

**CITY OF HIBBING, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended December 31, 2011**

**CITY OF HIBBING, MINNESOTA**

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December 31, 2011

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**CITY OF HIBBING, MINNESOTA**

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**CITY OF HIBBING, MINNESOTA**

**ORGANIZATION**  
December 31, 2011

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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**

Finance Director/Acting Administrator	Sherri A. Renskers
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**APPOINTED**

City Assessor	Bruce Sandberg
City Attorney	Richard K. Sellman

## **FINANCIAL SECTION**

# Fort & Company, P.A.

## Certified Public Accountants

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

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

Connor B. Michels, EA  
Kimberly A. Jarvis

### INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Hibbing, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hibbing, Minnesota's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Utilities Commission, which represent 93 percent, 92 percent, and 98 percent, respectively, of the assets, net assets, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for the Public Utilities Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hibbing, Minnesota, as of December 31, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2012, on our consideration of the City of Hibbing, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, infrastructure condition data, and schedule of funding progress for postemployment benefits plans, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hibbing, Minnesota's basic financial statements. The combining and individual fund financial statements and schedules, and the Hibbing Economic Development Authority's (a component unit) combining financial statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Fort & Company, P.A.  
June 27, 2012

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



## CITY OF HIBBING, MINNESOTA

### MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

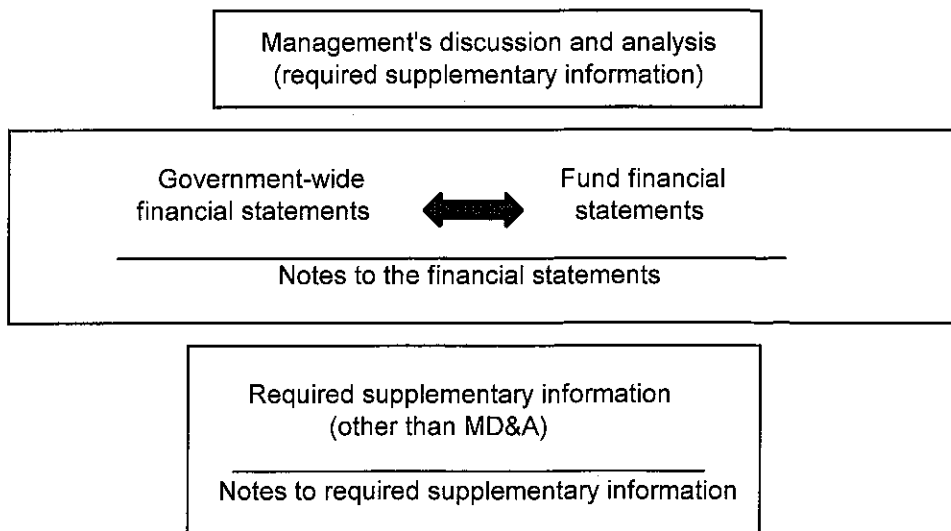
The City of Hibbing, Minnesota's management's discussion and analysis provides an overview of the City's financial activities for the year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the City of Hibbing, Minnesota's financial statements.

#### FINANCIAL HIGHLIGHTS

- ➔ Governmental activities' total net assets are \$31,007,074, of which \$21,674,592 is invested in capital assets, net of related debt.
- ➔ Business-type activities have total net assets of \$18,214,387. Invested in capital assets, net of related debt represents \$19,965,661 of the total.
- ➔ The Hibbing Economic Development Authority (EDA) has total net assets of \$3,179,597. Invested in capital assets, net of related debt represents \$191,357 of the total.
- ➔ The City of Hibbing's primary government's net assets increased by \$4,456,466 for the year ended December 31, 2011. The Governmental activities' net assets increased by \$1,217,905 and the business-type activities' net assets increased by \$3,238,560.
- ➔ The EDA's net assets increased by \$491,551.
- ➔ The net cost of governmental activities was \$13,758,956 for the current year. The net cost was funded by general revenues and other items totaling \$14,976,861.
- ➔ Governmental funds' fund balances increased by \$2,100,433.
- ➔ 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 \$1,358,914. The majority of the remaining increase was in the nonmajor governmental funds, primarily \$689,453 of funding for the Other Postemployment Benefit Debt Service Fund and \$366,282 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, 2011

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

#### **Government-wide Financial Statements**

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

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

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

#### Governmental activities

Most of the City's basic services are reported here, including general government, public safety, public works, culture and recreation, economic development and transportation. Property taxes and state and federal grants and aids finance most of these activities.

#### Business-type activities

The City charges a fee to customers to help to cover all or most of the cost of services it provides. The City's sewer operations and refuse removal services are reported here.

#### Component Units

The Hibbing Economic Development Authority (EDA) and the Hibbing Public Utilities Commission (PUC) are reported here. EDA does not prepare separate financial statements. Complete financial statements of the PUC may be obtained from Hibbing Public Utilities Commission, 19th Street and East 6th Avenue, Hibbing, Minnesota 55746.

#### **Fund Financial Statements**

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

CITY OF HIBBING, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

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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 Assets and the Statement of Activities) and governmental funds is described in a reconciliation statement following each governmental fund financial statement.

Proprietary funds

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

## CITY OF HIBBING, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets increased from \$44,764,996 to \$49,221,461. Looking at the net assets and net expenses of governmental and business-type activities separately, however, reveal differences. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 20,628,856	\$ 18,939,995	\$ (955,124)	\$ (399,145)	\$ 19,673,732	\$ 18,540,850
Capital assets	23,904,065	24,297,456	29,727,174	27,603,984	53,631,239	51,901,440
Total assets	<u>\$ 44,532,921</u>	<u>\$ 43,237,451</u>	<u>\$ 28,772,050</u>	<u>\$ 27,204,839</u>	<u>\$ 73,304,971</u>	<u>\$ 70,442,290</u>
Long-term liabilities	\$ 11,431,324	\$ 11,041,448	\$ 9,811,187	\$ 9,360,984	\$ 21,242,511	\$ 20,402,432
Other liabilities	2,094,523	2,406,834	746,476	2,868,028	2,840,999	5,274,862
Total liabilities	<u>\$ 13,525,847</u>	<u>\$ 13,448,282</u>	<u>\$ 10,557,663</u>	<u>\$ 12,229,012</u>	<u>\$ 24,083,510</u>	<u>\$ 25,677,294</u>
Net assets						
Invested in capital assets net of debt	\$ 21,674,592	\$ 21,380,075	\$ 19,965,661	\$ 18,305,436	\$ 41,640,253	\$ 39,685,511
Restricted	2,509,813	3,225,428	-	-	2,509,813	3,225,428
Unrestricted	6,822,669	5,183,666	(1,751,274)	(3,329,609)	5,071,395	1,854,057
Total net assets	<u>\$ 31,007,074</u>	<u>\$ 29,789,169</u>	<u>\$ 18,214,387</u>	<u>\$ 14,975,827</u>	<u>\$ 49,221,461</u>	<u>\$ 44,764,996</u>

Net assets of the City's governmental activities increased by 4.09 percent (\$31,007,074 compared to \$29,789,169). Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other requirements) changed from \$5,183,666 at December 31, 2010 to \$6,822,669 at the end of 2011.

Net assets of the City's business-type activities increased 21.63 percent (\$18,214,387 in 2011 compared to \$14,975,827 in 2010).

## CITY OF HIBBING, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues</b>						
Program revenues:						
Fees, fines, charges, and other	\$ 2,715,575	\$ 2,378,163	\$ 5,407,609	\$ 5,372,658	\$ 8,123,184	\$ 7,750,821
Operating grants and contributions	1,032,058	797,224	-	-	1,032,058	797,224
Capital grants and contributions	1,142,526	1,000,705	2,486,272	1,550,282	3,628,798	2,550,987
General revenues:						
Taxes	6,703,907	6,681,724	-	-	6,703,907	6,681,724
Intergovernmental	8,217,290	8,212,154	-	-	8,217,290	8,212,154
Other general revenues	37,498	40,027	14,849	17,170	52,347	57,197
Total revenues	<u>19,848,854</u>	<u>19,109,997</u>	<u>7,908,730</u>	<u>6,940,110</u>	<u>27,757,584</u>	<u>26,050,107</u>
Program expenses:						
General government	3,317,370	3,803,236	-	-	3,317,370	3,803,236
Public safety	7,061,105	7,795,498	-	-	7,061,105	7,795,498
Public works	4,623,426	4,846,683	-	-	4,623,426	4,846,683
Culture and recreation	3,061,289	3,258,282	-	-	3,061,289	3,258,282
Other	499,879	441,327	-	-	499,879	441,327
Interest	86,046	122,807	-	-	86,046	122,807
Garbage and refuse collection	-	-	2,242,612	2,278,701	2,242,612	2,278,701
Sewer operating and maintenance	-	-	2,372,598	2,548,549	2,372,598	2,548,549
Memorial building concessions	-	-	1,962	5,128	1,962	5,128
Total program expenses	<u>18,649,115</u>	<u>20,267,833</u>	<u>4,617,172</u>	<u>4,832,378</u>	<u>23,266,287</u>	<u>25,100,211</u>
Transfers	<u>18,166</u>	<u>-</u>	<u>(52,998)</u>	<u>-</u>	<u>(34,832)</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ 1,217,905</u>	<u>\$ (1,157,836)</u>	<u>\$ 3,238,560</u>	<u>\$ 2,107,732</u>	<u>\$ 4,456,465</u>	<u>\$ 949,896</u>

The City's total revenues increased by \$1,707,477 or 6.56 percent. The total cost of all programs and services decreased by (\$1,833,924) or 7.31 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 \$738,857 or 3.87 percent and total expenses decreased by (\$1,618,718) or 7.99 percent. The increase in net assets for governmental activities was \$1,217,905 in 2011.

