

**CITY OF HIBBING, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended December 31, 2012**

**CITY OF HIBBING, MINNESOTA**

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December 31, 2012

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**CITY OF HIBBING, MINNESOTA**

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**CITY OF HIBBING, MINNESOTA**

**ORGANIZATION**  
December 31, 2012

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**CITY COUNCIL**

Mayor	Rick Cannata
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**

City Administrator	Tom Dicklich
Finance Director	Sherri A. Renskers

**APPOINTED**

City Assessor	Bruce Sandberg
City Attorney	Richard K. Sellman

**FINANCIAL SECTION**

# Fort & Company, P.A.

## Certified Public Accountants

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Diane D. Krueger-Pirnat, CPA  
Christine A. Towner, CPA

Connor B. Michels, EA  
Victoria C. Arnoldy, CPA

John W. Fort, CPA  
Kimberly A. Jarvis

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### INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Hibbing, Minnesota

#### **Report on the Financial Statements**

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 City of Hibbing, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

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, 92 percent, and 98 percent, respectively, of assets, net positions, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also included evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Information, on pages 5 to 13 and 55 to 60 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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 introductory section, the combining and individual nonmajor fund financial statements, and the Hibbing Economic Development Authority's (a component unit) combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the City Council  
June 27, 2013  
Page 3

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, on our consideration of the City of Hibbing, Minnesota's internal control over financial reporting and on our test 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hibbing, Minnesota's internal control over financial reporting and compliance.

*Fort & Company*

Fort & Company, PA  
June 27, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## CITY OF HIBBING, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

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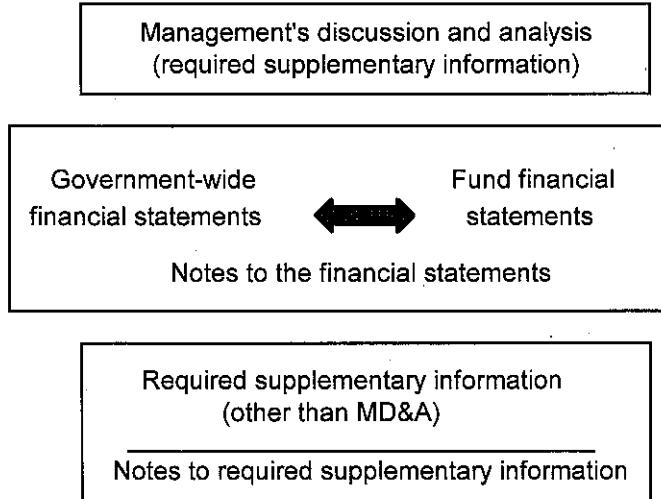
The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2012. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Hibbing, Minnesota's financial statements.

#### FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is \$32,431,980, of which \$20,929,572 is invested in capital assets, net of related debt.
- Business-type activities have a total net position of \$21,334,974. Invested in capital assets, net of related debt represents \$23,167,325 of the total.
- The Hibbing Economic Development Authority (EDA) has a total net position of \$3,327,599. Invested in capital assets, net of related debt represents \$274,228 of the total.
- The City of Hibbing's primary government's net position increased by \$4,545,493 for the year ended December 31, 2012. The Governmental activities' net position increased by \$1,424,906 and the business-type activities' net position increased by \$3,120,587.
- The EDA's net position increased by \$148,002.
- The net cost of governmental activities was \$14,224,021 for the current year. The net cost was funded by general revenues and other items totaling \$15,648,927.
- Governmental funds' fund balances increased by \$3,250,544.
- 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 \$1,497,802. The majority of the remaining increase was in the nonmajor governmental funds, primarily \$1,281,299 of funding for the Other Postemployment Benefit Debt Service Fund, \$1,343,900 in the Capital Equipment and Improvement, Capital Projects Fund from current year bond proceeds not yet expended, and \$163,788 of funding set aside for the newly created Mining Effects 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, 2012

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There are two government-wide financial statements. The statement of net position 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 position 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 position and how it has changed. You can think of the City's net position (the difference between assets and deferred outflows versus liabilities and deferred inflows) as one way to measure the City's financial health, or financial position. Increases or decreases in the City's net position 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 the City's buildings and streets also need to be considered in assessing the overall health of the City.

In the statement of net position 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, state and federal grants and aid 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, 2012

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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 Position 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 Position 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, 2012

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**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

The City's combined net position increased from \$49,221,461 to \$53,766,954. Looking at the net position and net expenses of governmental and business-type activities separately, however, reveal differences. The analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 23,820,352	\$ 20,628,856	\$ (995,047)	\$ (955,124)	\$ 22,825,305	\$ 19,673,732
Capital assets	24,358,788	23,904,065	33,212,938	29,727,174	57,571,726	53,631,239
<b>Total assets</b>	<b>\$ 48,179,140</b>	<b>\$ 44,532,921</b>	<b>\$ 32,217,891</b>	<b>\$ 28,772,050</b>	<b>\$ 80,397,031</b>	<b>\$ 73,304,971</b>
Long-term liabilities	\$ 13,730,323	\$ 11,431,324	\$ 10,098,498	\$ 9,811,187	\$ 23,828,821	\$ 21,242,511
Other liabilities	2,016,837	2,094,523	784,419	746,476	2,801,256	2,840,999
<b>Total liabilities</b>	<b>\$ 15,747,160</b>	<b>\$ 13,525,847</b>	<b>\$ 10,882,917</b>	<b>\$ 10,557,663</b>	<b>\$ 26,630,077</b>	<b>\$ 24,083,510</b>
<b>Net position</b>						
Invested in capital assets						
net of debt	\$ 20,929,572	\$ 21,674,592	\$ 23,167,325	\$ 19,965,661	\$ 44,096,897	\$ 41,640,253
Restricted	3,415,537	2,509,813	-	-	3,415,537	2,509,813
Unrestricted	8,086,871	6,822,669	(1,832,351)	(1,751,274)	6,254,520	5,071,395
<b>Total net position</b>	<b>\$ 32,431,980</b>	<b>\$ 31,007,074</b>	<b>\$ 21,334,974</b>	<b>\$ 18,214,387</b>	<b>\$ 53,766,954</b>	<b>\$ 49,221,461</b>

Net position of the City's governmental activities increased by 4.60 percent (\$32,431,980 compared to \$31,007,074). Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other requirements) changed from \$6,822,669 at December 31, 2011, to \$8,086,871 at the end of 2012.

Net position of the City's business-type activities increased 17.13 percent (\$21,334,974 in 2012 compared to \$18,214,387 in 2011).

**CITY OF HIBBING, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2012

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
<b>Revenues</b>						
Program revenues:						
Fees, fines, charges, and other	\$ 2,881,228	\$ 2,715,575	\$ 5,361,713	\$ 5,407,609	\$ 8,242,941	\$ 8,123,184
Operating grants and contributions	981,450	1,032,058			981,450	1,032,058
Capital grants and contributions	1,205,104	1,142,526	2,756,236	2,486,272	3,961,340	3,628,798
General revenues:						
Taxes	7,507,360	6,703,907			7,507,360	6,703,907
Intergovernmental	8,024,853	8,217,290			8,024,853	8,217,290
Other general revenues	32,714	37,498	16,537	14,849	49,251	52,347
Total revenues	<u>20,632,709</u>	<u>19,848,854</u>	<u>8,134,486</u>	<u>7,908,730</u>	<u>28,767,195</u>	<u>27,757,584</u>
Program expenses:						
General government	3,368,870	3,317,370			3,368,870	3,317,370
Public safety	7,362,576	7,061,105			7,362,576	7,061,105
Public works	4,937,274	4,623,426			4,937,274	4,623,426
Culture and recreation	3,165,004	3,061,289			3,165,004	3,061,289
Other	373,869	499,879	15,840		389,709	499,879
Interest	84,210	86,046	223,443		307,653	86,046
Garbage and refuse collection			2,313,347	2,242,612	2,313,347	2,242,612
Sewer operating and maintenance			2,372,412	2,372,598	2,372,412	2,372,598
Memorial building concessions			4,858	1,962	4,858	1,962
Total program expenses	<u>19,291,803</u>	<u>18,649,115</u>	<u>4,929,900</u>	<u>4,617,172</u>	<u>24,221,703</u>	<u>23,266,287</u>
Transfers	<u>84,000</u>	<u>18,186</u>	<u>(84,000)</u>	<u>(52,998)</u>	<u>-</u>	<u>(34,832)</u>
Increase (decrease) in net position	<b>\$ 1,424,906</b>	<b>\$ 1,217,905</b>	<b>\$ 3,120,586</b>	<b>\$ 3,238,560</b>	<b>\$ 4,545,492</b>	<b>\$ 4,456,465</b>

The City's total revenues increased by \$1,009,611 or 3.64 percent. The total cost of all programs and services increased by \$955,416 or 4.11 percent. Our analysis below separately considers the operations of governmental, business-type activities, and EDA - Component Unit activity.

**Governmental Activities**

Revenue for the City's governmental activities increased by \$783,855 or 3.95 percent and total expenses increased by \$642,688 or 3.45 percent. The increase in net position for governmental activities was \$1,424,906 in 2012.

The cost of all governmental activities this year was \$19,291,803. As shown in the Statement of Activities, some of the cost were paid by those who directly benefited from the programs, \$2,881,228, or by other governments and organizations that subsidized certain programs with grants and contributions, \$10,244,121. Our taxpayers paid \$7,507,360 in taxes in 2012.

**CITY OF HIBBING, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012**

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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**

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Public safety	\$ 7,362,576	\$ 7,061,105	\$ 5,003,136	\$ 4,688,835
Public works	4,937,274	4,623,426	3,498,359	3,125,149
General government	3,368,870	3,317,370	2,930,068	2,921,911
Culture and recreation	3,165,004	3,061,289	2,603,348	2,698,415
Other	373,869	499,879	104,900	238,600
Interest on long-term debt	84,210	86,046	84,210	86,046
<b>Totals</b>	<b>\$ 19,291,803</b>	<b>\$ 18,649,115</b>	<b>\$ 14,224,021</b>	<b>\$ 13,758,956</b>

**Business-Type Activities**

Revenues of the City's business-type activities were \$8,134,486 and expenses were \$4,929,900 (see Table 2). There was an increase in net position of \$3,120,586 during the year ended December 31, 2012. The factors driving these results include:

Operations produced \$686,454 of income for the year ended December 31, 2012.

The City recognized capital grants totaling \$2,756,236 for the year.

The City had non-operating interest expense totaling \$223,443 for the year.

**EDA Component Unit Activity**

The EDA had a net increase in net position of \$148,002 for the year ended December 31, 2012. General revenues, including items such as taxes and grants not restricted to specific programs, accounted for \$215,989 of this, with net program expenses over revenue of \$67,987.

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

As the City completed the year, its governmental funds reported a combined fund balance of \$21,337,143 which is greater than last year's total of \$18,086,599. The general fund had an increase of \$636,705 due to the City's plan to continue to monitor costs and a budget plan for revenues to exceed expenditures. The Library Fund achieved a \$22,300 increase in fund balance by meeting budget goals. The largest increase in other governmental funds was for \$1,343,900 in the Capital Equipment and Improvement Capital Projects Fund which was mainly due to current year bond proceeds. The next largest increase was \$1,281,299 in the Other Postemployment Benefits Debt Service Fund which was due to current year funding.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual charges to appropriations (expenditures) were \$796,985 below the final budget amounts. The most significant positive variances occurred in the City's public works, \$294,009, and miscellaneous, \$248,839. The most significant negative variance (\$44,448) occurred in the City's public safety planned expenditures. Resources available for appropriation were above the final budgeted amounts by \$647,959. The City received more in intergovernmental revenue, taxes and interest, 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, 2012

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2012, the City had \$57,571,725 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 \$3,940,486 over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land, improvements, intangibles						
artwork, gravel roads	\$ 6,401,904	\$ 6,362,512	\$ 423,719	\$ 423,718	\$ 6,825,623	\$ 6,786,230
Buildings and improvements	7,578,017	7,505,156	15,668,303	16,239,435	23,246,320	23,744,591
Infrastructure	7,321,359	7,350,056	11,549,120	6,611,235	18,870,479	13,961,291
Equipment, machinery and furniture	2,970,862	2,571,885	1,213,709	1,454,699	4,184,571	4,026,584
Construction in progress	86,646	114,456	4,358,086	4,998,087	4,444,732	5,112,543
<b>Totals</b>	<b>\$ 24,358,788</b>	<b>\$ 23,904,065</b>	<b>\$ 33,212,937</b>	<b>\$ 29,727,174</b>	<b>\$ 57,571,725</b>	<b>\$ 53,631,239</b>

This year's major additions included:

18 mobile & 27 handheld radios	\$ 118,380
19th Street interceptor	1,707,047
4th Avenue West & Highway 63	901,282
Animal shelter building	37,271
Auger for snow blower	7,494
Backhoe repair	28,717
Cemetery chapel improvement	19,133
Central Range fuel system upgrade	18,122
Columbarium	20,700
Dump truck chassis	106,844
Exchange server	19,810
Graysher sanitary sewer improvements	458,348
Groundsmaster mower	21,222
Integral compressor	41,550
Land purchases	27,392
Library lighting project	210,817
Library roof & elevator improvements	224,930
Library windows project	260,962
Memorial Building remodel	23,555
Road rescue ambulance	146,967
Robotic total station	39,035
Ron Benson glass artwork	12,000
Spartan Metro star chassis	170,548
Two police cars	43,890
Vic Power playground structure	41,065
Voting booths	14,150
Waste treatment project	2,834,218
Wheel loader	227,240
<b>Total additions</b>	<b>7,782,689</b>

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

**CITY OF HIBBING, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2012

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**CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)**

**Debt**

At year-end, the City had \$24,454,106 in long-term debt outstanding versus \$22,297,715 last year (see Table 5).

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

	Governmental Activities		Business-type Activities		EDA Component Unit	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
General obligation bonds (backed by the City)	\$ 2,825,000	\$ 1,210,000	\$ -	\$ -	\$ 618,215	\$ 1,055,204
Certificates of indebtedness	211,000	290,000	-	-	-	-
Capital leases	393,215	729,473	-	5,830	-	-
Police and Fire indebtedness	-	-	-	-	-	-
General obligation revenue notes	-	-	7,007,683	7,630,683	-	-
General obligation revenue bonds	-	-	3,037,930	2,125,000	-	-
Compensated absences	250,387	194,011	52,885	49,674	-	-
OPEB liability	10,050,721	9,007,840	-	-	-	-
<b>Total</b>	<b>\$ 13,730,323</b>	<b>\$ 11,431,324</b>	<b>\$ 10,098,498</b>	<b>\$ 9,811,187</b>	<b>\$ 618,215</b>	<b>\$ 1,055,204</b>

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 \$2,825,000 is significantly below the \$18,590,688 State-imposed limit.

