged for the benefit of the City are held in safekeeping at the Federal Reserve Bank of Cleveland and Wells Fargo Bank, respectively. The City has not made a motion to approve the selection of the safekeeping entities for 2010 or prior years.

Criteria

As noted above.

Effect

The City is in not in compliance with the Minnesota Legal Statute regarding approval of the selection of the safekeeping entities.

Cause

Formal resolution not made.

Recommendations

The City annually reviews the safekeeping agents proposed by US Bank and Security State Bank and take formal Council action to approve or disapprove of the agents.

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 add this item annually to the City Council agenda in connection with the annual approval of the City's depositories.

3. Official Responsible for Ensuring CAP

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

4. Planned Completion Date for CAP

The approval will occur at the January 2012 meeting.

5. Plan to Monitor Completion of CAP

The City Council will monitor the completion of this plan.

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2010

MINNESOTA LEGAL COMPLIANCE

2010-5. COLLATERAL ASSIGNMENT LANGUAGE

Condition

Per Minnesota Legal Statute paragraph 118A.03, subd. 4, the government entity shall obtain collateral assignments in writing and that such assignment shall provide that, upon default, the depository shall release the collateral pledged to the government entity on demand. The City has two such agreements, one with US Bank and one with Security State Bank. The US Bank agreement has the specific "on demand" language; however the Security State Bank agreement does not.

Criteria

Noted above.

Effect

The City is not in compliance with the Minnesota legal statute regarding collateral assignment language for their agreement with Security State Bank

Cause

The Security State Bank collateral assignment agreement did specify the pledge of securities for deposits in excess of \$250,000 and made reference to Minnesota Statutes, Chapter 118 in general; however it did not specifically state that upon default, Security State Bank would release the collateral pledged to the government entity on demand.

Recommendations

Work with Security State Bank to incorporate the specific language into their annual collateral assignment agreement with the City.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in response to Finding

The Finance Director will review the specific language with representatives of Security State Bank and incorporate such language into the next annual agreement.

3. Official Responsible for Ensuring CAP

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

4. Planned Completion Date for CAP

January 2012.

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, 2010

MINNESOTA LEGAL COMPLIANCE

2010-6. REIMBURSEMENT/AUTOMOBILE ALLOWANCE

Condition

Minnesota Legal Statute paragraph 471.665, subd. 3 specifies that if the City has established an automobile allowance for any officer or employee, that the allowance is in lieu of all other mileage reimbursement to that officer or employee.

Criteria

Noted above.

Effect

The City's December 20, 2006 Employment Contract with former City Administrator, Section 6. Automobile provided for an annual vehicle allowance of \$5,000 (paid in equal monthly installments). Section 6 of the employment contract also specified that the City was to reimburse the City Administrator at the IRS standard mileage rate for any business use of the vehicle for miles outside of the greater Hibbing area (which was defined as within a 60 mile radius of the City of Hibbing).

Cause

Section 6: Automobile of the employment contract was inconsistent with the requirements of Minnesota Legal Statute paragraph 471.665, subd. 3. and mileage reimbursement of \$856.30 was paid from December 20, 2006 to December 31, 2010; in addition to the annual allowance of \$5,000.

Recommendations

Any new employment contracts should be reviewed in conjunction with the Minnesota Legal Compliance Requirements to identify any inconsistencies.

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

Any new agreements will be reviewed for compliance.

3. Official Responsible for Ensuring CAP

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

4. Planned Completion Date for CAP

As required.

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, 2010

MINNESOTA LEGAL COMPLIANCE

2010-7. TRAVEL POLICY OUTSIDE THE STATE

Condition

Minnesota Legal Statute paragraph 471.661 specifies that the City's travel policy should specify when travel outside the state is appropriate. The City has a Travel Policy; however it does not have a section that specifies when travel outside of the state is appropriate.

Criteria

Noted above.

Effect

Travel outside of the state could be authorized that is inconsistent with the intentions of the City Council.

Cause

The matter is not included in the current City Travel Policy.

Recommendations

Amend the existing policy to address when travel outside of the state is appropriate for Council members and City staff.

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
Propose an amendment to the existing travel policy.
3. Official Responsible for Ensuring CAP
Sherri A. Renskers, Finance Director, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
Before December 31, 2011.
5. Plan to Monitor Completion of CAP
The City Council will monitor the completion of this plan.

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended December 31, 2010

MINNESOTA LEGAL COMPLIANCE

2010-8. UNCLAIMED PROPERTY

Condition

Minnesota Legal Statute paragraph 345.41, .43 specifies that if the City's records show unclaimed or uncashed checks held for more than three years (or one year for unpaid compensation); that the property be reported and paid or delivered to the state Commissioner of Commerce.

Criteria

Noted above.

Effect

Per review of the City's outstanding checks, the City had 23 outstanding accounts payable checks totaling \$4,195.43 greater than three years old and 7 outstanding payroll checks totaling \$534.68 greater than one year old.

Cause

There had been some staffing turnover in the Finance Department and there was an oversight in filing the property with the state Commissioner of Commerce.

Recommendations

Complete the required filing with the State of Minnesota Commissioner of Commerce.

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
Complete the required filing with the State of Minnesota Commissioner of Commerce.
3. Official Responsible for Ensuring CAP
Sherri A. Renskers, Finance Director, is the official responsible for ensuring this plan.
4. Planned Completion Date for CAP
Before December 31, 2011.
5. Plan to Monitor Completion of CAP
The City Council will monitor the completion of this plan.

Fort & Company, P.A.

Certified Public Accountants

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

Diane D. Krueger-Pirnat, CPA
Victoria C. Kolo

Connor B. Michels, EA
Kimberly A. Maxie

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, 2010, 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 matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated June 27, 2011, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated June 27, 2011, 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 has a number of grants for which the City acts only as the fiscal agent. A number of these grants specify that the grantee, which is defined as the City, is required to monitor that contractors for the projects comply with State of Minnesota prevailing wage laws. No specific steps had been taken by the City in connection with this grant requirement.

Recommendation – 1:

We recommend that the City's Economic Development Director obtain copies of the construction contracts and verify that the Minnesota prevailing wage language is properly included in the contract.

Management Response – 1:

The City's Economic Development Director will obtain such contracts going forward for any grants that require such monitoring and verify that the appropriate prevailing language is incorporated.

Finding – 2:

The City's Capitalization Policy has not been updated to reflect the changes upon adoption of GASB 51, Accounting and Financial Reporting for Intangible Assets.

Recommendation – 2:

We recommend that the Capitalization Policy be updated to address that intangible assets will be capitalized and tracked at specified thresholds, etc.

Management Response – 2:

We will update our Capitalization Policy during 2011.

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 27, 2011