The cost of all governmental activities this year was \$18,649,115. As shown in the Statement of Activities, some of the cost was paid by those who directly benefited from the programs, \$2,715,575, or by other governments and organizations that subsidized certain programs with grants and contributions, \$10,429,372. Our taxpayers paid \$6,703,907 in taxes in 2011.

# CITY OF HIBBING, MINNESOTA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011

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>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Public safety	\$ 7,061,105	\$ 7,795,498	\$ 4,688,835	\$ 5,887,509
Public works	4,623,426	4,846,683	3,125,149	3,539,929
General government	3,317,370	3,803,236	2,921,911	3,460,736
Culture and recreation	3,061,289	3,258,282	2,698,415	2,885,004
Other	499,879	441,327	238,600	195,756
Interest on long-term debt	86,046	122,807	86,046	122,807
<b>Totals</b>	<b>\$ 18,649,115</b>	<b>\$ 20,267,833</b>	<b>\$ 13,758,956</b>	<b>\$ 16,091,741</b>

### Business-Type Activities

Revenues of the City's business-type activities were \$7,908,730 and expenses were \$4,617,172 (see Table 2). There was an increase in net assets of \$3,238,560 during the year ended December 31, 2011. The factors driving these results include:

Operations produced \$1,002,082 of income for the year ended December 31, 2011.

The City recognized capital grants totaling \$2,468,272 for the year.

The City had non-operating interest expense totaling \$211,220 for the year.

### EDA Component Unit Activity

The EDA had a net increase in net assets of \$491,551 for the year ended December 31, 2011. General revenues, including items such as taxes and grants not restricted to specific programs, accounted for \$198,169 of this, with net program revenues over expenses of \$293,382.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a combined fund balance of \$18,086,599 which is greater than last year's total of \$15,986,166. The general fund had a increase of \$1,005,942 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 \$30,441 increase in fund balance by meeting budget goals. The largest increase in other governmental funds was for \$689,453 in the Other Postemployment Benefits Debt Service Fund which was due to the current year funding. The next largest increase was \$366,282 in the Mining Effects Capital Projects Fund as this was a new fund created in 2011 by transfer of tax funds to be set aside for specific infrastructure and joint entity projects.

### GENERAL FUND BUDETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$387,809 below the final budget amounts. The most significant positive variances occurred in the City's public works, \$364,673, and miscellaneous, \$372,222. The most significant negative variance (\$80,681) occurred in the City's culture and recreation planned expenditures. Resources available for appropriation were above the final budgeted amounts by \$929,267. 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, 2011

## CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the City had \$53,631,239 invested in a broad range of capital assets, net of accumulated depreciation, including land, land improvements, buildings, infrastructure and equipment (see Table 4 below). This amount represents a net increase (including additions and deductions) of \$1,729,799 over last year.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land, improvements, intangibles						
artwork, gravel roads	\$ 6,362,512	\$ 6,362,511	\$ 423,718	\$ 340,769	\$ 6,786,230	\$ 6,703,280
Buildings and improvements	7,505,156	8,046,547	16,239,435	16,808,520	23,744,591	24,855,067
Infrastructure	7,350,056	6,709,370	6,611,235	4,271,033	13,961,291	10,980,403
Equipment, machinery and furniture	2,571,885	2,479,940	1,454,699	1,876,425	4,026,584	4,356,365
Construction in progress	114,456	699,088	4,998,087	4,307,237	5,112,543	5,006,325
Totals	<u>\$ 23,904,065</u>	<u>\$ 24,297,456</u>	<u>\$ 29,727,174</u>	<u>\$ 27,603,984</u>	<u>\$ 53,631,239</u>	<u>\$ 51,901,440</u>

This year's major additions included:

11th Avenue East	\$ 584,429
12th Avenue East	778,468
5th Avenue East	224,577
MSA 5th Avenue West	957,412
2006 dump truck engine rebuild	12,081
2012 Dodge Ram 3500 dump box	47,808
Cablecast broadcast auto system	24,499
Elgin megawind	197,840
Fire alarm system	4,745
Gem electric utility vehicle	11,092
Greenmasher mower	26,670
Hospital Street	2,359,646
Indoor playground equipment	18,262
Kati development	45,675
Kennels and fencing	8,300
Kerr Leetonia	43,454
Land improvement	47,781
Land purchased	35,168
Library energy improvement	4,760
Memorial benches	2,051
Mine autoscrubber	6,578
Muni water service improvement	17,200
North Salmi Road	128,259
Nortrax motor grader - John Deere	239,859

**CITY OF HIBBING, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2011

Renewable energy project	17,194
Repair transmission 140H grader	20,052
Safe route to school	43,479
Styker 5 Power Pro/ambulance cots	23,247
Thirteen armer system mobile radios	43,279
Two police cars	43,742
Total additions	<u>6,017,607</u>

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

**Debt**

At year-end, the City had \$22,297,715 in long-term debt outstanding versus \$21,863,382 last year (see Table 5).

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

	Governmental Activities		Business-type Activities		EDA Component Unit	
	2011	2010	2011	2010	2011	2010
General obligation bonds (backed by the City)	\$ 1,210,000	\$ 1,480,000	\$ -	\$ -	\$ 1,055,204	\$ 1,460,949
Certificates of indebtedness	290,000	377,000	-	-	-	-
Capital leases	729,473	1,060,382	5,830	13,603	-	-
Police and Fire indebtedness	-	-	-	-	-	-
General obligation revenue notes	-	-	7,630,683	7,069,945	-	-
General obligation revenue bonds	-	-	2,125,000	2,215,000	-	-
Compensated absences	194,011	216,577	49,674	62,436	-	-
OPEB liability	9,007,840	7,907,490	-	-	-	-
Total	<u>\$ 11,431,324</u>	<u>\$ 11,041,449</u>	<u>\$ 9,811,187</u>	<u>\$ 9,360,984</u>	<u>\$ 1,055,204</u>	<u>\$ 1,460,949</u>

The State limits the amount of net debt that the City's can issue to 3 percent of the market value of all taxable property in the city. The City's outstanding qualifying net debt of \$1,210,000 is significantly below the \$22,992,138 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 balance outstanding at December 31, 2011 was \$1,473,683.

**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 \$180,000 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, 2011

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

The City's elected and appointed officials considered many factors when setting the 2012 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 2012 are budgeted to be \$14,896,708, which is a \$13,460 decrease from the 2011 final budget. This is a 10.6% decrease from the 2009 original General Fund budgeted expenditures of \$16,659,672.

Property tax levies increased 3.43% for 2012.

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

The State is facing a nearly \$6 billion deficit in the next biennium, which likely will result in significant decreases in aid from the State and eliminated MVHC in favor of Market Value Exclusion.

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

The City's 2012 capital budget calls for it to spend another \$2,870,351 for capital projects, principally for the following:

General government	\$ 36,000
Public works	560,000
Public safety	696,400
Parks, recreation and arena	441,000
Other	736,951
City wide lighting/electrical upgrades	350,000
Cemetery	50,000
Total	<u>\$ 2,870,351</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 ASSETS