The City issued a \$1,726,575 G.O. Sewer Revenue Note in 2010 to provide for sanitary sewer improvement projects. Advances are made on this loan as the City submits cost reimbursements to the Minnesota Public Facilities Authority. During the years ended December 31, 2011 and 2010, the City had advanced \$1,110,313 and \$408,945, respectively, against the approved loan of \$1,726,575. The City did not take any advances in 2012. The balance outstanding at December 31, 2012 was \$1,363,683.

**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 \$200,000 as compared to the actual costs during the current year of \$331,896, which included 13 road lifts and 7 spot road repairs.

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

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

The City's elected and appointed officials considered many factors when setting the 2013 budget, tax rates, and fees that will be charged for the business-type activities.

During 2010, 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, the City reasonably expected that the reduction for 2011 would be even greater than that for 2010. The actual amount of LGA and MVHC for 2011 was not known until August 2011, as the State had reached a budget impasse which resulted in a State shutdown. When the legislature reconvened near the end of July 2011 to enact a negotiated State budget settlement, LGA and MVHC had been set at the lower of 2011 certified LGA or 2010 amounts, and frozen for 2 years.

The General Fund expenditures for 2013 are budgeted to be \$15,853,831, which is a \$311,484 increase from the 2012 final budget. This is a 2% increase from the 2012 original General Fund budgeted expenditures of \$15,542,347.

Property tax levies increased 4.27% for 2013.

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

During the 2013 legislative session, the Legislature changed the LGA formula such that the City will be receiving an increase of \$88,085 in 2014 over the 2013 LGA amount.

As the City relies heavily on State aid to fund its budget, the City is subject to cuts from the State government at times when the State budget is not balanced. Additionally the price of steel in the global market affects the City due to taconite aid received in lieu of property taxes, which is based on tonnage produced.

The City's 2013 capital budget calls for it to spend another \$2,761,503 for capital projects, principally for the following:

Ambulance	\$ 155,000
Cemetery	46,261
Engineering	108,000
General government	50,000
Library	81,250
Parks, recreation and arena	820,300
Public safety	282,115
Public works	468,000
Other	750,577
Total	<u>\$ 2,761,503</u>

Some of the projects are subject to obtaining grants. 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 POSITION**

December 31, 2012

	Primary government			Component Units	
	Governmental Activities		Business type Activities	Total	EDA
<b>ASSETS</b>					
Cash and cash equivalents	\$ 15,961,662	\$ 1,105,042	\$ 17,066,704	\$ 2,198,812	\$ 8,000
Investments	903,320	-	903,320	-	-
Taxes receivable	403,148	2,353	405,501	123,646	-
Special assessments receivable	148,370	125,052	273,422	-	-
Accounts receivable	493,259	13,422	506,681	394	5,801,011
Interest receivable	3,021	-	3,021	-	-
Unbilled revenues	-	-	-	-	1,884,616
Internal balances	5,231,316	(5,231,316)	-	-	-
Due from other governments	328,200	2,518,197	2,846,397	-	-
Due from other component units	165,051	444,164	609,215	-	-
Due from primary government	-	-	-	393,215	-
Loans receivable	63,365	-	63,365	1,430,557	-
Inventories	531	3,707	4,238	-	1,002,653
Prepaid expenses	119,110	12,928	132,038	-	441,919
Debt issuance costs	-	11,404	11,404	-	-
Equity in joint venture	-	-	-	-	11,366,423
Temporarily restricted assets	-	-	-	46,261	797,209
Cash and cash equivalents	-	-	-	-	337,001
Investments held with fiscal agents	-	-	-	-	-
Capital assets not being depreciated	-	-	-	-	-
Land, improvements, artwork, gravel roads, intangibles and construction in progress	6,488,550	4,781,806	11,270,356	255,843	840,217
Capital assets net of accumulated depreciation	-	-	-	-	-
Infrastructure	23,837,501	12,207,675	36,045,176	19,699	-
Buildings and improvements	21,654,799	25,048,634	46,703,433	-	10,747,909
Transmissions and distribution system	-	-	-	-	47,532,781
Equipment, machinery and furniture	11,032,775	3,941,012	14,973,787	-	51,096,193
Less: accumulated depreciation	(38,654,838)	(12,766,189)	(51,421,027)	(1,314)	(71,297,614)
<b>TOTAL ASSETS</b>	<b>\$ 48,179,140</b>	<b>\$ 32,217,891</b>	<b>\$ 80,397,031</b>	<b>\$ 4,467,113</b>	<b>\$ 60,558,318</b>
<b>LIABILITIES AND NET POSITION</b>					
Accounts payable	\$ 174,458	\$ 64,364	\$ 238,822	\$ 44,349	\$ 2,799,346
Salaries payable	1,184,995	41,860	1,226,855	115	-
Notes payable	-	-	-	-	-
Due to other governments	192,426	19,776	212,202	1,611	-
Due to primary government	-	-	-	-	609,215
Contracts payable	131,152	326,962	458,114	-	-
Customer deposits	-	-	-	-	251,113
Other accrued liabilities	1,055	-	1,055	-	110,808
Unearned revenue	305,764	123,443	429,207	461,924	36,503
Accrued interest payable	26,987	86,558	113,545	13,300	11,708
Compensated absences	-	121,456	121,456	-	463,916
Long-term liabilities	-	-	-	-	-
Due to component unit	393,215	-	393,215	-	-
Compensated absences	250,387	52,885	303,272	-	1,061,110
OPEB liability	10,050,721	-	10,050,721	-	12,214,689
Due within one year	616,309	768,000	1,384,309	63,309	1,083,337
Due in more than one year	2,419,691	9,277,613	11,697,304	554,906	7,296,619
<b>TOTAL LIABILITIES</b>	<b>\$ 15,747,160</b>	<b>\$ 10,882,917</b>	<b>\$ 26,630,077</b>	<b>\$ 1,139,514</b>	<b>\$ 25,938,364</b>
<b>NET POSITION</b>					
Invested in capital assets, net of related debt	20,929,572	23,167,325	44,096,897	274,228	35,958,486
Restricted for	-	-	-	-	-
Capital projects	1,943,980	-	1,943,980	42,070	-
Debt service	1,044,165	-	1,044,165	245,118	509,593
Other purposes	427,392	-	427,392	-	-
Unrestricted	8,086,871	(1,832,351)	6,254,520	2,766,183	(1,848,125)
<b>TOTAL NET POSITION</b>	<b>32,431,980</b>	<b>21,334,974</b>	<b>53,766,954</b>	<b>3,327,599</b>	<b>34,619,954</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 48,179,140</b>	<b>\$ 32,217,891</b>	<b>\$ 80,397,031</b>	<b>\$ 4,467,113</b>	<b>\$ 60,558,318</b>

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

**CITY OF HIBBING, MINNESOTA**

**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2012

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 3,368,870	\$ 406,729	\$ 32,073	\$ -
Public safety	7,362,576	2,004,454	354,486	500
Public works	4,937,274	27,399	311,652	1,099,864
Culture and recreation	3,165,004	393,578	63,338	104,740
Economic development	62,804	47	-	-
Transportation	311,065	49,021	219,901	-
Interest on long-term debt	84,210	-	-	-
Total Governmental Activities	<u>19,291,803</u>	<u>2,881,228</u>	<u>981,450</u>	<u>1,205,104</u>
Business-type Activities				
Garbage and refuse collection	2,313,347	2,696,435	-	-
Sewer operating and maintenance	2,611,695	2,671,513	-	2,756,236
Memorial building concessions	4,858	9,123	-	-
Total Business-type Activities	<u>4,929,900</u>	<u>5,377,071</u>	<u>-</u>	<u>2,756,236</u>
Total Primary Government	<u>\$ 24,221,703</u>	<u>\$ 8,258,299</u>	<u>\$ 981,450</u>	<u>\$ 3,961,340</u>
<b>Component Units</b>				
EDA	\$ 135,099	\$ 15,490	\$ 51,622	\$ -
PUC	26,362,329	25,587,954	-	-
Total Component Units	<u>\$ 26,497,428</u>	<u>\$ 25,603,444</u>	<u>\$ 51,622</u>	<u>\$ -</u>
<b>General Revenues</b>				
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 Position				
<b>NET POSITION - JANUARY 1</b>				
<b>NET POSITION - DECEMBER 31</b>				

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

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	EDA	PUC
\$ (2,930,068)	\$ -	\$ (2,930,068)		
(5,003,136)	-	(5,003,136)		
(3,498,359)	-	(3,498,359)		
(2,603,348)	-	(2,603,348)		
(62,757)	-	(62,757)		
(42,143)	-	(42,143)		
(84,210)	-	(84,210)		
<u>(14,224,021)</u>	<u>-</u>	<u>(14,224,021)</u>		
- 383,088		383,088		
- 2,816,054		2,816,054		
- 4,265		4,265		
<u>- 3,203,407</u>		<u>3,203,407</u>		
<u>(14,224,021)</u>	<u>3,203,407</u>	<u>(11,020,614)</u>		
		\$ (67,987)	\$ -	
			(774,375)	
		<u>\$ (67,987)</u>	<u>\$ (774,375)</u>	
4,505,742	-	4,505,742	-	-
2,843,019	-	2,843,019	120,031	-
158,599	-	158,599	-	-
-	-	95,251	-	-
8,024,853	-	8,024,853	146	17,600
20,198	1,179	21,377	561	13,299
12,516	-	12,516	-	-
84,000	(84,000)	-	-	-
<u>15,648,927</u>	<u>(82,821)</u>	<u>15,566,106</u>	<u>215,989</u>	<u>30,899</u>
1,424,906	3,120,586	4,545,492	148,002	(743,476)
31,007,074	18,214,388	49,221,462	3,179,597	35,363,430
<u>\$ 32,431,980</u>	<u>\$ 21,334,974</u>	<u>\$ 53,766,954</u>	<u>\$ 3,327,599</u>	<u>\$ 34,619,954</u>

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

**CITY OF HIBBING, MINNESOTA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**  
December 31, 2012

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 7,131,523	\$ 262,453	\$ 8,567,686	\$ 15,961,662
Investments	903,320	-	-	903,320
Taxes receivable	376,278	4,653	24,367	405,298
Special assessments receivable	-	-	148,370	148,370
Accounts receivable	437,908	2,511	215,741	656,160
Interest receivable	3,021	-	-	3,021
Due from other funds	5,185,316	-	46,000	5,231,316
Due from other governments	166,165	-	162,035	328,200
Loans receivable	-	-	63,365	63,365
Prepaid items and other assets	108,770	10,869	-	119,639
<b>TOTAL ASSETS</b>	<b>\$ 14,312,301</b>	<b>\$ 280,486</b>	<b>\$ 9,227,564</b>	<b>\$ 23,820,351</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 156,465	\$ 3,182	\$ 15,191	\$ 174,838
Salaries payable	1,115,759	69,236	-	1,184,995
Due to other funds	-	-	-	-
Due to other governments	172,347	4,046	16,032	192,425
Contracts payable	-	-	131,152	131,152
Deferred revenue	577,669	-	221,452	799,121
Other accrued liabilities	677	-	-	677
<b>TOTAL LIABILITIES</b>	<b>2,022,917</b>	<b>76,464</b>	<b>383,827</b>	<b>2,483,208</b>
<b>FUND BALANCES</b>				
Nonspendable	108,241	10,869	50,000	169,110
Restricted	65,129	193,153	2,988,145	3,246,427
Committed	-	-	5,719,272	5,719,272
Assigned	8,467,854	-	86,320	8,554,174
Unassigned	3,648,160	-	-	3,648,160
<b>TOTAL FUND BALANCES</b>	<b>12,289,384</b>	<b>204,022</b>	<b>8,843,737</b>	<b>21,337,143</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 14,312,301</b>	<b>\$ 280,486</b>	<b>\$ 9,227,564</b>	<b>\$ 23,820,351</b>

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

CITY OF HIBBING, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION  
December 31, 2012

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>	\$ 21,337,143
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	24,358,788
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements	493,358
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(26,986)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(13,730,323)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 32,431,980</u></b>

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

**CITY OF HIBBING, MINNESOTA**

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

**GOVERNMENTAL FUNDS**

Year Ended December 31, 2012

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 4,629,412	\$ 585,329	\$ 2,257,066	\$ 7,471,807
Special assessments	-	-	40,923	40,923
Licenses and permits	172,062	-	-	172,062
Intergovernmental	8,749,200	714	1,441,247	10,191,161
Charges for services	2,252,616	23,061	16,066	2,291,743
Fines	154,967	-	-	154,967
Gifts and contributions	325	9,371	29,140	38,836
Interest	14,403	195	5,601	20,199
Miscellaneous	217,321	670	6,113	224,104
<b>TOTAL REVENUES</b>	<b>16,190,306</b>	<b>619,340</b>	<b>3,796,156</b>	<b>20,605,802</b>
<b>EXPENDITURES</b>				
Current				
General government	1,767,944	-	-	1,767,944
Public safety	5,912,282	-	-	5,912,282
Public works	2,695,769	-	-	2,695,769
Culture and recreation	1,721,775	592,898	-	2,314,673
Economic development	62,804	-	-	62,804
Transportation	281,629	-	-	281,629
Miscellaneous	2,213,014	-	-	2,213,014
Debt Service				
Principal	21,989	-	375,768	397,757
Interest and other charges	15,298	-	86,388	101,686
Capital Outlay				
General government	-	-	38,325	38,325
Public safety	-	-	530,887	530,887
Public works	-	-	1,917,806	1,917,806
Culture and recreation	-	-	1,046,141	1,046,141
Miscellaneous	-	-	61,055	61,055
<b>TOTAL EXPENDITURES</b>	<b>14,692,504</b>	<b>592,898</b>	<b>4,056,370</b>	<b>19,341,772</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>				
<b>OVER EXPENDITURES</b>	<b>1,497,802</b>	<b>26,442</b>	<b>(260,214)</b>	<b>1,264,030</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	26,858	1,008,788	1,035,646
Transfers out	(870,646)	(31,000)	(50,000)	(951,646)
Debt issuance	-	-	1,890,000	1,890,000
Sale of capital assets	9,549	-	2,965	12,514
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(861,097)</b>	<b>(4,142)</b>	<b>2,851,753</b>	<b>1,986,514</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>636,705</b>	<b>22,300</b>	<b>2,591,539</b>	<b>3,250,544</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>11,652,679</b>	<b>181,722</b>	<b>6,252,198</b>	<b>18,086,599</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 12,289,384</b>	<b>\$ 204,022</b>	<b>\$ 8,843,737</b>	<b>\$ 21,337,143</b>

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

**CITY OF HIBBING, MINNESOTA**

## **RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended December 31, 2012

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 3,250,544

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

Expenditures for capital assets	2,464,371
Less current year depreciation	<u>(2,009,648)</u>
<b>Net capital assets</b>	<b>454,723</b>

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	34,929
Change in deferred revenue - special assessments	(14,471)
Change in deferred revenue - loans receivable	<u>(6,067)</u>
	14,391

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

Debt issued	(1,890,000)
Principal repaid	<u>690,258</u>
	(1,199,742)

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	4,247
Change in long-term compensated absences	(56,376)
Change in long-term other postemployment benefits	<u>(1,042,881)</u>

## CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 1,424,906

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

**CITY OF HIBBING, MINNESOTA**

**STATEMENT OF NET POSITION**

**PROPRIETARY FUNDS**

December 31, 2012

	<b>Business-type Activities - Enterprise Funds</b>				
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 850,641	\$ 96,570	\$ 157,831	\$ 1,105,042	
Special assessments receivable	26,887	98,165	-	125,052	
Taxes receivable	2,353	-	-	2,353	
Accounts receivable	4,415	6,959	2,048	13,422	
Due from other governments	-	2,518,197	-	2,518,197	
Due from component units	225,113	219,051	-	444,164	
Inventories	3,707	-	-	3,707	
Prepaid expenses	7,013	5,418	497	12,928	
<b>TOTAL CURRENT ASSETS</b>	<b>1,120,129</b>	<b>2,944,360</b>	<b>160,376</b>	<b>4,224,865</b>	
<b>NONCURRENT ASSETS</b>					
<b>OTHER ASSETS</b>					
Debt issuance costs	-	11,404	-	11,404	
Capital assets					
Land and improvements	297,689	126,030	-	423,719	
Construction in progress	-	4,358,087	-	4,358,087	
Infrastructure	-	12,207,675	-	12,207,675	
Buildings and improvements	121,085	24,927,549	-	25,048,634	
Equipment, machinery, and furniture	2,871,832	1,044,820	24,360	3,941,012	
Less accumulated depreciation	(2,083,473)	(10,658,356)	(24,360)	(12,766,189)	
<b>TOTAL NONCURRENT ASSETS</b>	<b>1,207,133</b>	<b>32,017,209</b>	<b>-</b>	<b>33,224,342</b>	
<b>TOTAL ASSETS</b>	<b>2,327,262</b>	<b>34,961,569</b>	<b>160,376</b>	<b>37,449,207</b>	
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	49,547	14,817	-	64,364	
Salaries payable	21,504	20,356	-	41,860	
Accrued interest payable	-	86,558	-	86,558	
Due to other funds	-	5,231,316	-	5,231,316	
Due to other governments	11,269	8,507	-	19,776	
Other accrued expenses	-	-	-	-	
Unearned revenue	26,886	96,557	-	123,443	
Compensated absences	69,430	52,026	-	121,456	
Contracts payable	-	326,962	-	326,962	
Bonds, notes and leases payable-current	-	768,000	-	768,000	
<b>TOTAL CURRENT LIABILITIES</b>	<b>178,636</b>	<b>6,605,099</b>	<b>-</b>	<b>6,783,735</b>	
<b>NONCURRENT LIABILITIES</b>					
Compensated absences	37,770	15,115	-	52,885	
Bonds, notes and leases payable	-	9,277,613	-	9,277,613	
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>37,770</b>	<b>9,292,728</b>	<b>-</b>	<b>9,330,498</b>	
<b>TOTAL LIABILITIES</b>	<b>216,406</b>	<b>15,897,827</b>	<b>-</b>	<b>16,114,233</b>	
<b>NET POSITION</b>					
Invested in Capital assets, net of related debt	1,207,134	21,960,191	-	23,167,325	
Unrestricted	903,722	(2,896,449)	160,376	(1,832,351)	
<b>TOTAL NET POSITION</b>	<b>\$ 2,110,856</b>	<b>\$ 19,063,742</b>	<b>\$ 160,376</b>	<b>\$ 21,334,974</b>	

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

**CITY OF HIBBING, MINNESOTA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS**  
Year Ended December 31, 2012

<b>Business-type Activities - Enterprise Funds</b>				
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	<b>Totals</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,694,410	\$ 2,622,781	\$ 9,123	\$ 5,326,314
Sewer connect fees		35,399		35,399
Miscellaneous	2,025	13,333		15,358
<b>TOTAL OPERATING REVENUES</b>	<b>2,696,435</b>	<b>2,671,513</b>	<b>9,123</b>	<b>5,377,071</b>
<b>OPERATING EXPENSES</b>				
Personal services	811,498	751,105		1,562,603
Contractual services	948,472	69,805		1,018,277
Administration	748			748
Utilities	117,127	240,334		357,461
Repairs and maintenance	3,561	75,559	4,071	83,191
Other supplies and expenses	97,559	233,849	787	332,195
Insurance claims and expenses	52,694	42,326		95,020
Depreciation	274,741	940,160		1,214,901
Miscellaneous	6,947	19,274		26,221
<b>OTHER OPERATING EXPENSES</b>	<b>2,313,347</b>	<b>2,372,412</b>	<b>4,858</b>	<b>4,690,617</b>
<b>OPERATING INCOME</b>	<b>383,088</b>	<b>299,101</b>	<b>4,265</b>	<b>686,454</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	938		241	1,179
Miscellaneous revenue (expense)		(15,840)		(15,840)
Impairment loss on capital assets				
Sale of capital assets				
Operating grants				
Interest expense		(223,443)		(223,443)
Transfer to primary government	(38,000)	(46,000)		(84,000)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(37,062)</b>	<b>(285,283)</b>	<b>241</b>	<b>(322,104)</b>
<b>INCOME BEFORE CAPITAL GRANTS</b>	<b>346,026</b>	<b>13,818</b>	<b>4,506</b>	<b>364,350</b>
<b>CAPITAL GRANTS</b>		2,756,236		2,756,236
<b>CHANGE IN NET POSITION</b>	346,026	2,770,054	4,506	3,120,586
<b>TOTAL NET POSITION - JANUARY 1</b>	<b>1,764,830</b>	<b>16,293,688</b>	<b>155,870</b>	<b>18,214,388</b>
<b>TOTAL NET POSITION - DECEMBER 31</b>	<b>\$ 2,110,856</b>	<b>\$ 19,063,742</b>	<b>\$ 160,376</b>	<b>\$ 21,334,974</b>

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, 2012

<b>Business-type Activities - Enterprise Funds</b>				
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 2,639,945	\$ 2,671,445	\$ 8,841	\$ 5,320,231
Cash paid to suppliers	(1,476,481)	(910,331)	(5,482)	(2,392,294)
Cash paid to employees	<u>(529,072)</u>	<u>(567,555)</u>	<u>-</u>	<u>(1,096,627)</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>634,392</b>	<b>1,193,559</b>	<b>3,359</b>	<b>1,831,310</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Miscellaneous (payment) collection	-	(840)	-	(840)
Interfund financing payments	-	2,909,147	-	2,909,147
Transfer to primary government	(38,000)	(46,000)	-	(84,000)
Prior year cash deficit advances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(38,000)</b>	<b>2,862,307</b>	<b>-</b>	<b>2,824,307</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase or construction of capital assets	(50,071)	(4,528,496)	-	(4,578,567)
Proceeds from sale of capital assets	-	-	-	-
Advances on notes payable	-	1,010,000	-	1,010,000
Principal paid on long-term debt	-	(725,900)	-	(725,900)
Interest paid on long-term debt	-	(218,041)	-	(218,041)
Issuance costs paid on long-term debt	-	(15,000)	-	(15,000)
Capital grants and contributions	<u>-</u>	<u>319,928</u>	<u>-</u>	<u>319,928</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(50,071)</b>	<b>(4,157,509)</b>	<b>-</b>	<b>(4,207,580)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest on investments	938	-	241	1,179
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>547,259</b>	<b>(101,643)</b>	<b>3,600</b>	<b>449,216</b>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<b>303,382</b>	<b>198,213</b>	<b>154,231</b>	<b>655,826</b>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>\$ 850,641</b>	<b>\$ 96,570</b>	<b>\$ 157,831</b>	<b>\$ 1,105,042</b>

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, 2012

Business-type Activities - Enterprise Funds					
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 383,088	\$ 299,101	\$ 4,265	\$ 686,454	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	274,741	940,160	-	1,214,901	
(Increase) decrease in:					
Special assessments receivable	(26,887)	-	-	(26,887)	
Taxes receivable	640	-	-	640	
Accounts receivable	(4,094)	2,251	(282)	(2,125)	
Due from component unit	(26,532)	(6,278)	-	(32,810)	
Inventories	159	-	-	159	
Prepaid expenses	(7,013)	(5,419)	(497)	(12,929)	
Deferred debt issuance cost	-	(11,404)	-	(11,404)	
Increase (decrease) in:					
Accounts payable	10,066	7,583	(127)	17,522	
Salaries payable	1,105	2,109	-	3,214	
Other accrued expenses	-	-	-	-	
Deferred revenue	26,846	-	-	26,846	
Compensated absences - current	(384)	(39,440)	-	(39,824)	
Due to other governments	383	3,959	-	4,342	
Compensated absences - long-term	2,274	937	-	3,211	
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 634,392</b>	<b>\$ 1,193,559</b>	<b>\$ 3,359</b>	<b>\$ 1,831,310</b>	

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

**NOTES TO FINANCIAL STATEMENTS**

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hibbing (the City) 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 financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles) as applied to governmental units by the Governmental Accounting Standards Board (GASB). The following is a summary of significant accounting policies.

**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, 2012

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**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 Position and the Statement of Activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

**Fund Financial Statements**

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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**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 Position. 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, 2012

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 position and the operating statements present increases (revenues) and decreases (expenses) in net total position. 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.

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, 2012

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**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, 2012

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**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 capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. When assets are no longer needed by the City, such assets are either disposed of, if it is determined there is no value, or sold for an immaterial amount. Useful lives vary from 20 to 40 years for improvements and buildings, 20 to 40 years for infrastructure, and 5 to 10 years for machinery, equipment and vehicles. Capital assets not being depreciated include land, artwork, 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 position. 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, 2012

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**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) In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

*Nonspendable* - consists of amounts that cannot be spent because it is not in spendable form, such as prepaid items.

*Restricted* - Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints by state statutory provisions.

*Committed* - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

*Assigned* - consists of amounts intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to City Council's adoption of the Fund Balance Policy, the City's Finance Director and City Clerk are authorized to establish assignments of fund balance.

*Unassigned* - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

The City uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City Council has formally adopted a fund balance policy for the General Fund. The City's policy is to maintain a minimum unassigned fund balance of not less than 50-65% of budgeted operating expenditures for cash-flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City's fiscal year.

11) Net position represents the difference between assets and liabilities in the government-wide financial statements. Net position 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 position is 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.

12) The City implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, & Net Position*. This new accounting pronouncement is described in detail in Note 20.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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, 2012

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**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Fund and Net Position Deficits**

The following funds of the City for the Hibbing Economic Development Authority, a discretely presented component unit, had a deficit fund balance or net position at December 31, 2012:

Primary Government	
Sewer Operating and Maintenance Enterprises	
Fund - unrestricted net position	(\$2,896,449)

This deficit relates to large overruns that occurred in the past on a storm sewer renovation project that has and will be funded by increased sewer charges.

EDA Component Unit	
Storefront Renovation Capital Project Fund	(\$6,580)

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

EDA Component Unit	
Tax Increment District XI	(\$2,201)

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

EDA Component Unit	
Tax Increment District XII	(\$17,807)

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	\$ 1,764	\$ -	\$ -	\$ 1,764
Deposits	17,064,940	2,198,812	8,000	19,271,752
Total cash and cash equivalents	17,066,704	2,198,812	8,000	19,273,516
Temporarily restricted assets				
Cash and cash equivalents	-	46,261	797,209	843,470
Investments				
Other	903,320	-	337,001	1,240,321
Total investment	903,320	-	337,001	1,240,321
Total	<u>\$ 17,970,024</u>	<u>\$ 2,245,073</u>	<u>\$ 1,142,210</u>	<u>\$ 21,357,307</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

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**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 \$20,215,097; the bank balance was \$21,040,510. At December 31, 2012, the carrying amount of Hibbing Public Utility Commission's deposits was \$797,209 and the bank balance was \$752,232. At year end, the City's bank balances were entirely insured, or collateralized with securities held by the pledging financial institution's agent in the City's name as required by Minnesota Statute §118A.03. At year end, the Hibbing Public Utility Commission's bank balances were fully covered by depository insurance or by collateral held in the Commission's name by the pledging financial institution's correspondent bank.

**Investments**

*Custodial Credit Risk - Investments*

For the investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's formal investment policy requires brokers to have Securities Investor Protection Insurance (SIPC) and excess SIPC coverage. At year end the City had \$903,320 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, 2012, the City had the following investments:

	Fair Value	Rating
<b>Primary Government</b>		
Minnesota Municipal Money		
Market (4M) Fund	\$ 1,229	Not rated
Government Bonds		
FNMA/FHLMC	<u>902,091</u>	Moody AAA
Total Fair Value	<u>\$ 903,320</u>	
 <b>Component Unit - EDA</b>		
Wells Fargo Government Advantage		
Money Market Fund	<u>\$ 46,261</u>	Not rated
Total Fair Value	<u>\$ 46,261</u>	

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

---

**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, 2012, 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, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass- ification</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ 1,620,062	\$ 27,392	\$ -	\$ -	\$ 1,647,454
Intangible - easements	25,600	-	-	-	25,600
Artwork	1,807,350	12,000	-	-	1,819,350
Gravel roads	2,909,500	-	-	-	2,909,500
Construction in progress	114,456	68,450	-	(96,260)	86,646
<b>Total capital assets, not being depreciated</b>	<b>6,476,968</b>	<b>107,842</b>	<b>-</b>	<b>(96,260)</b>	<b>6,488,550</b>
<b>Capital assets, being depreciated:</b>					
Infrastructure	22,995,851	841,650	-	-	23,837,501
Buildings and improvements	21,104,374	550,425	-	-	21,654,799
Equipment, machinery, and furniture	10,013,520	1,060,714	(41,458)	-	11,032,776
<b>Total capital assets, being depreciated</b>	<b>54,113,745</b>	<b>2,452,789</b>	<b>(41,458)</b>	<b>-</b>	<b>56,525,076</b>
<b>Less accumulated depreciation for:</b>					
Infrastructure	(15,645,796)	(870,346)	-	-	(16,516,142)
Buildings and improvements	(13,599,217)	(477,565)	-	-	(14,076,782)
Equipment, machinery, and furniture	(7,441,635)	(661,737)	41,458	-	(8,061,914)
<b>Total accumulated depreciation</b>	<b>(36,686,648)</b>	<b>(2,009,648)</b>	<b>41,458</b>	<b>-</b>	<b>(38,654,838)</b>
<b>Total capital assets, being depreciated, net</b>	<b>17,427,097</b>	<b>443,141</b>	<b>-</b>	<b>-</b>	<b>17,870,238</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 23,904,065</b>	<b>\$ 550,983</b>	<b>\$ -</b>	<b>\$ (96,260)</b>	<b>\$ 24,358,788</b>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