December 31, 2011

	Primary government			Component Units	
	Governmental Activities	Business type Activities	Total	EDA	PUC
<b>ASSETS</b>					
Cash and cash equivalents	\$ 16,525,664	\$ 655,826	\$ 17,181,490	\$ 1,903,320	\$ 8,000
Investments	456,631	-	456,631	386,123	-
Taxes receivable	377,294	2,993	380,287	138,851	-
Special assessments receivable	162,840	111,560	274,400	-	-
Accounts receivable	370,951	11,298	382,249	394	5,397,433
Interest receivable	1,898	-	1,898	-	-
Unbilled revenues	-	-	-	-	1,650,796
Internal balances	2,322,156	(2,322,156)	-	-	-
Due from other governments	185,521	170,137	355,658	-	-
Due from other component units	117,225	411,352	528,577	-	-
Due from primary government	-	-	-	415,204	-
Loans receivable	69,431	-	69,431	1,656,125	-
Inventories	275	3,866	4,141	-	1,001,733
Prepaid expenses	38,970	-	38,970	-	393,585
Equity in joint venture	-	-	-	-	11,046,458
Temporarily restricted assets	-	-	-	-	-
Cash and cash equivalents	-	-	-	46,238	1,967,221
Investments held with fiscal agents	-	-	-	-	337,001
Capital assets not being depreciated	-	-	-	-	-
Land, improvements, artwork, gravel roads intangibles and construction in progress	6,476,968	5,421,806	11,898,774	172,315	4,190,785
Capital assets net of accumulated depreciation	-	-	-	-	-
Infrastructure	22,995,851	7,017,465	30,013,316	19,699	-
Buildings and improvements	21,104,374	25,048,635	46,153,009	-	9,770,321
Transmissions and distribution system	-	-	-	-	45,693,416
Equipment, machinery and furniture	10,013,520	3,790,556	13,804,076	-	48,105,916
Less: accumulated depreciation	(36,686,648)	(11,551,288)	(48,237,936)	(657)	(69,486,504)
<b>TOTAL ASSETS</b>	<b>\$ 44,532,921</b>	<b>\$ 28,772,050</b>	<b>\$ 73,304,971</b>	<b>\$ 4,737,612</b>	<b>\$ 60,076,161</b>
<b>LIABILITIES AND NET ASSETS</b>					
Accounts payable	\$ 242,913	\$ 46,842	\$ 289,755	\$ 14,073	\$ 3,301,019
Salaries payable	1,102,402	38,646	1,141,048	461	-
Notes payable	-	-	-	-	-
Due to other governments	456,345	15,434	471,779	1,609	-
Due to primary government	-	-	-	-	411,352
Contracts payable	54,011	204,865	258,876	-	-
Customer deposits	-	-	-	-	244,311
Other accrued liabilities	1	-	1	-	104,219
Deferred revenues	207,618	198,253	405,871	461,913	46,773
Accrued interest payable	31,233	81,156	112,389	24,755	13,093
Compensated absences	-	161,280	161,280	-	484,648
Long-term liabilities	-	-	-	-	-
Due to component unit	415,204	-	415,204	-	-
Compensated absences	194,011	49,674	243,685	-	1,016,378
OPEB liability	9,007,840	-	9,007,840	-	9,905,004
Due within one year	690,258	718,830	1,409,088	436,989	983,587
Due in more than one year	1,124,011	9,042,683	10,166,694	618,215	8,202,347
<b>TOTAL LIABILITIES</b>	<b>\$ 13,525,847</b>	<b>\$ 10,557,663</b>	<b>\$ 24,083,510</b>	<b>\$ 1,558,015</b>	<b>\$ 24,712,731</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	21,674,592	19,965,661	41,640,253	191,357	34,964,090
Restricted for:	-	-	-	-	-
Capital projects	416,763	-	416,763	30,277	-
Debt service	1,780,350	-	1,780,350	688,473	1,676,137
Other purposes	312,700	-	312,700	-	-
Unrestricted	6,822,669	(1,751,274)	5,071,395	2,269,490	(1,276,797)
<b>TOTAL NET ASSETS</b>	<b>31,007,074</b>	<b>18,214,387</b>	<b>49,221,461</b>	<b>3,179,597</b>	<b>35,363,430</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 44,532,921</b>	<b>\$ 28,772,050</b>	<b>\$ 73,304,971</b>	<b>\$ 4,737,612</b>	<b>\$ 60,076,161</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, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental activities				
General government	\$ 3,317,370	\$ 323,667	\$ 71,792	\$ -
Public safety	7,061,105	1,944,497	417,623	10,150
Public works	4,623,426	55,965	316,725	1,125,587
Culture and recreation	3,061,289	344,488	11,597	6,789
Economic development	187,299	194	-	-
Transportation	312,580	46,764	214,321	-
Interest on long-term debt	86,046	-	-	-
Total Governmental Activities	18,649,115	2,715,575	1,032,058	1,142,526
Business-type Activities				
Gargage and refuse collection	2,242,612	2,692,168	-	-
Sewer operating and maintenance	2,372,598	2,707,000	-	2,486,272
Memorial building concessions	1,962	8,441	-	-
Total Business-type Activities	4,617,172	5,407,609	-	2,486,272
Total Primary Government	\$ 23,266,287	\$ 8,123,184	\$ 1,032,058	\$ 3,628,798
<b>Component Units</b>				
EDA	\$ 266,905	\$ 405,325	\$ 154,962	\$ -
PUC	27,208,497	26,320,978	-	-
Total Component Units	\$ 27,475,402	\$ 26,726,303	\$ 154,962	\$ -

## General Revenues

## Taxes

Property taxes, levied for general purposes  
Property taxes, levied for specific purposes  
Franchise taxes  
Tax increment financing  
Grants and contributions not restricted to specific programs  
Unrestricted investment earnings  
Gain on sale of capital assets  
Transfers

Total General Revenues

Change in Net Assets

NET ASSETS - JANUARY 1

NET ASSETS - DECEMBER 31

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	EDA	PUC
\$ (2,921,911)	\$ -	\$ (2,921,911)		
(4,688,835)	-	(4,688,835)		
(3,125,149)	-	(3,125,149)		
(2,698,415)	-	(2,698,415)		
(187,105)	-	(187,105)		
(51,495)	-	(51,495)		
(86,046)	-	(86,046)		
(13,758,956)	-	(13,758,956)		
-	449,556	449,556		
-	2,820,674	2,820,674		
-	6,479	6,479		
-	3,276,709	3,276,709		
(13,758,956)	3,276,709	(10,482,247)		
			\$ 293,382	\$ -
			-	(887,519)
			\$ 293,382	\$ (887,519)
4,281,954	-	4,281,954	-	-
2,261,035	-	2,261,035	148,626	-
160,918	-	160,918	-	-
-	-	-	40,820	-
8,217,290	-	8,217,290	8,048	-
18,830	1,713	20,543	675	39,224
18,668	13,136	31,804	-	-
18,166	(52,998)	(34,832)	-	-
14,976,861	(38,149)	14,938,712	198,169	39,224
1,217,905	3,238,560	4,456,465	491,551	(848,295)
29,789,169	14,975,827	44,764,996	2,688,046	36,211,725
\$ 31,007,074	\$ 18,214,387	\$ 49,221,461	\$ 3,179,597	\$ 35,363,430

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

## CITY OF HIBBING, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS

December 31, 2011

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,227,860	\$ 238,741	\$ 6,059,064	\$ 16,525,665
Investments	456,631	-	-	456,631
Taxes receivable	347,246	7,412	22,636	377,294
Special assessments receivable	-	-	162,840	162,840
Accounts receivable	301,115	226	186,833	488,174
Interest receivable	1,898	-	-	1,898
Due from other funds	2,322,156	-	-	2,322,156
Due from other governments	68,024	-	117,498	185,522
Loans receivable	-	-	69,431	69,431
Prepaid items and other assets	33,905	5,339	-	39,244
<b>TOTAL ASSETS</b>	<b>\$ 13,758,835</b>	<b>\$ 251,718</b>	<b>\$ 6,618,302</b>	<b>\$ 20,628,855</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 165,943	\$ 1,178	\$ 75,792	\$ 242,913
Salaries payable	1,038,497	63,905	-	1,102,402
Due to other funds	-	-	-	-
Due to other governments	451,432	4,913	-	456,345
Contracts payable	(112)	-	54,124	54,012
Deferred revenue	450,395	-	236,188	686,583
Other accrued liabilities	1	-	-	1
<b>TOTAL LIABILITIES</b>	<b>2,106,156</b>	<b>69,996</b>	<b>366,104</b>	<b>2,542,256</b>
<b>FUND BALANCES</b>				
Nonspendable	33,631	5,339	50,000	88,970
Restricted	47,347	176,383	2,197,113	2,420,843
Committed	-	-	3,616,724	3,616,724
Assigned	9,670,237	-	388,361	10,058,598
Unassigned	1,901,464	-	-	1,901,464
<b>TOTAL FUND BALANCES</b>	<b>11,652,679</b>	<b>181,722</b>	<b>6,252,198</b>	<b>18,086,599</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 13,758,835</b>	<b>\$ 251,718</b>	<b>\$ 6,618,302</b>	<b>\$ 20,628,855</b>

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

CITY OF HIBBING, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET ASSETS

December 31, 2011

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

<b>TOTAL FUND BALANCES, GOVERNMENTAL FUNDS</b>	<b>\$ 18,086,599</b>
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds	23,904,065
Deferred revenue in governmental funds is susceptible to full accrual on the government-wide statements	478,967
A portion of assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets	-
Interest payable on long-term debt is susceptible to full accrual on the government-wide statements	(31,233)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the governmental funds	<u>(11,431,324)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 31,007,074</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, 2011

	General Fund	Library Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 4,396,840	\$ 617,662	\$ 1,617,016	\$ 6,631,518
Special assessments	-	-	47,769	47,769
Licenses and permits	143,901	-	-	143,901
Intergovernmental	8,805,913	33,497	1,526,347	10,365,757
Charges for services	2,176,829	20,320	14,466	2,211,615
Fines	161,138	-	-	161,138
Gifts and contributions	36,876	11,597	2,029	50,502
Interest	14,180	121	4,526	18,827
Miscellaneous	145,596	-	4,311	149,907
<b>TOTAL REVENUES</b>	<b>15,881,273</b>	<b>683,197</b>	<b>3,216,464</b>	<b>19,780,934</b>
<b>EXPENDITURES</b>				
Current				
General government	1,711,614	-	-	1,711,614
Public safety	5,697,701	-	-	5,697,701
Public works	2,574,205	-	-	2,574,205
Culture and recreation	1,814,507	652,756	-	2,467,263
Economic development	114,697	-	50,000	164,697
Transportation	283,144	-	-	283,144
Miscellaneous	1,989,537	-	-	1,989,537
Debt Service				
Principal	293,745	-	394,164	687,909
Interest and other charges	43,209	-	53,315	96,524
Capital Outlay				
General government	-	-	4,745	4,745
Public safety	-	-	118,568	118,568
Public works	-	-	1,949,563	1,949,563
Culture and recreation	-	-	83,045	83,045
Miscellaneous	-	-	47,808	47,808
<b>TOTAL EXPENDITURES</b>	<b>14,522,359</b>	<b>652,756</b>	<b>2,701,208</b>	<b>17,876,323</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,358,914</b>	<b>30,441</b>	<b>515,256</b>	<b>1,904,611</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	543,437	543,437
Transfers out	(366,282)	-	-	(366,282)
Debt issuance	-	-	-	-
Sale of capital assets	13,310	-	5,357	18,667
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(352,972)</b>	<b>-</b>	<b>548,794</b>	<b>195,822</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,005,942</b>	<b>30,441</b>	<b>1,064,050</b>	<b>2,100,433</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>10,646,737</b>	<b>151,281</b>	<b>5,188,148</b>	<b>15,986,166</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 11,652,679</b>	<b>\$ 181,722</b>	<b>\$ 6,252,198</b>	<b>\$ 18,086,599</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, 2011

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

**NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** \$ 2,100,433

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

Expenditures for capital assets	1,923,694	
GASB 51, Easement Capital grant	-	
Less current year depreciation	<u>(2,317,085)</u>	
Net capital assets		(393,391)

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	46,032	
Change in deferred revenue - special assessments	7,334	
Change in deferred revenue - loans receivable	<u>(4,117)</u>	
		49,249

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

Debt issued	-	
Principal repaid	<u>687,909</u>	
		687,909

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	10,478	
Change in long-term compensated absences	22,566	
Change in long-term other postemployment benefits	<u>(1,100,350)</u>	
		(1,067,306)

Internal service funds were historically used by management to charge the costs of certain activities, such as health insurance, to individual funds. A portion of the net revenue (expense) of the internal service fund is reported with governmental activities.