**NOTE 4 CAPITAL ASSETS (Continued)**

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
<b>Business-type activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ 423,719	\$ -	\$ -	\$ -	\$ 423,719
Construction in progress	4,998,087	4,042,157	-	(4,682,158)	4,358,086
<b>Total Capital assets, not being depreciated</b>	<b>5,421,806</b>	<b>4,042,157</b>	<b>-</b>	<b>(4,682,158)</b>	<b>4,781,805</b>
<b>Capital assets, being depreciated:</b>					
Infrastructure	7,017,465	508,052	-	4,682,158	12,207,675
Buildings and improvements	25,048,635	-	-	-	25,048,635
Equipment, machinery, and furniture	3,790,556	150,455	-	-	3,941,011
<b>Total capital assets, being depreciated</b>	<b>35,856,656</b>	<b>658,507</b>	<b>-</b>	<b>4,682,158</b>	<b>41,197,321</b>
<b>Less accumulated depreciation for:</b>					
Infrastructure	(406,230)	(252,325)	-	-	(658,555)
Buildings and improvements	(8,809,200)	(571,132)	-	-	(9,380,332)
Equipment, machinery, and furniture	(2,335,858)	(391,444)	-	-	(2,727,302)
<b>Total accumulated depreciation</b>	<b>(11,551,288)</b>	<b>(1,214,901)</b>	<b>-</b>	<b>-</b>	<b>(12,766,189)</b>
<b>Total capital assets being depreciated, net</b>	<b>24,305,368</b>	<b>(556,394)</b>	<b>-</b>	<b>4,682,158</b>	<b>28,431,132</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 29,727,174</b>	<b>\$ 3,485,763</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 33,212,937</b>

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

<b>Governmental activities</b>	
General government	\$ 273,241
Public safety	323,310
Public works	1,170,213
Culture and recreation	213,448
Economic development	
Transportation	29,436
<b>Total depreciation expense-governmental activities</b>	<b>\$ 2,009,648</b>
<b>Business-type activities</b>	
Garbage and refuse collection	\$ 274,741
Sewer operating and maintenance	940,160
<b>Total depreciation expense-business-type activities</b>	<b>\$ 1,214,901</b>

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**NOTE 4 CAPITAL ASSETS (Continued)**

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2012, was as follows:

**Discretely presented component units**

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ 172,315	83,528	-	\$ -	\$ 255,843
<b>Total capital assets, not being depreciated</b>	<u>172,315</u>	<u>83,528</u>	<u>-</u>	<u>-</u>	<u>255,843</u>
<b>Capital assets, being depreciated:</b>					
Infrastructure	19,699	-	-	-	19,699
Buildings and improvements	-	-	-	-	-
Equipment, machinery, and furniture	-	-	-	-	-
<b>Total capital assets, being depreciated</b>	<u>19,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,699</u>
<b>Less accumulated depreciation for:</b>					
Buildings and improvements	-	-	-	-	-
Equipment, machinery, and furniture	(657)	(657)	-	-	(1,314)
<b>Total accumulated depreciation</b>	<u>(657)</u>	<u>(657)</u>	<u>-</u>	<u>-</u>	<u>(1,314)</u>
<b>Total capital assets, being depreciated, net</b>	<u>19,042</u>	<u>(657)</u>	<u>-</u>	<u>-</u>	<u>18,385</u>
<b>Hibbing Economic Development Authority capital assets, net</b>	<u>\$ 191,357</u>	<u>\$ 82,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 274,228</u>

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
<b>Capital assets, not being depreciated:</b>					
Construction in progress	\$ 4,190,785	\$ (3,350,568)	\$ -	\$ -	\$ 840,217
<b>Total capital assets, not being depreciated</b>	<u>4,190,785</u>	<u>(3,350,568)</u>	<u>-</u>	<u>-</u>	<u>840,217</u>
<b>Capital assets, being depreciated:</b>					
Buildings and grounds	9,770,321	977,588	-	-	10,747,909
Transmission and distribution system	45,693,416	2,372,000	(532,635)	-	47,532,781
Equipment, machinery, and furniture	48,105,916	3,453,992	(463,715)	-	51,096,193
<b>Total capital assets, being depreciated</b>	<u>103,569,653</u>	<u>6,803,580</u>	<u>(996,350)</u>	<u>-</u>	<u>109,376,883</u>
<b>Less total accumulated depreciation</b>	<u>(69,486,504)</u>	<u>(2,807,460)</u>	<u>996,350</u>	<u>-</u>	<u>(71,297,614)</u>
<b>Total Capital assets, being depreciated, net</b>	<u>34,083,149</u>	<u>3,996,120</u>	<u>-</u>	<u>-</u>	<u>38,079,269</u>
<b>Hibbing Public Utilities Commission capital assets, net</b>	<u>\$ 38,273,934</u>	<u>\$ 645,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,919,486</u>

**NOTE 5 OPERATING LEASES**

The City has a sublease agreement with St. Louis County for office facilities for its police department. The City also has lease agreements for computer related equipment. Total cost for these leases was \$80,571 for the year ended December 31, 2012. The future payments for these leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	17,444
2014	12,000
2015	5,449
2016 - 2027	60,000
	<u>\$ 94,893</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

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**NOTE 6 LINE OF CREDIT**

The PUC has entered into a line of credit agreement with its primary bank. The agreement established a maximum credit amount of \$1,000,000 and carries an interest rate of 0.5% above the Wall Street Journal prime rate. The agreement matures on November 1, 2013. As of December 31, 2012, no amounts had been drawn down on the line.

**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 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, 2012, the City had advanced \$1,519,258 against the approved loan of \$1,726,575. The City made draws on the remaining balance of \$207,317 during 2013 on eligible projects. Thus, the entire loan amount of \$1,726,575 is reflected in the projected principal payments.

In 2012, the City issued a \$4,912,830 General Obligation Sewer Revenue Note for a wastewater treatment plant improvement project, which is reflected in the Business-type Activity. Advances are made to this loan as the City submits cost reimbursements to the Minnesota Public Facilities Authority. As of December 31, 2012, the City had not taken any advances on the loan. The City has made draws on this loan during 2013 for the project. For purposes of the future debt commitments, the entire loan amount of \$4,912,830 is reflected in the projected principal payments.

The City has also issued long-term 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 obligation related to the EDA-Component Unit at December 31, 2012 was \$393,215.

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.

In 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, 2012, the Public Utilities Commission's notes payable balance on this loan was \$702,000. 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:

<b>Primary Government Governmental Activities</b>	<b>Issue Date</b>	<b>Interest Rates</b>	<b>Original Issue</b>	<b>Final Maturity</b>	<b>Principal Outstanding</b>
General obligation bonds					
2007 A Equipment	12/1/2007	4.00%	\$ 440,000	2/1/2017	\$ 160,000
Series 2009B	5/1/2009	0.75-3.50%	\$ 1,370,000	2/1/2019	775,000
Series 2012A	2/1/2012	0.40-0.95%	\$ 745,000	2/1/2017	745,000
Series 2012A	2/1/2012	0.40-1.70%	\$ 1,145,000	2/1/2022	1,145,000
Total General obligation bonds					2,825,000
Certificates of indebtedness					
Series 2005A	12/1/2005	4.68%	\$ 565,000	8/1/2015	90,000
Series 2006A	11/1/2006	4.21%	\$ 455,000	11/1/2016	121,000
Total Certificates of indebtedness					211,000
Lease purchase obligations	2/1/2009	1.75-4.40%	\$ 462,500	2/1/2024	393,215
Compensated absences payable					250,387
OPEB liability					10,050,721
<b>Governmental Activities Long-term Liabilities</b>					<b>\$ 13,730,323</b>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

**NOTE 7 LONG-TERM DEBT (Continued)**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
<b>Business-type Activity</b>					
General obligation revenue					
2003 Sewer Notes	1/29/2003	1.74%	\$ 9,847,450	8/20/2022	\$ 5,644,000
2007A Sewer Revenue Bonds	12/1/2007	4.00-4.10%	\$ 2,365,000	2/1/2028	2,035,000
2010 Sewer Revenue Note	11/30/2010	1.34%	\$ 1,726,575	8/20/2025	1,363,683
2012A General Obligation Bond	2/1/2012	0.40-2.85%	\$ 1,010,000	2/1/2032	1,010,000
Less: Unamortized bond discount			\$ -		(7,070)
2012 Sewer Revenue Note	10/23/2012	1.00%	\$ 4,912,830	8/20/2031	-
Compensated absences payable					<u>52,885</u>
<b>Business-type Activities Long-term Liabilities</b>					
<b>Total Primary Government Long-Term Liabilities</b>					
					<u>10,098,498</u>
					<u>23,828,821</u>
<b>Discretely Presented Component Units</b>					
<b>EDA</b>					
Bonds and notes payable					
1997B General Obligation					
Tax Increment Bonds	8/1/1997	7.50%	\$ 320,000	2/1/2017	160,000
1999A General Obligation					
Tax Increment Bonds	10/1/1999	7.49%	\$ 165,000	2/1/2016	65,000
2009A Public Project					
Revenue Bonds	5/7/2009	1.75-4.50%	\$ 462,500	2/1/2024	<u>393,215</u>
<b>Total EDA-Component Unit Long-Term Liabilities</b>					
					<u>618,215</u>
<b>PUC</b>					
Bonds, notes, and real estate mortgage payable					<u>8,379,956</u>
Compensated absences payable					<u>1,061,110</u>
OPEB liability					<u>12,214,689</u>
<b>Total PUC-Component Unit Long-Term Liabilities</b>					
					<u>21,655,755</u>
<b>Total Reporting Entity</b>					
					<u>\$ 46,102,791</u>

Long-term liability activity for the year ended December 31, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Primary Government</b>					
<b>Governmental Activities</b>					
General obligation bonds payable	\$ 1,210,000	\$ 1,890,000	\$ (275,000)	\$ 2,825,000	\$ 535,000
Certificates of indebtedness	290,000	-	(79,000)	211,000	58,000
Leases payable	729,473	-	(336,258)	393,215	23,309
Compensated absences payable	194,011	80,505	(24,129)	250,387	-
OPEB liability	9,007,840	1,042,881	-	10,050,721	-
<b>Governmental Activities-Long-Term Liabilities</b>					
	<u>\$ 11,431,324</u>	<u>\$ 3,013,386</u>	<u>\$ (714,387)</u>	<u>\$ 13,730,323</u>	<u>\$ 616,309</u>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

**NOTE 7 LONG-TERM DEBT (Continued)**

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Business-type Activities</b>					
GO revenue notes payable	\$ 7,630,683	\$ -	\$ (623,000)	\$ 7,007,683	\$ 836,830
GO revenue bonds payable	2,125,000	1,010,000	(90,000)	3,045,000	135,000
Unamortized bond discounts	-	(7,070)	-	(7,070)	-
Leases payable	5,830	-	(5,830)	-	-
Compensated absences payable	49,674	4,020	(809)	52,885	-
<b>Business-type Activities - Long-term Liabilities</b>					
	9,811,187	1,006,950	(719,639)	10,098,498	971,830
Total Primary Government	\$ 21,242,511	\$ 4,020,336	\$ (1,434,026)	\$ 23,828,821	\$ 1,588,139
<b>Discretely Presented Component Units</b>					
<b>EDA</b>					
Bonds payable	\$ 1,055,204	\$ -	\$ (436,989)	\$ 618,215	\$ 63,309
<b>PUC</b>					
Bonds, notes, and real estate mortgage payable	\$ 9,185,934	\$ 88,679	\$ (894,657)	\$ 8,379,956	\$ 1,083,337
Compensated absences payable	1,016,378	44,732	-	1,061,110	-
OPEB liability	9,905,004	3,087,891	(778,206)	12,214,689	-
<b>PUC-Component Unit</b>					
<b>Long-term Liabilities</b>					
	\$ 20,107,316	\$ 3,221,302	\$ (1,672,863)	\$ 21,655,755	\$ 1,083,337
Total	\$ 42,405,031	\$ 7,241,638	\$ (3,543,878)	\$ 46,102,791	\$ 2,734,785

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
2013	\$ 616,309	\$ 63,673	\$ 971,830	\$ 258,320	\$ 1,588,139	\$ 321,993
2014	564,707	53,255	1,024,000	250,230	1,588,707	303,485
2015	437,190	44,217	1,036,000	232,846	1,473,190	277,063
2016	409,761	35,814	1,060,000	215,080	1,469,761	250,894
2017	389,427	28,162	1,079,000	196,819	1,468,427	224,981
2018-2022	925,832	67,231	5,669,000	588,852	6,594,832	656,083
2023-2027	85,989	3,915	2,732,000	177,444	2,817,989	181,359
2028-2032	-	-	1,601,000	53,560	1,601,000	53,560
Total	\$ 3,429,215	\$ 296,267	\$ 15,172,830	\$ 1,973,151	\$ 18,602,045	\$ 2,269,418

Year Ending December 31	Component Units			
	EDA		PUC	
	Principal	Interest	Principal	Interest
2013	\$ 63,309	\$ 30,129	\$ 1,083,337	\$ 199,868
2014	69,707	26,311	1,704,587	148,848
2015	71,190	22,206	893,577	126,180
2016	82,761	17,614	912,577	105,222
2017	69,427	13,083	935,577	83,500
2018-2022	175,832	38,658	2,428,309	223,872
2023-2027	85,989	3,915	440,000	42,721
Total	\$ 618,215	\$ 151,916	\$ 8,397,964	\$ 930,211

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

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**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 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. The City of Buhl is the "issuer", and the City of Hibbing gave "host consent". 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 issued a tax-exempt manufacturing facilities revenue note pursuant to Minnesota Statute §469.152-.165. The purpose of the note is to help two Minnesota non-profit corporations refinance their manufacturing facilities located in the City of Hibbing and the City of Grand Rapids. This note is not a debt to the City. The two non-profit corporations are obligated to repay the note directly to the lender of the note as stated in a pledge agreement between the City of Hibbing and the lender. The note will not constitute a charge, lien or encumbrance upon property of the City. 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, 2012, is \$14,280,066. Records for revenue bonds or notes issued prior to 1995 are not available.