(158,989)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 1,217,905

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

## CITY OF HIBBING, MINNESOTA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 303,382	\$ 198,213	\$ 154,231	\$ 655,826	\$ -
Special assessments receivable	-	111,560	-	111,560	-
Taxes receivable	2,993	-	-	2,993	-
Accounts receivable	322	9,210	1,766	11,298	-
Due from other governments	-	170,137	-	170,137	-
Due from component units	198,580	212,772	-	411,352	-
Inventories	3,866	-	-	3,866	-
Prepaid expenses	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<u>509,143</u>	<u>701,892</u>	<u>155,997</u>	<u>1,367,032</u>	<u>-</u>
<b>NONCURRENT ASSETS</b>					
<b>OTHER ASSETS</b>					
Capital assets					
Land and improvements	297,689	126,030	-	423,719	-
Construction in progress	-	4,998,088	-	4,998,088	-
Infrastructure	-	7,017,465	-	7,017,465	-
Buildings and improvements	121,085	24,927,550	-	25,048,635	-
Equipment, machinery, and furniture	2,821,761	944,435	24,360	3,790,556	-
Less accumulated depreciation	(1,808,732)	(9,718,196)	(24,360)	(11,551,288)	-
<b>TOTAL NONCURRENT ASSETS</b>	<u>1,431,803</u>	<u>28,295,372</u>	<u>-</u>	<u>29,727,175</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>1,940,946</u>	<u>28,997,264</u>	<u>155,997</u>	<u>31,094,207</u>	<u>-</u>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	39,481	7,234	127	46,842	-
Salaries payable	20,399	18,247	-	38,646	-
Accrued interest payable	-	81,156	-	81,156	-
Due to other funds	-	2,322,156	-	2,322,156	-
Due to other governments	10,886	4,548	-	15,434	-
Other accrued expenses	-	-	-	-	-
Deferred revenue	40	198,213	-	198,253	-
Compensated absences	69,814	91,466	-	161,280	-
Contracts payable	-	204,865	-	204,865	-
Bonds, notes and leases payable-current	-	718,830	-	718,830	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>140,620</u>	<u>3,646,715</u>	<u>127</u>	<u>3,787,462</u>	<u>-</u>
<b>NONCURRENT LIABILITIES</b>					
Compensated absences	35,496	14,178	-	49,674	-
Bonds, notes and leases payable	-	9,042,683	-	9,042,683	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>35,496</u>	<u>9,056,861</u>	<u>-</u>	<u>9,092,357</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>176,116</u>	<u>12,703,576</u>	<u>127</u>	<u>12,879,819</u>	<u>-</u>
<b>NET ASSETS</b>					
Invested in Capital assets, net of related debt	1,431,803	18,533,859	-	19,965,662	-
Unrestricted	333,027	(2,240,171)	155,870	(1,751,275)	-
<b>TOTAL NET ASSETS</b>	<u>\$ 1,764,830</u>	<u>\$ 16,293,688</u>	<u>\$ 155,870</u>	<u>\$ 18,214,387</u>	<u>\$ -</u>

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

Total net assets per government-wide financial statements

\$ 18,214,387

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

## CITY OF HIBBING, MINNESOTA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
Year Ended December 31, 2011

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities - Insurance Internal Service Fund</b>
	<b>Garbage and Refuse Collection Enterprise Fund</b>	<b>Sewer Operating and Maintenance Enterprise Fund</b>	<b>Nonmajor Enterprise Fund-Memorial Building Concessions</b>	<b>Totals</b>	
<b>OPERATING REVENUES</b>					
Charges for services	\$ 2,692,168	\$ 2,625,045	\$ 8,441	\$ 5,325,654	\$ -
Sewer connect fees	-	36,270	-	36,270	-
Miscellaneous	-	45,685	-	45,685	-
<b>TOTAL OPERATING REVENUES</b>	<b>2,692,168</b>	<b>2,707,000</b>	<b>8,441</b>	<b>5,407,609</b>	<b>-</b>
<b>OPERATING EXPENSES</b>					
Personal services	763,988	760,259	-	1,524,247	-
Contractual services	913,657	88,655	-	1,002,312	-
Administration	140	-	-	140	-
Utilities	122,540	218,274	-	340,814	-
Repairs and maintenance	2,244	61,472	1,640	65,356	-
Other supplies and expenses	60,937	178,994	322	240,253	-
Insurance claims and expenses	53,721	37,419	-	91,140	-
Depreciation	319,004	803,517	-	1,122,521	-
Miscellaneous	6,381	12,363	-	18,744	-
<b>OTHER OPERATING EXPENSES</b>	<b>2,242,612</b>	<b>2,160,953</b>	<b>1,962</b>	<b>4,405,527</b>	<b>-</b>
<b>OPERATING INCOME</b>	<b>449,556</b>	<b>546,047</b>	<b>6,479</b>	<b>1,002,082</b>	<b>-</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Interest income	640	785	288	1,713	-
Miscellaneous revenue (expense)	-	(425)	-	(425)	-
Impairment loss on capital assets	-	-	-	-	-
Sale of capital assets	13,136	-	-	13,136	-
Operating grants	-	-	-	-	-
Interest expense	-	(211,220)	-	(211,220)	-
Plan dissolution distribution	-	-	-	-	(211,986)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>13,776</b>	<b>(210,860)</b>	<b>288</b>	<b>(196,796)</b>	<b>(211,986)</b>
<b>INCOME BEFORE CAPITAL GRANTS</b>	<b>463,332</b>	<b>335,187</b>	<b>6,767</b>	<b>805,286</b>	<b>(211,986)</b>
<b>CAPITAL GRANTS</b>	<b>-</b>	<b>2,486,272</b>	<b>-</b>	<b>2,486,272</b>	<b>-</b>
<b>CHANGE IN NET ASSETS</b>	<b>463,332</b>	<b>2,821,459</b>	<b>6,767</b>	<b>3,291,558</b>	<b>(211,986)</b>
<b>TOTAL NET ASSETS - JANUARY 1</b>	<b>1,301,498</b>	<b>13,472,229</b>	<b>149,103</b>	<b>14,922,830</b>	<b>211,986</b>
<b>TOTAL NET ASSETS - DECEMBER 31</b>	<b>\$ 1,764,830</b>	<b>\$ 16,293,688</b>	<b>\$ 155,870</b>	<b>\$ 18,214,388</b>	<b>\$ -</b>
Change in net assets, per above				\$ 3,291,558	
Insurance Internal Service Fund 2011 Plan dissolution distribution				(52,998)	
Change in business-type activities in net assets per government-wide financial statements				<u>\$ 3,238,560</u>	

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

## CITY OF HIBBING, MINNESOTA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended December 31, 2011

	Business-type Activities - Enterprise Funds				Governmental Activities - Insurance Internal Service Fund
	Garbage and Refuse Collection Enterprise Fund	Sewer Operating and Maintenance Enterprise Fund	Nonmajor Enterprise Fund-Memorial Building Concessions	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 2,712,090	\$ 2,706,300	\$ 6,675	\$ 5,425,065	\$ -
Cash paid to suppliers	(1,394,095)	(849,849)	(1,835)	(2,245,779)	-
Cash paid to employees	(531,422)	(546,084)	-	(1,077,506)	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>786,573</u>	<u>1,310,367</u>	<u>4,840</u>	<u>2,101,780</u>	<u>-</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Miscellaneous (payment) collection	-	(425)	-	(425)	-
Interfund financing repayments	(446,960)	(477,154)	-	(924,114)	-
Plan dissolution distribution	-	-	-	-	(211,986)
Prior year cash deficit advances	-	-	-	-	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(446,960)</u>	<u>(477,579)</u>	<u>-</u>	<u>(924,539)</u>	<u>(211,986)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Purchase or construction of capital assets	(50,007)	(4,029,717)	-	(4,079,724)	-
Proceeds from sale of capital assets	13,136	-	-	13,136	-
Advances on notes payable	-	1,110,313	-	1,110,313	-
Principal paid on long-term debt	-	(647,348)	-	(647,348)	-
Interest paid on long-term debt	-	(208,990)	-	(208,990)	-
Capital grants and contributions	-	1,732,202	-	1,732,202	-
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(36,871)</u>	<u>(2,043,540)</u>	<u>-</u>	<u>(2,080,411)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest on investments	<u>640</u>	<u>785</u>	<u>288</u>	<u>1,713</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>303,382</u>	<u>(1,209,967)</u>	<u>5,128</u>	<u>(901,457)</u>	<u>(211,986)</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>-</u>	<u>1,408,180</u>	<u>149,103</u>	<u>1,557,283</u>	<u>211,986</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u>\$ 303,382</u>	<u>\$ 198,213</u>	<u>\$ 154,231</u>	<u>\$ 655,826</u>	<u>\$ -</u>