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

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**NOTE 8 INTERFUND BALANCES AND ACTIVITY**

The composition of interfund balances as of December 31, 2012, 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>
<b>Primary Government</b>				
General Fund	\$ 5,185,316	\$ 165,051	\$ -	\$ -
Other Post Employment Benefits Debt				
Service Fund	46,000	-	-	-
Enterprise Funds	-			
Garbage and Refuse	-	225,113	-	-
Sewer Operating and Maintenance	-	219,051	5,231,316	-
<b>Total Primary Government</b>	<b>5,231,316</b>	<b>609,215</b>	<b>5,231,316</b>	<b>-</b>
<b>Component Units</b>				
Hibbing Economic Development Authority EDA				
General Fund	1,971	-	-	-
Tax Increment XI	-	-	1,664	-
Tax Increment XII	-	-	307	-
Economic Development Special				
Revenue Fund	78,000	-	-	-
Storefront Renovation Capital				
Projects Funds	-	-	78,000	-
Subtotal HEDA	79,971	-	79,971	-
Hibbing Public Utilities Commission				
<b>Total Component Units</b>	<b>79,971</b>	<b>-</b>	<b>79,971</b>	<b>609,215</b>

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, 2012**

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**NOTE 8 INTERFUND BALANCES AND ACTIVITY (continued)**

Interfund transfers for the year ended December 31, 2012, consisted of the following:

Transfer To/From Other Funds/Component Units:

<u>Fund or Component Unit</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Primary Government</b>		
General Fund	\$ -	\$ (870,646)
Library	26,858	(31,000)
Capital Projects Funds		
Privately Financed	50,000	-
Capital Equipment and Improvement	26,000	(50,000)
Mining Effects	163,788	-
Debt Service Funds		
Other Postemployment Benefits	769,000	-
<b>Total Primary Government</b>	<b>\$ 1,035,646</b>	<b>\$ (951,646)</b>
<b>Hibbing Economic Development Authority EDA - Component Units</b>		
General Fund	\$ 80,000	\$ -
Economic Development Special Revenue Fund	-	(80,000)
Tax Increment VII	-	(6,335)
Tax Increment XI	6,335	-
<b>Total Hibbing Economic Development Authority EDA - Component Units</b>	<b>\$ 86,335</b>	<b>\$ (86,335)</b>

Transfers are used to: (1) eliminate deficit fund balances, (2) help fund operating losses or deficits, (3) establish new funds, and (4) provide funding in the OPEB debt service fund.

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

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**NOTE 9 FUND BALANCE CLASSIFICATION**

Restricted Net Position

The amount reported as restricted net position on the Statement of Net Position is comprised of the following:

**Primary Government**

Library	\$ 204,022
Contracted professional services	108,241
Economic development	50,000
Debt service	1,044,165
Capital projects	1,943,980
Gambling 10% contribution fund	10,183
Police forfeiture fund	54,946
<b>Total Restricted Net Position</b>	<b><u>\$ 3,415,537</u></b>

At December 31, 2012, a summary of the governmental fund balance classifications are as follows:

	General Fund	Library Special Revenue Fund	Non-Major Governmental Fund	Total
<b>Nonspendable:</b>				
Investment in Minnesota Community capital fund	\$ -	\$ -	\$ 50,000	\$ 50,000
Prepaid items	<u>108,241</u>	<u>10,869</u>	<u>-</u>	<u>119,110</u>
<b>Total nonspendable</b>	<b><u>\$ 108,241</u></b>	<b><u>\$ 10,869</u></b>	<b><u>\$ 50,000</u></b>	<b><u>\$ 169,110</u></b>
<b>Restricted for:</b>				
Debt service	\$ -	\$ -	\$ 1,044,165	\$ 1,044,165
Capital equipment and improvements	-	-	1,943,980	1,943,980
Library operations	-	193,153	-	193,153
Gambling 10% contribution fund	10,183	-	-	10,183
Police forfeiture fund	<u>54,946</u>	<u>-</u>	<u>-</u>	<u>54,946</u>
<b>Total restricted</b>	<b><u>\$ 65,129</u></b>	<b><u>\$ 193,153</u></b>	<b><u>\$ 2,988,145</u></b>	<b><u>\$ 3,246,427</u></b>
<b>Committed to:</b>				
Housing incentive	\$ -	\$ -	\$ 48,430	\$ 48,430
Small Cities development	-	-	24,854	24,854
Economic development	-	-	34,800	34,800
OPEB obligation	-	-	4,043,042	4,043,042
Memorial Building	-	-	178,514	178,514
Capital equipment and improvements	-	-	1,389,632	1,389,632
<b>Total committed</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,719,272</u></b>	<b><u>\$ 5,719,272</u></b>
<b>Assigned to:</b>				
2012 budget	\$ 7,580,251	\$ -	\$ -	\$ 7,580,251
Future state aid reduction	-	-	-	-
Future capital projects funded from sale of assets	<u>514,853</u>	<u>-</u>	<u>-</u>	<u>514,853</u>
Workers' compensation premium adjustments	372,750	-	-	372,750
Other improvement projects	-	-	86,320	86,320
<b>Total assigned</b>	<b><u>\$ 8,467,854</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 86,320</u></b>	<b><u>\$ 8,554,174</u></b>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

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**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 \$115,000 in settlements in excess of insurance in 2011 and none in the previous two fiscal years. There were no settlements in excess of insurance coverage in 2012.

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.

**NOTE 11 TAX INCREMENT FINANCING DISTRICTS**

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

<b><u>Tax Increment Financing District</u></b>	<b>No. VII</b>	<b>No. VIII</b>	<b>No. XI</b>	<b>No. XII</b>
Redevelopment project district established in:	1993	-	1999	2012
Economic development district established in:	-	-	-	-
Qualified housing district established in:	-	1993	-	-
Anticipated last tax increment year:	2019	2020	2025	2038
Original net tax capacity:	\$ 3,422	\$ -	\$ 525	\$ 12,660
Current net tax capacity:	\$ 49,360	\$ 8,377	\$ 13,262	\$ 12,660
Fiscal disparity deduction:	\$ -	\$ -	\$ 3,192	\$ -
Captured net tax capacity retained by Authority:	\$ 45,938	\$ 8,377	\$ 9,545	\$ -
Total bonds issued				
Tax increment bonds	\$ 320,000	\$ -	\$ 165,000	\$ -
Tax increment note	-	-	-	-
Amount redeemed	(160,000)	-	(100,000)	-
Outstanding bonds at December 31, 2012	\$ 160,000	\$ -	\$ 65,000	\$ -

**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.

## CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

## NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES (continued)

Library and Fire Hall Solar Panel Agreements

During 2012, the City entered into a Facility Lease Agreement, Energy Performance Guarantee, Power Purchase Agreement, and Put and Call Agreement with a solar panel company for the installation of a solar energy generation system (the System) at the City Library and Fire Hall. The Facility Lease Agreement and Power Purchase Agreements have twenty year terms. The Facility Lease Agreement calls for the solar panel company to lease roof space from the City for the installation and operation of the System and defines that the System remains the property of the solar panel company. The Power Purchase Agreement defines the rate the City will pay for future purchases of energy generated by the System. The Energy Performance Guarantee is related to a guarantee of aggregate net utility savings to the City over the first five years of the operation of the System. The Put and Call Agreement defines future potential opportunities of the City or solar company in regards to ownership of the System. Under this Put and Call Agreement, the solar panel company has the right for a six month period following the fifth year of operation of the System, to require the City to purchase the System from the solar panel company in the amount of \$3,500. Should this "put" option not be exercised by the solar panel company, the City has a "call" option for a period of one year following the last day of the "put" period requiring the solar panel company to sell the System to the City. The purchase price under the "call" provision is based on fair market value as determined by a qualified appraiser selected by the City at such time.

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 collectability of any related receivable at December 31, 2012, 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 twenty outstanding construction projects as of December 31, 2012. The projects are evidenced by contractual commitments with contractors and engineers and include:

Project	Spent to Date	Commitments Remaining
<b>Capital Projects Funds</b>		
Capital Equipment and improvement		
Cemetery Chapel	\$ 19,133	\$ -
Community Forest Bonding	6,852	-
Demolition Projects	153,279	-
Curling Club	59,403	97,418
Susquehanna Mt. Bike Park	3,496	-
Library Energy Efficiency	210,817	-
Library Windows	260,962	-
Library Improvements	247,992	-
 Permanent Improvement		
Rainy Road Bridge	11,715	8,099
Koivu Road Bridge	3,819	6,373
Dixon Bridge	4,388	-
11th Avenue East	627,908	-
North Salmi Road	128,259	-
5th Avenue East	224,607	-
12th Avenue East	782,143	-
4th Avenue West	841,650	-
Tapala Road	3,825	-
<b>Total Capital Fund Project</b>	<b>3,590,247</b>	<b>111,890</b>

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

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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**NOTE 12 OTHER COMMITMENTS AND CONTINGENCIES (continued)**

**Enterprise Fund**

Sewer Operating and Maintenance Fund		
Phase 6 Sewer Improvements	3,124,299	350,227
S92 Brooklyn Sewer Improvements	1,138,180	
Mercury Project	2,948,471	816,832
<b>Total Sewer Operating and Maintenance Fund</b>	<b>7,210,949</b>	<b>1,167,059</b>
<b>Total All Funds</b>	<b>\$ 10,801,197</b>	<b>\$ 1,278,949</b>

**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, 2012, the debt service fund had following balances:

Assets	\$ 73,699
Fund Balance	\$ 73,699

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 2012, there were no related party transactions between the City and the Chisholm-Hibbing Airport Authority. Complete financial information can be obtained from the Chisholm-Hibbing Airport Authority, 11038 Highway 37, Hibbing, Minnesota 55746.

**NOTE 14 RELATED ORGANIZATION**

**Housing and Redevelopment Authority of Hibbing**

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

During 2012, 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, 2012

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**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 2012, 2011 and 2010, there were 211, 215, and 176 retirees and eligible dependents, respectively, that received postemployment benefits. The City provided required contributions of \$1,434,672, \$1,388,121 and \$1,102,010 for 2012, 2011 and 2010, respectively, toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$314,702, \$302,132 and \$309,371 for 2012, 2011 and 2010, 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, 2012, 2011 and 2010, respectively:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Normal cost (service cost for one year)	\$ 772,524	\$ 748,207	\$ 1,174,688
Amortization of unfunded actuarial accrued liability	\$ 1,914,443	\$ 1,913,652	\$ 2,478,305

## CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

## NOTE 16 OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

	2012	2011	2010
Annual required contribution	\$ 2,686,967	\$ 2,661,859	\$ 3,652,993
Interest on net OPEB obligation	292,755	256,993	235,259
Adjustment to annual required contribution	(502,169)	(430,381)	(106,722)
Annual OPEB cost (expense)	2,477,553	2,488,471	3,781,530
Contribution toward the OPEB cost	(1,434,672)	(1,388,121)	(1,102,010)
Increase in net OPEB obligation	1,042,881	1,100,350	2,679,520
Net OPEB Obligation, Beginning of Year	9,007,840	7,907,490	5,227,970
Net OPEB Obligation, End of Year	<u>\$ 10,050,721</u>	<u>\$ 9,007,840</u>	<u>\$ 7,907,490</u>
Percentage of annual OPEB cost contributed	<u>57.9%</u>	<u>55.8%</u>	<u>29.1%</u>

Funding Status and Funding Progress

As of December 31, 2012, 2011 and 2010, respectively, the actuarial accrued liability for benefits was \$34,926,227, \$34,267,574, and \$39,707,119 and the actuarial value of assets was zero for all three years. The covered payroll (annual payroll of active participating employees) was \$7,966,015, \$8,041,015 and \$8,103,552 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 438.5, 426.2, and 490.0 percent for 2012, 2011 and 2010, 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 prior OPEB actuarial valuation was as of January 1, 2009, and the latest actuarial valuation was as of January 1, 2011. Both valuations used the projected unit credit cost actuarial cost method to estimate both the unfunded actuarial liability as of December 31, 2012, 2011 and 2010, and to estimate the City's 2012, 2011 and 2010 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 January 1, 2011 actuarial assumptions include a 3.25 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, 2011, actuarial assumptions include an annual healthcare cost trend rate of 7.1% for 2012, 7.6% for 2013, 6.2% for 2014 and ranging from 5.8% to 4.6% for years 2015 to 2082 and later. The unfunded actuarial accrued liability is being amortized using the level dollar method. The remaining amortization period at December 31, 2012 is 26 years.

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012

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**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, 2012 and 2011, the Commission expended \$778,206 and \$695,862, respectively, for benefits for approximately 41 retirees in 2012 and 40 retirees in 2011.

**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:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Annual required contribution	\$ 3,305,078	\$ 3,262,888	\$ 2,801,176
Interest on net OPEB obligation	321,913	243,527	126,053
Adjustment to annual required contribution	(539,100)	(398,679)	-
Annual OPEB cost	3,087,891	3,107,736	2,927,229
Contribution during the year	778,206	695,862	617,514
Increase in net OPEB obligation	2,309,685	2,411,874	2,309,715
Net OPEB Obligation, Beginning of Year	9,905,004	7,493,130	5,183,415
Net OPEB Obligation, End of Year	<u>\$ 12,214,689</u>	<u>\$ 9,905,004</u>	<u>\$ 7,493,130</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	Net OPEB Obligation
			Cost Contributed	
December 31, 2012	\$ 3,087,891	\$ 778,206	25.2%	\$ 12,214,689
December 31, 2011	\$ 3,107,736	\$ 695,862	22.3%	\$ 9,905,004
December 31, 2010	\$ 2,927,229	\$ 617,514	21.1%	\$ 7,493,130

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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**NOTE 16 OTHER POSTEMPLOYMENT BENEFITS (Continued)**

**Funding Status and Funding Progress**

The actuarial accrued liability for benefits at December 31, 2011 (the date of the most recent valuation) was \$37,454,104. The Commission currently has no assets that have been irrevocably deposited in a trust for future health benefits, thus the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is \$5,224,365. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 716.9 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, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.25 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 7.6 percent initially, reduced incrementally to an ultimate rate of 4.6 percent. 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, 2012

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**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 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, 2012 and 2011, respectively, the Commission has reported on its balance sheet an investment of \$11,366,423 and \$11,046,458, 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 position 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:

	<b>2012</b>	<b>2011</b>
Current assets	\$ 5,915,116	\$ 7,099,218
Non-current restricted assets	10,517,941	10,262,129
Other assets	2,308,987	3,005,697
Capital assets	55,766,653	57,734,100
Total assets	74,508,697	78,101,144
Current liabilities	11,160,271	11,528,689
Non-current liabilities	40,882,953	44,746,911
Total liabilities	52,043,224	56,275,600
Net position	22,465,473	21,825,544
Total operating revenues	35,166,556	33,643,280
Operating expenses	31,990,506	31,714,978
Non-operating expenses	2,536,121	2,786,274
Capital contributions	-	198,445
Change in net position	639,929	(659,527)

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**

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**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, 2012**

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**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](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling 1-651-296-7460 or 1-800-652-9026.

**B. Funding Policy**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2012. PEPFF members were required to contribute 9.6% of their annual covered salary in 2012. The City of Hibbing, Minnesota, is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERF members, 7.25% for Coordinated Plan PERF members, and 14.4% for PEPFF Plan members. The City's contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$309,385, \$316,820 and \$315,069, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2012, 2011, and 2010 were \$452,188, \$430,468 and \$425,234, respectively. The Hibbing Public Utilities' contributions to the Public Employees Retirement Fund for the years ending December 31, 2012, 2011, and 2010 were \$374,001, \$367,685 and \$338,343, 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, 2012**

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**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 2012 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employee	Employer	
\$ 718	\$ 718	5.00%	5.00%	5.00%

**NOTE 20 NEW ACCOUNTING PRONOUNCEMENTS**

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City has determined they have no deferred outflows or inflows as defined by this standard.

Other than expensing \$11,404 of debt reissuance costs outstanding in the Business-Type activities at December 31, 2012, management has not currently determined what, if any, impact implementation of the following statement may have on the financial statements of the City.

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the City beginning with its year ending December 31, 2013. This statement requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows.

**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, 2012

	<b>Budgeted Amounts</b>		<b>Variance with Final Budget-</b>	
			<b>Actual Amounts, Budgetary Basis</b>	<b>Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 4,623,760	\$ 4,623,760	\$ 4,629,412	\$ 5,652
Licenses and permits	115,555	115,555	172,062	56,507
Intergovernmental	8,541,432	8,541,432	8,749,200	207,768
Charges for services	2,049,100	2,049,100	2,252,616	203,516
Fines	120,000	120,000	154,967	34,967
Gifts and contributions	-	-	325	325
Interest	15,000	15,000	14,403	(597)
Miscellaneous	77,500	77,500	217,321	139,821
<b>TOTAL REVENUES</b>	<b>15,542,347</b>	<b>15,542,347</b>	<b>16,190,306</b>	<b>647,959</b>
<b>EXPENDITURES</b>				
Current				
General government	1,973,702	1,973,702	1,767,944	205,758
Public safety	5,867,834	5,867,834	5,912,282	(44,448)
Public works	2,989,778	2,989,778	2,695,769	294,009
Culture and recreation	1,789,614	1,789,614	1,721,775	67,839
Economic development	118,533	118,533	62,804	55,729
Transportation	288,175	288,175	281,629	6,546
Miscellaneous	2,461,853	2,461,853	2,213,014	248,839
Debt Service				
Principal	-	-	21,989	(21,989)
Interest and other charges	-	-	15,298	(15,298)
<b>TOTAL EXPENDITURES</b>	<b>15,489,489</b>	<b>15,489,489</b>	<b>14,692,504</b>	<b>796,985</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>				
	<b>52,858</b>	<b>52,858</b>	<b>1,497,802</b>	<b>1,444,944</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(52,858)	(52,858)	(870,646)	(817,788)
Sale of capital assets	-	-	9,549	9,549
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(52,858)</b>	<b>(52,858)</b>	<b>(861,097)</b>	<b>(808,239)</b>
<b>NET CHANGE IN FUND BALANCES</b>				
	-	-	636,705	636,705
<b>FUND BALANCES - JANUARY 1</b>	<b>11,652,679</b>	<b>11,652,679</b>	<b>11,652,679</b>	<b>-</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 11,652,679</b>	<b>\$ 11,652,679</b>	<b>\$ 12,289,384</b>	<b>\$ 636,705</b>

## CITY OF HIBBING, MINNESOTA

## LIBRARY SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
Year ended December 31, 2012

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 586,043	\$ 586,043	\$ 585,329	\$ (714)
Intergovernmental	-	-	714	714
Charges for services	15,850	15,850	23,061	7,211
Gifts and contributions	14,286	14,286	9,371	(4,915)
Interest	-	-	195	195
Miscellaneous	-	-	670	670
<b>TOTAL REVENUE</b>	<b>616,179</b>	<b>616,179</b>	<b>619,340</b>	<b>3,161</b>
<b>EXPENDITURES</b>				
Current				
Culture and recreation	643,037	643,037	592,898	50,139
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(26,858)</b>	<b>(26,858)</b>	<b>26,442</b>	<b>53,300</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	26,858	26,858	26,858	-
Transfers out	-	-	(31,000)	(31,000)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>26,858</b>	<b>26,858</b>	<b>(4,142)</b>	<b>(31,000)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>22,300</b>	<b>22,300</b>
Fund Balances - January 1	181,722	181,722	181,722	-
<b>Fund Balances - December 31</b>	<b>\$ 181,722</b>	<b>\$ 181,722</b>	<b>\$ 204,022</b>	<b>\$ 22,300</b>

**CITY OF HIBBING, MINNESOTA**

**INFRASTRUCTURE CONDITION DATA**

Year ended December 31, 2012

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**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 65 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 assigned 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, 2012

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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 3. As of December 31, 2012, the City's gravel roads all rated at a Level 3.

The City expended \$362,118 on gravel road maintenance for the year ended December 31, 2012. This amount in 2012, included 15 road lifts and several spot road repairs. These routine maintenance expenditures delayed deterioration. The budget required to maintain and improve the current level of overall condition through the year 2015 is a minimum of \$600,000 (\$200,000 projected budget each year for the years ending December 31, 2013, 2014, and 2015).

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, 2010, 2011 and 2012, is presented below:

<b>Year</b>	<b>Estimated</b>		<b>Funded by</b>
	<b>Annual Expenditures</b>	<b>Actual Expenditures</b>	
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
2011	\$ 180,000	\$ 331,896	\$ 331,896
2012	\$ 200,000	\$ 362,118	\$ 362,118

**CITY OF HIBBING, MINNESOTA**

**SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS**

Year ended December 31, 2012

**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)
12/31/2012	1/1/2011	\$ -	\$ 34,926,227	\$ 34,926,227	0.0%	\$ 7,966,015	438.5%
12/31/2011	1/1/2011	\$ -	\$ 34,267,574	\$ 34,267,574	0.0%	\$ 8,041,015	426.2%
12/31/2010	1/1/2009	\$ -	\$ 39,707,119	\$ 39,707,119	0.0%	\$ 8,103,552	490.0%
12/31/2009	1/1/2009	\$ -	\$ 40,368,826	\$ 40,368,826	0.0%	\$ 8,501,336	474.9%
12/31/2008	1/1/2007	\$ -	\$ 42,567,876	\$ 42,567,876	0.0%	\$ 8,623,539	493.6%

**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)
12/31/2012	1/1/2011	\$ -	\$ 35,764,656	\$ 35,764,656	0.0%	\$ 5,406,288	694.5%
12/31/2011	1/1/2011	\$ -	\$ 35,764,656	\$ 35,764,656	0.0%	\$ 5,224,365	684.6%
12/31/2010	1/1/2009	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 4,975,828	608.6%
12/31/2009	1/1/2009	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 5,065,929	597.7%

**CITY OF HIBBING, MINNESOTA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**December 31, 2012**

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**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, 2012.

**OTHER SUPPLEMENTARY INFORMATION**

CITY OF HIBBING, MINNESOTA

NONMAJOR GOVERNMENTAL FUNDS

December 31, 2012

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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 be 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 Mining Effects Capital Projects Fund is used to account for the accumulation of mining effects tax set aside for infrastructure and joint entity projects.

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, 2012

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	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
<b>ASSETS</b>				
Cash and cash equivalents	\$ 48,430	\$ 24,854	\$ 34,800	\$ 3,992,973
Taxes receivable				4,069
Special assessments receivable				
Accounts receivable			50,000	
Due from proprietary funds				46,000
Due from other governments				
Loans receivable		63,365		
<b>TOTAL ASSETS</b>	<b>\$ 48,430</b>	<b>\$ 88,219</b>	<b>\$ 84,800</b>	<b>\$ 4,043,042</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governments				
Contracts payable				
Deferred revenue		63,365		
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>63,365</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>				
Nonspendable	\$ -	\$ -	\$ 50,000	\$ -
Restricted				
Committed	48,430	24,854	34,800	4,043,042
Assigned				
<b>TOTAL FUND BALANCES</b>	<b>48,430</b>	<b>24,854</b>	<b>84,800</b>	<b>4,043,042</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 48,430</b>	<b>\$ 88,219</b>	<b>\$ 84,800</b>	<b>\$ 4,043,042</b>

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	Mining Effects Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
	\$ 357,631	\$ 957,479 1,589	\$ 34,859 4,271 148,370	\$ 177,164 2,150	\$ 2,388,508 12,288	\$ 530,070	\$ 20,918
-	-	-	-	690	-	-	215,741
-	165,051	-	-	-	-	-	46,000
-	-	-	-	62,899	-	-	162,035
-	99,136	-	-	-	-	-	63,365
<b>\$ 357,631</b>	<b>\$ 1,223,255</b>	<b>\$ 187,500</b>	<b>\$ 179,314</b>	<b>\$ 2,464,385</b>	<b>\$ 530,070</b>	<b>\$ 20,918</b>	<b>\$ 9,227,564</b>

\$ -	\$ -	\$ -	\$ -	\$ 15,191	\$ -	\$ -	\$ 15,191
-	-	3,931	-	12,101	-	-	16,032
-	51,382	-	-	79,770	-	-	131,152
-	3,917	148,370	800	5,000	-	-	221,452
-	55,299	152,301	800	112,062	-	-	383,827

\$ -	\$ -	\$ -	\$ -	\$ 897,289	\$ -	\$ -	\$ 50,000
357,631	1,167,956	35,199	-	1,389,632	\$ 530,070	-	2,988,145
-	-	-	178,514	65,402	-	20,918	5,719,272
-	-	-	-	-	-	-	86,320
<b>357,631</b>	<b>1,167,956</b>	<b>35,199</b>	<b>178,514</b>	<b>2,352,323</b>	<b>530,070</b>	<b>20,918</b>	<b>8,843,737</b>

<b>\$ 357,631</b>	<b>\$ 1,223,255</b>	<b>\$ 187,500</b>	<b>\$ 179,314</b>	<b>\$ 2,464,385</b>	<b>\$ 530,070</b>	<b>\$ 20,918</b>	<b>\$ 9,227,564</b>
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## CITY OF HIBBING, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended December 31, 2012

	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
<b>REVENUES</b>				
Taxes	\$ -	\$ -	\$ -	\$ 511,675
Special assessments	-	-	-	-
Intergovernmental	-	-	-	624
Charges for services	-	-	-	-
Gifts and contributions	-	-	-	-
Interest	73	38	2	-
Miscellaneous	-	-	6,113	-
<b>TOTAL REVENUES</b>	<b>\$ 73</b>	<b>\$ 38</b>	<b>\$ 6,115</b>	<b>\$ 512,299</b>
<b>EXPENDITURES</b>				
Current				
Economic development	\$ -	\$ -	\$ -	\$ -
Principal	-	-	-	-
Interest and other charges	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>73</b>	<b>38</b>	<b>6,115</b>	<b>512,299</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	769,000
Transfers out	-	-	-	-
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>769,000</b>
<b>Net Change In Fund Balances</b>	<b>73</b>	<b>38</b>	<b>6,115</b>	<b>1,281,299</b>
<b>FUND BALANCE - JANUARY 1</b>	<b>48,357</b>	<b>24,816</b>	<b>78,685</b>	<b>2,761,743</b>
<b>FUND BALANCE - DECEMBER 31</b>	<b>\$ 48,430</b>	<b>\$ 24,854</b>	<b>\$ 84,800</b>	<b>\$ 4,043,042</b>



**CITY OF HIBBING, MINNESOTA**

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2012

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**REVENUES**

**Taxes**

General property	\$ 1,911,623
Taconite	
Production	503,597
Homestead credit	408,621
Municipal aid	1,293,795
Franchise	158,599
Other	353,177
<b>Total Taxes</b>	<b>4,629,412</b>
<b>Licenses and Permits</b>	<b>172,062</b>

**Intergovernmental**

Federal grants	
Federal Transportation grant	68,250
Bulletproof Vest grant	9,315
Community -Oriented Policing Services - NLEAC	78,802
Rural Access to Emergency Devices	223
Fire SAFER grant	46,815
State grants	
Market value credit	3,329
Local government aid	7,994,316
Police aid	174,758
Firemen's aid	54,623
State transportation grant	131,750
PERA rate increase aid	24,366
Petro tank reimbursement	11,246
IRRRB	65,153
Other	40,514
County grants	
Ambulance	4,276
Local grants	
Police liaison grant	41,464
<b>Total Intergovernmental</b>	<b>8,749,200</b>

**Charges for Services**

General government	
Bus transportation	49,021
Miscellaneous	13,990
Public safety	
Ambulance calls	1,775,228
Fire protection contracts	7,770
Other	9,015
Highways and streets	
Miscellaneous	946
Culture and recreation	
Rent	138,807
Other	183,813
Cemetery	
<b>Total Charges for Services</b>	<b>2,252,616</b>

**CITY OF HIBBING, MINNESOTA**

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2012

**REVENUES (continued)**

**Fines**

Court fines	\$ 115,915
Police forfeitures	37,097
Administrative fines	<u>1,955</u>
<b>Total Fines</b>	<b><u>154,967</u></b>

**Gifts and Contributions**

**Interest**

Interest on Investments	12,710
Increase (Decrease) in fair value of investments	<u>1,693</u>
<b>Total Interest</b>	<b><u>14,403</u></b>

**Miscellaneous**

Insurance recoveries	50
Insurance dividends	189,149
Other	<u>28,122</u>
<b>Total Miscellaneous</b>	<b><u>217,321</u></b>
<b>TOTAL REVENUES</b>	<b><u>16,190,306</u></b>

**EXPENDITURES**

**Current**

**General Government**

Mayor and council	200,510
Elections	44,427
City administration	80,109
City clerk	442,063
City hall	72,209
Accounting	50,000
Data processing	62,774
Legal	115,406
Personnel administration	97,649
Zoning and housing	348,305
Assessor	<u>254,492</u>
<b>Total General Government</b>	<b><u>1,767,944</u></b>

**Public Safety**

Police	3,027,056
Animal Shelter	100,064
Fire	1,675,606
Paid on-call fire	124,906
Ambulance	982,904
Civil defense	<u>1,746</u>
<b>Total Public Safety</b>	<b><u>5,912,282</u></b>

**Public Works**

Highways and streets	1,917,968
Streets and alleys	291,213
Engineering	435,368
Garage	<u>51,220</u>
Street lighting	<u>51,220</u>
<b>Total Public Works</b>	<b><u>2,695,769</u></b>

**CITY OF HIBBING, MINNESOTA**

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2012

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**EXPENDITURES (continued)**

<b>Current</b>	
<b>Culture and Recreation</b>	
Recreation	\$ 56,726
Memorial building	311,081
Municipal golf course	40,785
Parks	115,731
City Services	<u>1,197,452</u>
<b>Total Culture and Recreation</b>	<u>1,721,775</u>
<b>Economic Development</b>	
Administration	<u>62,804</u>
<b>Transportation</b>	
Bus	<u>281,629</u>
<b>Miscellaneous</b>	
Cemetery	206,439
Public access	80,509
Insurance	1,877,783
Donations and contributions	20,272
Other	<u>28,011</u>
<b>Total Miscellaneous</b>	<u>2,213,014</u>
<b>Debt Service</b>	
Principal	21,989
Interest and agent fees	<u>15,298</u>
<b>Total General Government</b>	<u>37,287</u>
<b>TOTAL EXPENDITURES</b>	<u>14,692,504</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	1,497,802
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers out	(870,646)
Sale of capital assets	<u>9,549</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(861,097)</u>
<b>NET CHANGE IN FUND BALANCE</b>	636,705
<b>FUND BALANCE - JANUARY 1</b>	<u>11,652,679</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 12,289,384</u>