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

## CITY OF HIBBING, MINNESOTA

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (CONTINUED)**  
Year Ended December 31, 2011

	<b>Business-type Activities - Enterprise Funds</b>				<b>Governmental Activities - Insurance Internal Service Fund</b>
	<b>Garbage and Refuse Collection Enterprise Fund</b>	<b>Sewer Operating and Maintenance Enterprise Fund</b>	<b>Nonmajor Enterprise Fund-Memorial Building Concessions</b>	<b>Totals</b>	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 449,556	\$ 546,047	\$ 6,479	\$ 1,002,082	\$ -
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	319,004	803,517	-	1,122,521	-
(Increase) decrease in:					
Special assessments receivable	-	-	-	-	-
Taxes receivable	(1,589)	-	-	(1,589)	-
Accounts receivable	5,419	(1,325)	(1,766)	2,328	-
Due from component unit	16,364	1,871	-	18,235	-
Inventories	985	-	-	985	-
Prepaid expenses	6,056	5,100	-	11,156	-
Increase (decrease) in:					
Accounts payable	(1,694)	(20,214)	127	(21,781)	-
Salaries payable	(21,254)	(4,113)	-	(25,367)	-
Other accrued expenses	-	-	-	-	-
Deferred revenue	40	-	-	40	-
Compensated absences - current	9,546	(2,096)	-	7,450	-
Due to other governments	(272)	(1,246)	-	(1,518)	-
Compensated absences - long-term	4,412	(17,174)	-	(12,762)	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 786,573</b>	<b>\$ 1,310,367</b>	<b>\$ 4,840</b>	<b>\$ 2,101,780</b>	<b>\$ -</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, 2011

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Hibbing was incorporated on August 15, 1893. The City operates as a statutory city under the standard plan. Under the standard plan, voters elect a mayor, clerk-treasurer, and five councilors. Pursuant to statutory authorization, the City has combined the duties of treasurer and clerk into one position.

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

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended December 31, 2011.

**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, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The component units that are discretely presented are as follows:

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

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

**B. Basis of Financial Statement Presentation**

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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



CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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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 Assets. The City has presented the following proprietary funds:

**Major Proprietary Funds:**

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

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

**Nonmajor Proprietary Funds:**

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

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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

Additionally, the government reports the following fund type:

The Insurance Internal Service Fund was historically used to account for the insurance premiums, co-pays, and deductibles of retiree and employee insurance costs. Financing was provided by insurance premiums from employees and the City and service charges to the various participating governmental proprietary funds. As of December 31, 2006, the City no longer utilized this fund and created a Voluntary Employee Benefit Association Trust (VEBA Plan) to fund a portion of the employee's and retiree's health insurance deductibles. This fund had been maintained to process any run off claims that may have occurred prior to December 31, 2006. During July 2011, the City Council authorized the final dissolution and the City made a distribution to current employees and retirees that were part of the historical plan as of December 31, 2006. The amount distributable to employees and retirees totalled \$34,871. This amount was credited against the payroll deduction for employee's health insurance premiums or as a reduction of retiree health insurance premium billings. The amount distributable to the City was \$177,115. The distributions to each participant was their pro-rata share of contributions to the fund during 2006.

**C. Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred. Property taxes are generally recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized when all requirements imposed by the provider have been met.

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, 2011

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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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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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 assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs if material, are reported as deferred charges and amortized over the term of the related debt. The long-term debt consists primarily of general obligation bonds payable and severance payable.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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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 assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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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, 2011

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY****Fund and Net Asset Deficits**

The following funds of the City or the Hibbing Economic Development Authority, a discretely presented component unit, had a deficit fund balance or net assets at December 31, 2011:

Primary Government	
Sewer Operating and Maintenance Enterprises	
Fund - Unrestricted Net Assets	\$2,240,171

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

EDA Component Unit	
Storefront Renovation Capital Project Fund	\$35,243

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

EDA Component Unit	
Tax Increment District XI	\$2,164

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	17,179,726	1,903,320	8,000	19,091,046
Total cash and cash equivalents	17,181,490	1,903,320	8,000	19,092,810
Temporarily restricted assets				
Cash and cash equivalents	-	46,238	1,967,221	2,013,459
Investments				
Other	456,631	386,123	337,001	1,179,755
Total investment	456,631	386,123	337,001	1,179,755
Total	\$ 17,638,121	\$ 2,335,681	\$ 2,312,222	\$ 22,286,024

## CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**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 \$19,973,802; the bank balance was \$20,043,853. At December 31, 2011, the carrying amount of Hibbing Public Utility Commission's deposits was \$1,967,221 and the bank balance was \$1,855,077. At year end, the City's bank balances were entirely insured, or collateralized with securities held by the pledging financial institution's agent in the City's name as required by Minnesota Statute §118A.03. At year end, the Hibbing Public Utility Commission's bank balances were fully covered by depository insurance or by collateral held in the Commission's name by the pledging financial institution's correspondent bank.

**Investments***Custodial Credit Risk - Investments*

For the investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or securities that are in the possession of an outside party. The City's formal investment policy requires brokers to have Securities Investor Protector Insurance (SIPC) and excess SIPC coverage. At year end the City had \$455,402 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, 2011, the City had the following investments:

	<u>Fair Value</u>	<u>Rating</u>
Primary Government		
Minnesota Municipal Money		
Market (4M) Fund	\$ 1,229	Not rated
Government Bonds		
FNMA/FHLMC	455,402	Moody AAA
Total Fair Value	<u>\$ 456,631</u>	
Component Unit - EDA		
Wells Fargo Government Advantage		
Money Market Fund	\$ 386,123	Not rated
Total Fair Value	<u>\$ 386,123</u>	



## CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**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, 2011, 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, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
<b>Governmental Activities</b>					
<b>Capital assets, not being depreciated:</b>					
Land and improvements	\$ 1,620,062	\$ -	\$ -	\$ -	\$ 1,620,062
Intangible - easements	25,600	-	-	-	25,600
Artwork	1,807,350	-	-	-	1,807,350
Gravel roads	2,909,500	-	-	-	2,909,500
Construction in progress	699,087	108,473	(693,104)	-	114,456
<b>Total capital assets, not being depreciated</b>	<b>7,061,599</b>	<b>108,473</b>	<b>(693,104)</b>	<b>-</b>	<b>6,476,968</b>
<b>Capital assets, being depreciated:</b>					
Infrastructure	21,236,639	1,759,212	-	-	22,995,851
Buildings and improvements	21,074,129	30,245	-	-	21,104,374
Equipment, machinery, and furniture	9,968,168	718,869	(673,517)	-	10,013,520
<b>Total capital assets, being depreciated</b>	<b>52,278,936</b>	<b>2,508,326</b>	<b>(673,517)</b>	<b>-</b>	<b>54,113,745</b>
<b>Less accumulated depreciation for:</b>					
Infrastructure	(14,527,270)	(1,118,526)	-	-	(15,645,796)
Buildings and improvements	(13,027,581)	(571,636)	-	-	(13,599,217)
Equipment, machinery, and furniture	(7,488,228)	(626,924)	673,517	-	(7,441,635)
<b>Total accumulated depreciation</b>	<b>(35,043,079)</b>	<b>(2,317,086)</b>	<b>673,517</b>	<b>-</b>	<b>(36,686,648)</b>
<b>Total capital assets, being depreciated, net</b>	<b>17,235,857</b>	<b>191,240</b>	<b>-</b>	<b>-</b>	<b>17,427,097</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 24,297,456</b>	<b>\$ 299,713</b>	<b>\$ (693,104)</b>	<b>\$ -</b>	<b>\$ 23,904,065</b>

## CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

## 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	\$ 340,769	\$ 82,950	\$ -	\$ -	\$ 423,719
Construction in progress	4,307,237	1,580,371	(889,521)	-	4,998,087
<b>Total Capital assets, not being depreciated</b>	<u>4,648,006</u>	<u>1,663,321</u>	<u>(889,521)</u>	<u>-</u>	<u>5,421,806</u>
<b>Capital assets, being depreciated:</b>					
Infrastructure	4,562,807	2,454,658	-	-	7,017,465
Buildings and improvements	25,048,635	-	-	-	25,048,635
Equipment, machinery, and furniture	4,164,102	17,252	(390,798)	-	3,790,556
<b>Total capital assets, being depreciated</b>	<u>33,775,544</u>	<u>2,471,910</u>	<u>(390,798)</u>	<u>-</u>	<u>35,856,656</u>
<b>Less accumulated depreciation for:</b>					
Infrastructure	(291,774)	(114,456)	-	-	(406,230)
Buildings and improvements	(8,240,115)	(569,085)	-	-	(8,809,200)
Equipment, machinery, and furniture	(2,287,677)	(438,979)	390,798	-	(2,335,858)
<b>Total accumulated depreciation</b>	<u>(10,819,566)</u>	<u>(1,122,520)</u>	<u>390,798</u>	<u>-</u>	<u>(11,551,288)</u>
<b>Total capital assets being depreciated, net</b>	<u>22,955,978</u>	<u>1,349,390</u>	<u>-</u>	<u>-</u>	<u>24,305,368</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 27,603,984</u>	<u>\$ 3,012,711</u>	<u>\$ (889,521)</u>	<u>\$ -</u>	<u>\$ 29,727,174</u>