**CITY OF HIBBING, MINNESOTA**

**LIBRARY SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2012

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**REVENUES**

**Taxes**

General property	\$ 432,723
Taconite homestead credit	87,586
Other	65,020
<b>Total Taxes</b>	<b><u>585,329</u></b>

**Intergovernmental**

State grants	714
Market value credit	<u>                  </u>

**Charges for Services**

<b>Gifts and Contributions</b>	<b><u>23,061</u></b>
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**Interest**

<b>Miscellaneous</b>	<b><u>9,371</u></b>
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**TOTAL REVENUES**

<b><u>619,340</u></b>
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**EXPENDITURES**

**Current**

**Culture and Recreation**

Library	446,133
Personal services	67,945
Supplies	78,820
Other services and charges	-
Other	<u>                  </u>
<b>TOTAL EXPENDITURES</b>	<b><u>592,898</u></b>

**EXCESS (DEFICIENCY) OF REVENUES  
OVER EXPENDITURES**

26,442
--------

**OTHER FINANCING SOURCES (USES)**

Transfer in	26,858
Transfer out	<u>(31,000)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>(4,142)</u></b>

**NET CHANGE IN FUND BALANCES**

22,300
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**FUND BALANCE - JANUARY 1**

181,722
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**FUND BALANCE - DECEMBER 31**

<b><u>\$ 204,022</u></b>
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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, 2012

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**REVENUES**

Interest	\$	73
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**EXPENDITURES**

NET CHANGE IN FUND BALANCE	73
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FUND BALANCE - JANUARY 1	<u>48,357</u>
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FUND BALANCE - DECEMBER 31	<u>\$ 48,430</u>
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CITY OF HIBBING, MINNESOTA

SMALL CITIES DEVELOPMENT SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended December 31, 2012

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REVENUES

Interest	\$ 38
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EXPENDITURES

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NET CHANGE IN FUND BALANCE	38
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FUND BALANCE - JANUARY 1	24,816
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FUND BALANCE - DECEMBER 31	<u>\$ 24,854</u>
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CITY OF HIBBING, MINNESOTA

MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended December 31, 2012

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**REVENUES**

<b>Interest</b>	\$	2
<b>Miscellaneous</b>		
Principal on loans repayments		6,064
Interest on loans repayments		49
<b>Total Miscellaneous</b>		<u>6,113</u>
<b>TOTAL REVENUE</b>		<u>6,115</u>

**EXPENDITURES**

**Current**

<b>Economic Development</b>		
<b>Miscellaneous</b>		
Repayments to DEED		<u>—</u>
<b>TOTAL EXPENDITURES</b>		<u>—</u>
<b>NET CHANGE IN FUND BALANCE</b>		6,115
<b>FUND BALANCE - JANUARY 1</b>		78,685
<b>FUND BALANCE - DECEMBER 31</b>	\$	<u>84,800</u>

**CITY OF HIBBING, MINNESOTA**

**DEBT SERVICE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Year Ended December 31, 2012**

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	Other Postemploy- ment Benefits	2002 G.O. Refunding Bonds	Totals
<b>REVENUES</b>			
<b>Taxes</b>			
General property	\$ 378,219	\$ -	\$ 378,219
Taconite homestead credit	76,595	-	76,595
Other	<u>56,861</u>	<u>-</u>	<u>56,861</u>
Total Taxes	511,675	-	511,675
<b>Intergovernmental</b>			
State grants	624	-	624
Market value credit	<u>512,299</u>	<u>-</u>	<u>512,299</u>
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
<b>Debt Service</b>			
Principal	-	-	-
Interest	-	-	-
<b>TOTAL EXPENDITURES</b>			
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>			
	<u>512,299</u>	<u>-</u>	<u>512,299</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	769,000	-	769,000
Transfer out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			
	<u>769,000</u>	<u>-</u>	<u>769,000</u>
<b>NET CHANGE IN FUND BALANCES</b>			
	1,281,299	-	1,281,299
<b>FUND BALANCE - JANUARY 1</b>	<u>2,761,743</u>	<u>357,631</u>	<u>3,808,827</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 4,043,042</u>	<u>\$ 357,631</u>	<u>\$ 5,090,126</u>

**CITY OF HIBBING, MINNESOTA**  
**CAPITAL PROJECTS FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2012

<b>REVENUES</b>	<b>Permanent Improvement</b>	<b>Privately- Financed</b>	<b>Memorial Building</b>	<b>Capital Equipment and Improvement</b>	<b>Mining Effects</b>	<b>MDI Maintenance</b>	<b>Total</b>
				<b>Improvement</b>			
<b>Taxes</b>							
General property	\$ 147,650	\$ -	\$ -	\$ 1,142,593	\$ -	\$ -	\$ 1,290,243
Taconite homestead credit	29,905	-	-	231,319	-	-	261,224
Other	22,201	-	-	171,723	-	-	193,924
<b>Total Taxes</b>	<b>199,756</b>	<b>-</b>	<b>-</b>	<b>1,545,635</b>	<b>-</b>	<b>-</b>	<b>1,745,391</b>
<b>Special Assessments</b>							
Principal	-	40,778	-	-	-	-	40,778
Interest and penalties	-	145	-	-	-	-	145
<b>Total Special Assessments</b>	<b>-</b>	<b>40,923</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,923</b>
<b>Intergovernmental</b>							
Federal grants	-	-	-	-	-	-	-
Public Safety Interoperable Communications	-	-	-	-	-	-	-
Other	-	-	-	100,000	-	-	100,000
State grants	-	-	-	-	-	-	-
Market value credit	244	-	-	1,885	-	-	2,129
MSA maintenance municipal	300,407	-	-	-	-	-	300,407
MSA construction municipal	687,251	-	-	-	-	-	687,251
IRRRB	-	-	-	347,236	-	-	347,236
Other	-	-	-	3,600	-	-	3,600
County grants	-	-	-	-	-	-	-
<b>Total Intergovernmental</b>	<b>987,902</b>	<b>-</b>	<b>-</b>	<b>452,721</b>	<b>-</b>	<b>-</b>	<b>1,440,623</b>
<b>Charges for Services</b>							
Rent and advertising	-	-	16,066	-	-	-	16,066
<b>Gifts and Contributions</b>							
Interest	2,014	22	261	3,159	-	32	5,488
<b>Miscellaneous</b>							
Other	-	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>\$ 1,189,672</b>	<b>\$ 40,945</b>	<b>\$ 16,327</b>	<b>\$ 2,030,655</b>	<b>\$ -</b>	<b>\$ 32</b>	<b>\$ 3,277,631</b>

CITY OF HIBBING, MINNESOTA

**CAPITAL PROJECTS FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)**  
Year Ended December 31, 2012

	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement	Mining Effects	MDI Maintenance	Total
<b>EXPENDITURES</b>							
<b>Debt Service</b>							
Principal	\$ -	\$ -	\$ -	\$ 375,768	\$ -	\$ -	\$ 375,768
Interest and other charges				\$ 86,388			\$ 86,388
<b>Total Debt Service</b>				<b>462,156</b>			<b>462,156</b>
<b>Capital Outlay</b>							
General government							
Mayor and council	-	-	-	4,365	-	-	4,365
Elections	-	-	-		-	-	
City clerk	-	-	-	14,150	-	-	14,150
City hall	-	-	-		-	-	
Data processing	-	-	-	19,810	-	-	19,810
Personnel administration	-	-	-		-	-	
Public safety							
Police	-	-	-	48,964	-	-	48,964
Fire	-	-	-	330,478	-	-	330,478
Paid on-call fire	-	-	-		-	-	
Ambulance	-	-	-	151,446	-	-	151,446
Civil defense	-	-	-		-	-	
Animal shelter	-	-	-		-	-	
Public works							
Streets and alleys	1,402,818	97,363	-	359,998	-	-	1,860,179
Engineering		-	-	39,035	-	-	39,035
Garage	-	-	-	18,122	-	-	18,122
Culture and recreation							
Recreation	-	-	-	-	-	-	-
Memorial building	-	-	469	89,237	-	-	89,706
Municipal golf course	-	-	-		-	-	
Parks	-	-	-	63,300	-	-	63,300
Library	-	-	-	893,605	-	-	893,605
Miscellaneous							
Cemetery	-	-	-	61,055	-	-	61,055
Other	-	-	-		-	-	
<b>Total Capital Outlay</b>	<b>1,402,818</b>	<b>97,363</b>	<b>469</b>	<b>2,093,565</b>			<b>3,594,215</b>
<b>TOTAL EXPENDITURES</b>	<b>1,402,818</b>	<b>97,363</b>	<b>469</b>	<b>2,555,721</b>			<b>4,056,371</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(213,146)</b>	<b>(56,418)</b>	<b>15,858</b>	<b>(525,066)</b>		<b>32</b>	<b>(778,740)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	50,000	-	26,000	163,788	-	239,788
Transfers out	-	-	-	(50,000)	-	-	(50,000)
Debt issuance	-	-	-	1,890,000	-	-	1,890,000
Sale of capital assets	-	-	-	2,966	-	-	2,966
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<b>50,000</b>		<b>1,868,966</b>	<b>163,788</b>		<b>2,082,754</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(213,146)</b>	<b>(6,418)</b>	<b>15,858</b>	<b>1,343,900</b>	<b>163,788</b>	<b>32</b>	<b>1,304,014</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>1,381,102</b>	<b>41,617</b>	<b>162,656</b>	<b>1,008,423</b>	<b>366,282</b>	<b>20,886</b>	<b>2,980,966</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 1,167,956</b>	<b>\$ 35,199</b>	<b>\$ 178,514</b>	<b>\$ 2,352,323</b>	<b>\$ 530,070</b>	<b>\$ 20,918</b>	<b>\$ 4,284,980</b>

**CITY OF HIBBING, MINNESOTA**  
**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**COMBINING BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2012

	General Fund	Economic Development Special Revenue Fund	Debt Service Funds			
			Tax Increment VII	Tax Increment XI	Central Range Public Works	Animal Shelter
<b>ASSETS</b>						
Cash and cash equivalents	\$ 209,192	\$ 1,135,006	\$ 83,984	\$ -	\$ 73,699	\$ 115,409
Cash - restricted	-	-	-	-	-	46,261
Investments - restricted	-	-	-	-	-	-
Taxes receivable	837	-	-	-	-	-
Unapportioned	-	-	-	-	-	-
Delinquent	-	-	106,498	15,957	-	-
Accounts receivable	394	-	-	-	-	-
Due from other funds	1,971	78,000	-	-	-	-
Due from other governments	-	-	-	-	-	-
Loans receivable	-	317,620	-	-	-	-
Prepaid items	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 212,394</b>	<b>\$ 1,530,626</b>	<b>\$ 190,482</b>	<b>\$ 15,957</b>	<b>\$ 73,699</b>	<b>\$ 161,670</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 25,256	\$ -	\$ -	\$ -	\$ -	\$ -
116	-	-	-	-	-	-
Salaries payable	-	-	-	1,664	-	-
Due to other funds	-	-	536	539	-	-
Due to other governments	-	317,620	106,498	15,955	-	-
Deferred revenue	-	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>25,372</b>	<b>317,620</b>	<b>107,034</b>	<b>18,158</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	83,448	-	-	161,670
187,022	1,213,006	-	-	-	-	-
Committed	-	-	-	-	-	-
Assigned	-	-	-	73,699	-	-
Unassigned	-	-	(2,201)	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>187,022</b>	<b>1,213,006</b>	<b>83,448</b>	<b>(2,201)</b>	<b>73,699</b>	<b>161,670</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 212,394</b>	<b>\$ 1,530,626</b>	<b>\$ 190,482</b>	<b>\$ 15,957</b>	<b>\$ 73,699</b>	<b>\$ 161,670</b>

**CITY OF HIBBING, MINNESOTA**  
**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**COMBINING BALANCE SHEET (CONTINUED)**  
**GOVERNMENTAL FUNDS**  
December 31, 2012

	<b>Capital Projects Funds</b>				
	<b>Storefront Renovation Project</b>	<b>District VIII Tax Increment</b>	<b>District XII Tax Increment</b>	<b>Tax Abatement</b>	<b>Totals</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 71,420	\$ 42,606	\$ -	\$ 101,571	\$ 1,832,887
Cash - restricted	-	-	-	-	46,261
Investments	-	-	-	-	-
Taxes receivable	-	-	-	-	-
Unapportioned	-	-	-	117	954
Delinquent	-	235	-	-	122,690
Accounts receivable	-	-	-	-	394
Due from other funds	-	-	-	-	79,971
Due from other governments	-	-	-	-	-
Loans receivable	138,237	461,924	-	-	917,781
Prepaid items	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 209,657</b>	<b>\$ 504,765</b>	<b>\$ -</b>	<b>\$ 101,688</b>	<b>\$ 3,000,938</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ -	\$ -	\$ 17,500	\$ 1,593	\$ 44,349
Salaries payable	-	-	-	-	116
Due to other funds	78,000	-	307	-	79,971
Due to other governments	-	536	-	-	1,611
Deferred revenue	138,237	462,159	-	-	1,040,469
<b>TOTAL LIABILITIES</b>	<b>216,237</b>	<b>462,695</b>	<b>17,807</b>	<b>1,593</b>	<b>1,166,516</b>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	-
Restricted	-	42,070	-	-	287,188
Committed	-	-	-	-	1,400,028
Assigned	-	-	-	100,095	173,794
Unassigned	(6,580)	-	(17,807)	-	(26,588)
<b>TOTAL FUND BALANCES</b>	<b>(6,580)</b>	<b>42,070</b>	<b>(17,807)</b>	<b>100,095</b>	<b>1,834,422</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 209,657</b>	<b>\$ 504,765</b>	<b>\$ -</b>	<b>\$ 101,688</b>	<b>\$ 3,000,938</b>