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

**Governmental activities**

General government	\$ 254,486
Public safety	309,021
Public works	1,415,322
Culture and recreation	308,820
Economic development	-
Transportation	29,436
<b>Total depreciation expense- governmental activities</b>	<u>\$ 2,317,085</u>

**Business-type activities**

Garbage and refuse collection	\$ 319,004
Sewer operating and maintenance	803,517
<b>Total depreciation expense- business-type activities</b>	<u>\$ 1,122,521</u>

## CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

## NOTE 4 CAPITAL ASSETS (Continued)

Activity for the Hibbing Economic Development Authority for the year ended December 31, 2011, 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	\$ 127,338	44,977	-	\$ -	\$ 172,315
<b>Total capital assets, not being depreciated</b>	<b>127,338</b>	<b>44,977</b>	<b>-</b>	<b>-</b>	<b>172,315</b>
<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>	<b>19,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,699</b>
<b>Less accumulated depreciation for:</b>					
Buildings and improvements	-	-	-	-	-
Equipment, machinery, and furniture	-	(657)	-	-	(657)
<b>Total accumulated depreciation</b>	<b>-</b>	<b>(657)</b>	<b>-</b>	<b>-</b>	<b>(657)</b>
<b>Total capital assets, being depreciated, net</b>	<b>19,699</b>	<b>(657)</b>	<b>-</b>	<b>-</b>	<b>19,042</b>
<b>Hibbing Economic Development Authority capital assets, net</b>	<b>\$ 147,037</b>	<b>\$ 44,320</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 191,357</b>

Activity for the Hibbing Public Utilities Commission for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Reclass- ification	Ending Balance
<b>Capital assets, not being depreciated:</b>					
Construction in progress	\$ 2,691,760	\$ 1,499,025	\$ -	\$ -	\$ 4,190,785
<b>Total capital assets, not being depreciated</b>	<b>2,691,760</b>	<b>1,499,025</b>	<b>-</b>	<b>-</b>	<b>4,190,785</b>
<b>Capital assets, being depreciated:</b>					
Buildings and grounds	8,752,748	1,017,573	-	-	9,770,321
Transmission and distribution system	44,639,841	1,053,575	-	-	45,693,416
Equipment, machinery, and furniture	47,012,554	1,172,998	(79,636)	-	48,105,916
<b>Total capital assets, being depreciated</b>	<b>100,405,143</b>	<b>3,244,146</b>	<b>(79,636)</b>	<b>-</b>	<b>103,569,653</b>
<b>Less total accumulated depreciation</b>	<b>(66,903,489)</b>	<b>(2,653,678)</b>	<b>70,663</b>	<b>-</b>	<b>(69,486,504)</b>
<b>Total Capital assets, being depreciated, net</b>	<b>33,501,654</b>	<b>590,468</b>	<b>(8,973)</b>	<b>-</b>	<b>34,083,149</b>
<b>Hibbing Public Utilities Commission capital assets, net</b>	<b>\$ 36,193,414</b>	<b>\$ 2,089,493</b>	<b>\$ (8,973)</b>	<b>\$ -</b>	<b>\$ 38,273,934</b>

## 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, 2011. The future payments for these leases are as follows:

Year Ending December 31,	Amount
2012	83,177
2013	8,051
2014	2,607
	<u>\$ 93,835</u>

## CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**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 \$500,000 and carries an interest rate of 0.5% above the Wall Street Journal prime rate. The agreement matures on November 1, 2012. As of December 31, 2011, 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, 2010 and 2011, the City had advanced \$408,945 and \$1,110,313, respectively against the approved loan of \$1,726,575. The City anticipates making draws on the remaining balance of \$207,317 during 2012 on eligible projects. Thus, the entire loan amount of \$1,726,575 is reflected in the projected principal payments.

The City has also issued long-term capital leases and certificates of indebtedness for the purchase of major equipment. These leases and certificates are considered obligations of the primary government and are being repaid as part of each year's budgeted expenditures. Included in the lease purchase obligations are lease agreements between the City and the EDA-Component Unit for repayment of debt issued by the EDA-Component Unit for construction on the expansion of a public works facility and an animal shelter. The amount of the obligations related to the EDA-Component Unit at December 31, 2011 was \$707,704.

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, 2011, the Public Utilities Commission's notes payable balance on this loan was \$697,844. 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:

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding
<b>Primary Government</b>					
<b>Governmental Activities</b>					
General obligation bonds					
2007 A Equipment	12/1/2007	4.00%	\$ 440,000	2/1/2017	\$ 235,000
Series 2009B	5/1/2009	0.75-3.50%	\$ 1,370,000	2/1/2019	975,000
Total General obligation bonds					1,210,000
Certificates of indebtedness					
Series 2005A	12/1/2005	4.68%	\$ 565,000	8/1/2015	120,000
Series 2006A	11/1/2006	4.21%	\$ 455,000	11/1/2016	170,000
Total Certificates of indebtedness					290,000
Lease purchase obligations	Various	1.75-6.40%	Various	2/1/2024	729,473
Compensated absences payable					194,011
OPEB liability					9,007,840
<b>Governmental Activities Long-term Liabilities</b>					<b>\$ 11,431,324</b>

## CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

## 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	\$ 6,157,000
2007A Sewer Revenue Bonds	12/1/2007	4.00-4.10%	\$ 2,365,000	2/1/2028	2,125,000
2010 Sewer Revenue Note	11/30/2010	1.34%	\$ 1,726,575	8/20/2025	1,473,683
Lease purchase obligations	10/7/2010	4.67%	\$ 15,546	9/7/2012	5,830
Compensated absences payable					49,674
<b>Business-type Activities Long-term Liabilities</b>					<b>9,811,187</b>
<b>Total Primary Government Long-Term Liabilities</b>					<b>21,242,511</b>
<b>Discretely Presented Component Units</b>					
<b>EDA</b>					
Bonds and notes payable					
1997 Public Project					
Revenue Bonds	3/5/1997	5.40-6.40%	\$ 3,850,000	2/1/2012	375,000
1997B General Obligation					
Tax Increment Bonds	8/1/1997	7.50%	\$ 320,000	2/1/2017	185,000
1999A General Obligation					
Tax Increment Bonds	10/1/1999	7.49%	\$ 165,000	2/1/2016	80,000
2009A Public Project					
Revenue Bonds	5/7/2009	1.75-4.50%	\$ 462,500	2/1/2024	415,204
<b>Total EDA-Component Unit Long-Term Liabilities</b>					<b>1,055,204</b>
<b>PUC</b>					
Bonds, notes, and real estate mortgage payable					9,185,934
Compensated absences payable					1,016,378
OPEB liability					9,905,004
<b>Total PUC-Component Unit Long-Term Liabilities</b>					<b>20,107,316</b>
<b>Total Reporting Entity</b>					<b>\$ 42,405,031</b>

Long-term liability activity for the year ended December 31, 2011 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	\$ 1,480,000	\$ -	\$ (270,000)	\$ 1,210,000	\$ 275,000
Certificates of indebtedness	377,000	-	(87,000)	290,000	79,000
Leases payable	1,060,382	-	(330,909)	729,473	336,258
Compensated absences payable	216,577	40,415	(62,981)	194,011	-
OPEB liability	7,907,490	2,488,471	(1,388,121)	9,007,840	-
<b>Governmental Activities- Long-Term Liabilities</b>	<b>\$ 11,041,449</b>	<b>\$ 2,528,886</b>	<b>\$ (2,139,011)</b>	<b>\$ 11,431,324</b>	<b>\$ 690,258</b>

## CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

## 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	\$ 7,069,945	\$ 1,110,313	\$ (549,575)	\$ 7,630,683	\$ 623,000
GO revenue bonds payable	2,215,000	-	(90,000)	2,125,000	90,000
Leases payable	13,603	-	(7,773)	5,830	5,830
Compensated absences payable	62,436	4,411	(17,173)	49,674	-
<b>Business-type Activities- Long-term Liabilities</b>	<u>9,360,984</u>	<u>1,114,724</u>	<u>(664,521)</u>	<u>9,811,187</u>	<u>718,830</u>
Total Primary Government	<u>\$ 20,402,433</u>	<u>\$ 3,643,610</u>	<u>\$ (2,803,532)</u>	<u>\$ 21,242,511</u>	<u>\$ 1,409,088</u>
<b>Discretely Presented Component Units</b>					
<b>EDA</b>					
Bonds payable	<u>\$ 1,460,949</u>	<u>\$ -</u>	<u>\$ (405,745)</u>	<u>\$ 1,055,204</u>	<u>\$ 436,989</u>
<b>PUC</b>					
Bonds, notes, and real estate mortgage payable	\$ 9,816,072	\$ 244,266	\$ (874,404)	\$ 9,185,934	\$ 983,587
Compensated absences payable	1,047,820	-	(31,442)	1,016,378	-
OPEB liability	7,493,130	3,107,736	(695,862)	9,905,004	-
<b>PUC-Component Unit Long-term Liabilities</b>	<u>\$ 18,357,022</u>	<u>\$ 3,352,002</u>	<u>\$ (1,601,708)</u>	<u>\$ 20,107,316</u>	<u>\$ 983,587</u>
<b>Total</b>	<u>\$ 40,220,404</u>	<u>\$ 6,995,612</u>	<u>\$ (4,810,985)</u>	<u>\$ 42,405,031</u>	<u>\$ 2,829,664</u>