**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, 2012**

	<b>General Fund</b>	<b>Economic Development Special Revenue Fund</b>	<b>Debt Service Funds</b>			
			<b>Tax Increment VII</b>	<b>Tax Increment XI</b>	<b>Central Range Public Works</b>	<b>Animal Shelter</b>
<b>REVENUES</b>						
<b>Taxes</b>						
General	\$ 77,586	\$ -	\$ 68,426	\$ 14,548	\$ -	\$ -
Taconite homestead credit	15,762	-	-	-	-	-
Other	11,701	-	-	-	-	-
<b>Intergovernmental</b>						
State grants						
Market value credit	128	-	-	-	-	-
IRRRB grant	-	-	-	-	-	-
<b>Charges for Services</b>	1,000	-	-	-	192	37,287
<b>Gifts and contributions</b>	-	-	-	-	-	-
<b>Interest</b>	115	206	16	26	5	2
<b>Miscellaneous</b>						
Principal on loan repayments	-	84,556	-	-	-	-
Interest on loan repayments	-	19,275	-	-	-	-
Other	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<b>106,292</b>	<b>104,037</b>	<b>68,442</b>	<b>14,574</b>	<b>197</b>	<b>37,289</b>
<b>EXPENDITURES</b>						
<b>Current</b>						
Economic development						
Community development	16,635	-	-	-	-	-
Administration	40,329	65	3,892	-	-	-
Professional services	19,241	-	536	536	-	-
Loans	-	-	-	-	-	-
Tax increment projects	-	-	-	-	-	-
<b>Debt Service</b>						
Principal	-	-	25,000	15,000	375,000	21,989
Interest	-	-	12,938	5,430	12,000	15,298
Fiscal charges	-	-	431	-	2,145	-
<b>Capital Outlay</b>						
Community development	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>76,205</b>	<b>65</b>	<b>42,797</b>	<b>20,966</b>	<b>389,145</b>	<b>37,287</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>30,087</b>	<b>103,972</b>	<b>25,645</b>	<b>(6,392)</b>	<b>(388,948)</b>	<b>2</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Excess TIF to be remitted to County						
Transfers in	80,000	-	-	6,355	-	-
Transfers out	-	(80,000)	(6,355)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>80,000</b>	<b>(80,000)</b>	<b>(6,355)</b>	<b>6,355</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>110,087</b>	<b>23,972</b>	<b>19,290</b>	<b>(37)</b>	<b>(388,948)</b>	<b>2</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>76,935</b>	<b>1,189,034</b>	<b>64,158</b>	<b>(2,164)</b>	<b>462,647</b>	<b>161,668</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 187,022</b>	<b>\$ 1,213,006</b>	<b>\$ 83,448</b>	<b>\$ (2,201)</b>	<b>\$ 73,699</b>	<b>\$ 161,670</b>

**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, 2012

	<b>Capital Projects Funds</b>					<b>Totals</b>
	<b>Storefront Renovation Project</b>	<b>District VIII Tax Increment</b>	<b>District XII Tax Increment</b>	<b>Tax Abatement</b>		
<b>REVENUES</b>						
<b>Taxes</b>						
General	\$ -	\$ 12,277	\$ -	\$ 11,122	\$ 183,959	
Taconite homestead credit	- -	- -	- 2,215	- 17,977		
Other	- -	- -	- 1,644	- 13,345		
<b>Intergovernmental</b>						
State grants				18	146	
Market value credit	- -	- -	- -	- -	- -	
IRRRB grant	- -	- -	- -	- -	- -	
<b>Charges for Services</b>						38,479
<b>Gifts and contributions</b>						
<b>Interest</b>						
Interest	- -	52	- -	139	561	
<b>Miscellaneous</b>						
Principal on loan repayments	44,189	- -	- -	- -	128,745	
Interest on loan repayments	4,474	- -	- -	- -	23,749	
<b>TOTAL REVENUES</b>	<b>48,663</b>	<b>12,329</b>	<b>- -</b>	<b>15,138</b>	<b>406,961</b>	
<b>EXPENDITURES</b>						
<b>Current</b>						
Economic development					1,593	18,228
Community development	- -	- -	- -	- -	- -	44,286
Administration	- -	- -	- -	- -	- -	38,656
Professional services	- -	536	17,807	- -	- -	20,000
Loans	20,000	- -	- -	- -	- -	- -
Tax increment projects	- -	- -	- -	- -	- -	- -
<b>Debt Service</b>						
Principal	- -	- -	- -	- -	- -	436,989
Interest	- -	- -	- -	- -	- -	45,666
Fiscal charges	- -	- -	- -	- -	- -	2,576
<b>Capital Outlay</b>						
Community development	- -	- -	- -	- -	- -	- -
<b>TOTAL EXPENDITURES</b>	<b>20,000</b>	<b>536</b>	<b>17,807</b>	<b>1,593</b>	<b>606,401</b>	
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>28,663</b>	<b>11,793</b>	<b>(17,807)</b>	<b>13,545</b>	<b>(199,440)</b>	
<b>OTHER FINANCING SOURCES (USES)</b>						
Excess TIF to be remitted to County	- -	- -	- -	- -	- -	86,355
Transfers in	- -	- -	- -	- -	- -	(86,355)
Transfers out	- -	- -	- -	- -	- -	- -
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>- -</b>	<b>- -</b>	<b>- -</b>	<b>- -</b>	<b>- -</b>	
<b>NET CHANGE IN FUND BALANCES</b>	<b>28,663</b>	<b>11,793</b>	<b>(17,807)</b>	<b>13,545</b>	<b>(199,440)</b>	
<b>FUND BALANCES - JANUARY 1</b>	<b>(35,243)</b>	<b>30,277</b>	<b>-</b>	<b>86,550</b>	<b>2,033,862</b>	
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ (6,580)</b>	<b>\$ 42,070</b>	<b>\$ (17,807)</b>	<b>\$ 100,095</b>	<b>\$ 1,834,422</b>	

**CITY OF HIBBING, MINNESOTA**  
**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**STATEMENT OF NET POSITION**  
**ENTERPRISE FUND**  
**December 31, 2012**

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	<b>Family Center</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 365,925
Due from other governments	-
Loans receivable	<u>512,776</u>
<b>TOTAL ASSETS</b>	<u>878,701</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	-
Deferred revenue	-
Due to other funds	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>
<b>NET POSITION</b>	
Unrestricted	<u>878,701</u>
<b>TOTAL NET POSITION</b>	<u>\$ 878,701</u>

CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 ENTERPRISE FUND  
 December 31, 2012

	Family Center
<b>OPERATING REVENUES</b>	
Charges for services	\$ -
Miscellaneous	- -
<b>TOTAL OPERATING REVENUES</b>	- -
<b>OPERATING EXPENSES</b>	
Personal services	- -
Supplies	- -
Maintenance and repairs	- -
Contracted services	- -
Utilities	- -
Depreciation	- -
Miscellaneous	- -
<b>TOTAL OPERATING EXPENSES</b>	- -
<b>OPERATING INCOME</b>	- -
<b>NONOPERATING REVENUES</b>	
Interest income	- -
Interest on notes	26,873
Interest expense	- -
Amortization	- -
Gain on disposal of student housing facility	- -
<b>TOTAL NONOPERATING REVENUES</b>	26,873
<b>INCOME BEFORE TRANSFERS</b>	26,873
Transfers in	- -
Transfers out	- -
<b>CHANGE IN NET POSITION</b>	26,873
<b>TOTAL NET POSITION - JANUARY 1</b>	851,828
<b>TOTAL NET POSITION - DECEMBER 31</b>	<u><u>\$ 878,701</u></u>

CITY OF HIBBING, MINNESOTA  
**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**STATEMENT OF CASH FLOWS**  
**ENTERPRISE FUND**  
December 31, 2012

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	<b>Family Center</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ -
Cash paid to suppliers	- -
Cash paid to employees	- -
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	- -
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfer in from other funds	- -
Transfer out to other funds	- -
Prior year cash deficit payment	- -
Interfund financing of cash deficit	- -
Principal received on note	36,824
Interest received on note	<u>26,873</u>
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>63,697</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase or construction of fixed assets	- -
Principal paid on long-term debt	- -
Interest paid on long-term debt	- -
Sale of facility	- -
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	- -
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	- -
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	63,697
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>302,228</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 365,925</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
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	- -
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ -</u>

**CITY OF HIBBING, MINNESOTA**  
**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS**  
**TAX INCREMENT FINANCING DISTRICTS VII, VIII, XI, AND XII**  
Year Ended December 31, 2012

<u>Tax Increment District VII</u>		
District type	Redevelopment	
Authorized under Minn. Stat. ch#	469	
Established in	1993	
Planned completion in	2019	
Original net tax capacity	\$ 3,422	
Current net tax capacity	49,360	
Fiscal disparity deduction	-	
<b>Captured Net Tax Capacity Retained by the City</b>	<b>\$ 45,938</b>	
 <b>SOURCES OF FUNDS</b>		
Bond proceeds	\$ 320,000	\$ -
Note proceeds	-	-
Tax increments received	728,410	68,426
General property taxes received	-	-
Interest on invested funds	11,293	16
Grants	299,999	-
Local contributions	8,251	-
Miscellaneous	19,619	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,387,572</b>	<b>68,442</b>
 <b>USES OF FUNDS</b>		
Building acquisition	-	-
Other public improvements	721,672	-
Bond payments		
Principal	135,000	25,000
Interest and fiscal charges	298,060	13,369
Professional services	31,407	536
Administrative costs	128,465	3,892
<b>TOTAL USES OF FUNDS</b>	<b>1,314,604</b>	<b>42,797</b>
<b>EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS BEFORE TRANSFERS</b>	<b>72,968</b>	<b>25,645</b>
 <b>TRANSFERS</b>		
Decertified district - remittance to County	-	-
Transfers to other districts	-	-
Transfers to other funds	(8,810)	(6,355)
Transfers from other districts	-	-
Transfers from other funds	-	-
<b>TOTAL TRANSFERS</b>	<b>(8,810)</b>	<b>(6,355)</b>
<b>EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS AND TRANSFERS</b>	<b>\$ 64,158</b>	<b>19,290</b>
<b>DISTRICT BALANCE - JANUARY 1</b>		<b>64,158</b>
<b>DISTRICT BALANCE - DECEMBER 31</b>		<b>\$ 83,448</b>

Tax Increment District VIII		Tax Increment District XI		Tax Increment District XII	
Qualified Housing		Redevelopment		Redevelopment	
469		469		469	
1993		1999		2012	
2020		2025		2038	
\$ -		\$ 525		\$ 12,660	
8,377		13,262		12,660	
<hr/>		<hr/>		<hr/>	
\$ 8,377		\$ 9,545		\$ -	
Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year
\$ -	\$ -	\$ 165,000	\$ -	\$ -	\$ -
192,065	12,277	113,925	14,548	-	-
5,455	52	1,797	26	-	-
385,000	-	67,786	-	-	-
18,670	-	2,786	-	-	-
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
601,190	12,329	351,294	14,574	-	-
555,095	-	253,248	-	-	-
67,392	-	-	-	-	-
-	-	85,000	15,000	-	-
-	-	120,588	5,430	-	-
9,618	536	31,268	536	-	17,807
30,205	-	45	-	-	-
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
662,310	536	490,149	20,966	-	17,807
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(61,120)	11,793	(138,855)	(6,392)	-	(17,807)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
(4,926)	-	-	-	-	-
-	-	35,055	-	-	-
96,323	-	101,636	6,355	-	-
91,397	-	136,691	6,355	-	-
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 30,277	11,793	\$ (2,164)	(37)	\$ -	(17,807)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
30,277		(2,164)			
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 42,070		\$ (2,201)			\$ (17,807)
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

# Fort & Company, P.A.

## Certified Public Accountants

Diane D. Krueger-Pirnat, CPA  
Christine A. Towner, CPA

Connor B. Michels, EA  
Victoria C. Arnoldy, CPA

John W. Fort, CPA  
Kimberly A. Jarvis

### 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, 2012, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated June 27, 2013. 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 to determine the audit procedures that are appropriate in the circumstances 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.

A deficiency in internal control over financial reporting 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 2012-1, 2012-2, 2012-3, and 2012-4 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Hibbing, Minnesota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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*.

### **Minnesota Legal Compliance**

We also conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains 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 audit included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Hibbing, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Hibbing, Minnesota's noncompliance with the above referenced provisions.

We also noted certain additional matters that we reported to management of the City of Hibbing, Minnesota in a separate letter dated June 27, 2013.

The City of Hibbing, Minnesota's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The City of Hibbing's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of the Report**

The purpose of this report is solely 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 effectiveness of the City of Hibbing, Minnesota's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hibbing, Minnesota's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*Fort & Company*

Fort & Company, P.A.

June 27, 2013

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2012

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**SIGNIFICANT DEFICIENCIES**

**2012-1. 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.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Year Ended December 31, 2012

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**2012-2. 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 situation exists because of staffing and software limitations caused by fiscal constraints.

**Recommendations**

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

**Corrective Action Plan (CAP)**

**1. Explanation of Disagreement with Audit Finding**

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

**2. Actions Planned in Response to Finding**

The City will continue to evaluate the prospect of incorporating the report writing function within the software system. However, given the current level of staffing, the City does not anticipate changing the process for the foreseeable future.

**3. Officials Responsible for Ensuring CAP**

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

**4. Planned Completion Date for CAP**

No timeline; continue to keep under consideration should resources become available. For the time being, Sherri Renskers will continue as the City's designated individual responsible for reviewing the report captioning and adjustments being captured in the financial statements.

**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.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
Year Ended December 31, 2012

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**2012-3. GRANT PROCESS**

**Condition**

During 2012 the City has been awarded substantial grants for sewer and road projects. The City has made substantial improvements in its documentation of eligible expense tracking by grant and how that corresponds to grant revenues recorded in the financial statements by year. However, additional steps are needed to review expenses in Contracts Payable to ascertain that account entries have been recorded for all revenue for related eligible expenses that have been incurred.

**Criteria**

Grant revenue recognition control.

**Effect**

To assure that all grant revenue is recognized in the proper accounting period and that the files of eligible expenses taken against a specific grant are accurate and reconcile to the financial statement amounts.

**Cause**

Grant revenue not being recorded in the correct year.

**Recommendations**

When the City records its Contracts Payable, they should have a review process of expenses to ascertain that account entries have been recorded for all revenue and eligible expense that have been incurred.

**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 implement a process whereby the Clerk's office will review the expenses in Contracts Payable to ensure that the entries are recorded for all eligible expenses that have been incurred.

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

This process will be in place for any grant expenditures for the year ended December 31, 2013.

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, 2012

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**2012-4. POOLED CASH RECONCILIATION**

**Condition**

The year end cash reconciliation of pooled cash did not reveal a human data entry error to the cash account in the amount of \$29,607. This transaction entry error occurred in the current year, yet it was posted to the prior year before the closing process was completed. During the three months following the year end, and before closing of the books, internal control of pooled cash balances is ineffective.

**Criteria**

The possibility of the cash balance at year end changing in the following year is not desirable from an internal control point of view.

**Effect**

Because of the weakness of an error in cash occurring after the year end bank reconciliations are completed, the City has not provided adequate internal control over its transactions.

**Cause**

Internal controls over bank reconciliations are ineffective.

**Recommendations**

In order to provide controls over the year end pooled cash reconciliations, we recommend that the City performs a manual reconciliation of cash accounts at the year end as part of their audit preparation procedures. Also, even though the cash accounts are reconciled monthly, we recommend that a second manual bank reconciliation be done at least once during the year.

**Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Findings

There is no disagreement with Audit Finding.

2. Actions Planned in Response to Findings

The City will re-implement a manual bank reconciliation at year end as part of the audit preparation checklist and the Finance Director will perform at least one random manual bank reconciliation during the year.

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

This process will be in place for the audit of the year ending December 31, 2013.

5. Plan to Monitor Completion of CAP

The City Council will monitor the completion of this plan.