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

Year Ending December 31	Primary Government					
	Government Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 690,258	\$ 67,052	\$ 718,830	\$ 210,028	\$ 1,409,088	\$ 277,080
2013	361,309	47,103	728,000	199,242	1,089,309	246,345
2014	309,707	37,832	744,000	184,772	1,053,707	222,604
2015	177,190	30,277	754,000	170,018	931,190	200,295
2016	149,761	23,824	770,000	154,994	919,761	178,818
2017-2021	415,880	58,001	4,087,000	536,398	4,502,880	594,399
2022-2026	125,368	8,621	1,837,000	170,344	1,962,368	178,965
2027-2031	-	-	330,000	13,735	330,000	13,735
Total	<u>\$ 2,229,473</u>	<u>\$ 272,710</u>	<u>\$ 9,968,830</u>	<u>\$ 1,639,531</u>	<u>\$ 12,198,303</u>	<u>\$ 1,912,241</u>
Year Ending December 31	Component Units					
	EDA		PUC			
	Principal	Interest	Principal	Interest		
2012	\$ 436,989	\$ 45,666	983,587	223,083		
2013	63,309	30,129	1,011,967	198,881		
2014	69,707	26,311	1,711,897	147,804		
2015	71,190	22,206	901,577	125,058		
2016	82,761	17,614	920,577	104,020		
2017-2021	205,880	47,038	3,105,731	274,392		
2022-2026	125,368	8,621	570,000	70,709		
2027-2031	-	-	-	-		
Total	<u>\$ 1,055,204</u>	<u>\$ 197,585</u>	<u>\$ 9,205,336</u>	<u>\$ 1,143,947</u>		

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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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 and finance projects for three facilities used to provide residential services to adults with developmental disabilities in both cities by issuing revenue obligations pursuant to Minnesota Statute §469.152-.165. Since the City of Buhl is the "issuer", and the City of Hibbing gave "host consent", this revenue obligation is not included in the aggregate amount payable in the conduit debt explained below. This agreement shall terminate upon the earlier of: defeasance of the obligations; final maturity and payment of the obligations; or payment in full of the obligations prior to their final maturity.

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

The City has issued revenue bonds and notes to provide financial assistance to private-sector entities for the acquisition and construction of commercial facilities and equipment deemed to be in the public interest. These bonds and notes are secured by the property financed and are payable solely from revenues derived from loan agreements. The City is not obligated in any manner for repayment of the bonds or notes, accordingly, they are not reported as a liability in the accompanying financial statements.

Since 1995, there are four issues outstanding. The aggregate amount payable at December 31, 2011, is \$3,465,868. Records for revenue bonds or notes issued prior to 1995 are not available.

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

**NOTE 8 INTERFUND BALANCES AND ACTIVITY**

The composition of interfund balances as of December 31, 2011, 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	\$ 2,322,156	\$ 117,225	\$ -	\$ -
Enterprise Funds	-	-	-	-
Garbage and Refuse	-	198,580	-	-
Sewer Operating and Maintenance	-	212,772	2,322,156	-
<b>Total Primary Government</b>	<u>2,322,156</u>	<u>528,577</u>	<u>2,322,156</u>	<u>-</u>
<b>Component Units</b>				
Hibbing Economic Development Authority EDA				
General Fund	1,664	-	-	-
Tax Increment XI	-	-	1,664	-
Economic Development Special				
Revenue Fund	78,000	-	-	-
Storefront Renovation Capital				
Projects Funds	-	-	78,000	-
Subtotal HEDA	<u>79,664</u>	<u>-</u>	<u>79,664</u>	<u>-</u>
Hibbing Public Utilities Commission	-	-	-	411,352
<b>Total Component Units</b>	<u>79,664</u>	<u>-</u>	<u>79,664</u>	<u>411,352</u>

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

Interfund transfers for the year ended December 31, 2011, 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	\$ -	\$ 366,282
Capital Projects Funds		
Mining Effects	366,282	-
Debt Service Funds		
Other Postemployment Benefits	177,155	-
<b>Total Primary Government</b>	<u>\$ 543,437</u>	<u>\$ 366,282</u>

Transfers are used to: (1) eliminate deficit fund balances, (2) to help fund operating losses or deficits, (3) establish new funds, and (4) to provide funding in the OPEB debt service fund. The \$177,155 transfer in to the Other Postemployment Benefits Debt Service Fund is from the plan dissolution distribution of the Insurance Internal Service Fund as described in Note 1.



**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

**NOTE 9 FUND BALANCE CLASSIFICATION**

Restricted Net Assets

The amount reported as net assets restricted for other purposes on the Statement of Net Assets is comprised of the following:

**Primary Government**

Restricted for other purposes-

Library	\$ 181,722
Contracted professional services	33,631
Economic development	50,000
Debt service	1,780,350
Capital projects	416,763
Gambling 10% contribution fund	10,183
Police forfeiture fund	37,164
<b>Total Restricted Net Assets</b>	<b>\$ 2,509,813</b>

At December 31, 2011, 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	33,631	5,339	-	38,970
<b>Total nonspendable</b>	<b>\$ 33,631</b>	<b>\$ 5,339</b>	<b>\$ 50,000</b>	<b>\$ 88,970</b>
<b>Restricted for:</b>				
Debt service	\$ -	\$ -	\$ 1,780,350	\$ 1,780,350
Capital equipment and improvements	-	-	416,763	416,763
Library operations	-	176,383	-	176,383
Gambling 10% contribution fund	10,183	-	-	10,183
Police forfeiture fund	37,164	-	-	37,164
<b>Total restricted</b>	<b>\$ 47,347</b>	<b>\$ 176,383</b>	<b>\$ 2,197,113</b>	<b>\$ 2,420,843</b>
<b>Committed to:</b>				
Housing incentive	\$ -	\$ -	\$ 48,357	\$ 48,357
Small Cities development	-	-	24,816	24,816
Economic development	-	-	28,685	28,685
OPEB obligation	-	-	2,761,743	2,761,743
Memorial Building	-	-	162,656	162,656
Capital equipment and improvements	-	-	590,467	590,467
<b>Total committed</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,616,724</b>	<b>\$ 3,616,724</b>
<b>Assigned to:</b>				
2012 budget	\$ 7,548,284	\$ -	\$ -	\$ 7,548,284
Future state aid reduction	1,234,350	-	-	1,234,350
Future capital projects funded from sale of assets	514,853	-	-	514,853
Workers' compensation premium adjustments	372,750	-	-	372,750
Other improvement projects	-	-	388,361	388,361
<b>Total assigned</b>	<b>\$ 9,670,237</b>	<b>\$ -</b>	<b>\$ 388,361</b>	<b>\$ 10,058,598</b>

**CITY OF HIBBING, MINNESOTA**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

**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.

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:

<u>Tax Increment Financing District</u>	<u>No. VII</u>	<u>No. VIII</u>	<u>No. XI</u>
Redevelopment project district established in:	1993	-	1999
Economic development district established in:	-	-	-
Qualified housing district established in:	-	1993	-
Anticipated last tax increment year:	2019	2020	2025
Original net tax capacity:	\$ 3,412	\$ -	\$ 525
Current net tax capacity:	\$ 53,815	\$ 8,574	\$ 14,690
Fiscal disparity deduction:	\$ -	\$ -	\$ 3,443
Captured net tax capacity retained by Authority:	\$ 50,403	\$ 8,574	\$ 10,722
Total bonds issued			
Tax increment bonds	320,000	-	165,000
Tax increment note	-	-	-
Amount redeemed	(135,000)	-	(85,000)
Outstanding bonds at December 31, 2011	\$ 185,000	\$ -	\$ 80,000

CITY OF HIBBING, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2011

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**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.

**Grants**

The City participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2011, may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Construction Projects**

The City had nine outstanding construction projects as of December 31, 2011. The projects are evidenced by contractual commitments with contractors and engineers and include:

Project	<u>Spent to Date</u>	<u>Commitments Remaining</u>
<b>Capital Projects Funds</b>		
Capital Equipment and improvement		
City Hall Remodel	\$ -	\$ 1,177
REG Renewable Energy Grant	25,394	5,346
Library Energy Efficiency	4,760	-
Library Improvements	53,658	-
 Permanent Improvement		
Rainy Road Bridge	9,989	8,099
Koivu Road Bridge	3,819	6,373
Dixon Bridge	4,388	-
<b>Total Capital Fund Project</b>	<u>102,008</u>	<u>20,995</u>
 <b>Enterprise Fund</b>		
Sewer Operating and Maintenance Fund		
19th Street Interceptor	1,654,247	-
Phase 6 Sewer Improvements	431,269	350,227
Brooklyn Sewer Improvements	72,352	-
Mercury Project	41,169	816,832
Waste Treatment Project	2,834,219	-
<b>Total Sewer Operating and Maintenance Fund</b>	<u>5,033,256</u>	<u>1,167,059</u>
<b>Total All Funds</b>	<u>\$ 5,135,264</u>	<u>\$ 1,188,054</u>

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

**CITY OF HIBBING, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2011

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**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, 2011, the debt service fund had following balances:

Assets	\$	462,647
Fund Balance	\$	462,647

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 2011, 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 2011, 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, 2011

**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 2011, 2010 and 2009, there were 215, 176 and 161 retirees and eligible dependents, respectively, that received postemployment benefits. The City provided required contributions of \$1,388,121, \$1,102,010 and \$971,035 for 2011, 2010 and 2009, respectively, toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees, and net of retiree contributions totaling \$302,132, \$309,371 and \$290,345 for 2011, 2010 and 2009, 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, 2011, 2010 and 2009, respectively:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Normal cost (service cost for one year)	\$ 748,207	\$ 1,174,688	\$ 1,174,688
Amortization of unfunded actuarial accrued liability	<u>\$ 1,913,652</u>	<u>\$ 2,478,305</u>	<u>\$ 2,478,305</u>

## CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011

## NOTE 16 OTHER POSTEMPLOYMENT BENEFITS (Continued)

**Annual OPEB Cost and Net OPEB Obligation (Continued)**

	2011	2010	2009
Annual required contribution	\$ 2,661,859	\$ 3,652,993	\$ 3,652,993
Interest on net OPEB obligation	256,993	235,259	114,483
Adjustment to annual required contribution	(430,381)	(106,722)	(112,535)
Annual OPEB cost (expense)	2,488,471	3,781,530	3,654,941
Contribution toward the OPEB cost	(1,388,121)	(1,102,010)	(971,035)
Increase in net OPEB obligation	1,100,350	2,679,520	2,683,906
Net OPEB Obligation, Beginning of Year	7,907,490	5,227,970	2,544,064
Net OPEB Obligation, End of Year	\$ 9,007,840	\$ 7,907,490	\$ 5,227,970
Percentage of annual OPEB cost contributed	55.8%	29.1%	26.6%

**Funding Status and Funding Progress**

As of December 31, 2011, 2010 and 2009, respectively, the actuarial accrued liability for benefits was \$34,267,574, \$39,707,119 and \$40,368,826 and the actuarial value of assets was zero for all three years. The covered payroll (annual payroll of active participating employees) was \$8,041,015, \$8,103,552 and \$8,501,336 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 426.2, 490.0 and 474.9 percent for 2011, 2010 and 2009, 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, 2011, 2010 and 2009, and to estimate the City's 2011, 2010 and 2009 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, 2011 is 27 years.

## CITY OF HIBBING, MINNESOTA

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

**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, 2011 and 2010, the Commission expended \$695,862 and \$617,514, respectively, for benefits for approximately 39 retirees in 2010 and 40 retirees in 2009.

**Annual OPEB Cost and Net OPEB Obligation**

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

	2011	2010	2009
Annual required contribution	\$ 3,262,888	\$ 2,801,176	\$ 2,927,229
Interest on net OPEB obligation	243,527	126,053	-
Adjustment to annual required contribution	(398,679)	-	-
Annual OPEB cost	3,107,736	2,927,229	2,927,229
Contribution during the year	695,862	617,514	544,990
Increase in net OPEB obligation	2,411,874	2,309,715	2,382,239
Net OPEB Obligation, Beginning of Year	7,493,130	5,183,415	2,801,176
Net OPEB Obligation, End of Year	\$ 9,905,004	\$ 7,493,130	\$ 5,183,415

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

Fiscal Year End	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2011	\$ 3,107,736	\$ 695,862	22.3%	\$ 9,905,004
December 31, 2010	\$ 2,927,229	\$ 617,514	21.1%	\$ 7,493,130
December 31, 2009	\$ 2,927,229	\$ 544,990	18.6%	\$ 5,183,415

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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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, 2011

**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, 2011 and 2010, respectively, the Commission has reported on its balance sheet an investment of \$11,046,458 and \$11,376,222, in the joint venture, which represents its share of monies directly invested and costs incurred in the establishment of the joint venture as well as its 50 percent share of the change in the Authority's net assets for the year. In addition, interest of \$133,687 has been capitalized in conjunction with the development of the Authority.

Complete financial statements of the Authority can be obtained from the Commission's Director of Finance. The following represents information reflected in the Authority's financial statements:

	2011	2010
Current assets	\$ 7,099,218	\$ 6,408,282
Non-current restricted assets	10,262,129	8,995,247
Other assets	3,005,697	3,393,654
Capital assets	57,734,100	59,162,878
Total assets	78,101,144	77,960,061
Current liabilities	11,528,689	7,055,891
Non-current liabilities	44,746,911	48,419,099
Total liabilities	56,275,600	55,474,990
Net assets	21,825,544	22,485,071
Total operating revenues	33,643,280	34,618,381
Operating expenses	31,714,978	30,029,304
Non-operating expenses	2,786,274	2,712,092
Capital contributions	198,445	-
Change in net assets	(659,527)	1,876,985

CITY OF HIBBING, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
December 31, 2011

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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, 2011

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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 2011. PEPFF members were required to contribute 9.6% of their annual covered salary in 2011. 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, 2011, 2010, and 2009 were \$316,820, \$315,069 and \$312,630, respectively. The City's contributions to the Public Employees Police and Fire Fund for the years ending December 31, 2011, 2010, and 2009 were \$430,468, \$425,234 and \$465,537, respectively. The Hibbing Public Utilities' contributions to the Public Employees Retirement Fund for the years ending December 31, 2011, 2010, and 2009 were \$367,685, \$338,343 and \$330,461, 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, 2011

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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 2011 were:

Amount		Percentage of Covered Payroll		Required Rates
Employees	Employer	Employee	Employer	
\$ 745	\$ 745	5.00%	5.00%	5.00%

## **REQUIRED SUPPLEMENTARY INFORMATION**

## CITY OF HIBBING, MINNESOTA

## GENERAL FUND

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

Year ended December 31, 2011

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 4,164,561	\$ 4,164,561	\$ 4,396,840	\$ 232,279
Licenses and permits	115,835	115,835	143,901	28,066
Intergovernmental	8,445,832	8,445,832	8,805,913	360,081
Charges for services	1,937,677	1,937,677	2,176,829	239,152
Fines	120,000	120,000	161,138	41,138
Gifts and contributions	-	-	36,876	36,876
Interest	32,000	32,000	14,180	(17,820)
Miscellaneous	136,101	136,101	145,596	9,495
<b>TOTAL REVENUES</b>	<b>14,952,006</b>	<b>14,952,006</b>	<b>15,881,273</b>	<b>929,267</b>
<b>EXPENDITURES</b>				
Current				
General government	1,801,088	1,801,088	1,711,614	89,474
Public safety	5,663,166	5,663,166	5,697,701	(34,535)
Public works	2,938,878	2,938,878	2,574,205	364,673
Culture and recreation	1,733,826	1,733,826	1,814,507	(80,681)
Economic development	112,339	112,339	114,697	(2,358)
Transportation	262,614	262,614	283,144	(20,530)
Miscellaneous	2,361,759	2,361,759	1,989,537	372,222
Debt Service				
Principal	36,498	36,498	293,745	(257,247)
Interest and other charges	-	-	43,209	(43,209)
<b>TOTAL EXPENDITURES</b>	<b>14,910,168</b>	<b>14,910,168</b>	<b>14,522,359</b>	<b>387,809</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>41,838</b>	<b>41,838</b>	<b>1,358,914</b>	<b>1,317,076</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	(29,566)	(29,566)	(366,282)	(336,716)
Sale of capital assets	-	-	13,310	13,310
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(29,566)</b>	<b>(29,566)</b>	<b>(352,972)</b>	<b>(323,406)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>12,272</b>	<b>12,272</b>	<b>1,005,942</b>	<b>993,670</b>
<b>FUND BALANCES - JANUARY 1</b>	<b>10,646,737</b>	<b>10,646,737</b>	<b>10,646,737</b>	<b>-</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 10,659,009</b>	<b>\$ 10,659,009</b>	<b>\$ 11,652,679</b>	<b>\$ 993,670</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, 2011

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 561,159	\$ 561,159	\$ 617,662	\$ 56,503
Intergovernmental	90,000	90,000	33,497	(56,503)
Charges for services	16,200	16,200	20,320	4,120
Gifts and contributions	14,086	14,086	11,597	(2,489)
Interest	-	-	121	121
<b>TOTAL REVENUE</b>	<b>681,445</b>	<b>681,445</b>	<b>683,197</b>	<b>1,752</b>
<b>EXPENDITURES</b>				
Current				
Culture and recreation	685,411	685,411	652,756	32,655
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(3,966)</b>	<b>(3,966)</b>	<b>30,441</b>	<b>34,407</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	3,966	3,966	-	3,966
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>30,441</b>	<b>38,373</b>
Fund Balances - January 1	151,281	151,281	151,281	-
Fund Balances - December 31	<u>\$ 151,281</u>	<u>\$ 151,281</u>	<u>\$ 181,722</u>	<u>\$ 38,373</u>

**CITY OF HIBBING, MINNESOTA**  
**INFRASTRUCTURE CONDITION DATA**  
Year ended December 31, 2011

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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 46 miles of gravel road.

A visual inspection of all gravel roads was conducted to assess the existing condition of each of the individual gravel roads. Upon completion of the inspection, a level based on the condition is assessed to each gravel road based on the following criteria:

<u>Condition</u>	<u>Criteria</u>	<u>Level</u>
Poor	Road may have extreme potholes, standing or running water, soft spots, travel speeds below 5 mph or the road may be impassible.	1
Fair	Roads may have some potholes or puddles, minor soft spots, travel speeds up to 30 mph.	2
Good	Roads are in generally good condition, graded, travel speeds up to 45 mph.	3
Excellent	Roads are graded, dust control applied, travel speeds up to legal speed limit.	4



CITY OF HIBBING, MINNESOTA

INFRASTRUCTURE CONDITION DATA (CONTINUED)

Year ended December 31, 2011

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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, 2011, the City's gravel roads all rated at a Level 3.

The City expended \$331,896 on gravel road maintenance for the year ended December 31, 2011. This amount in 2011, included 13 road lifts and 7 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 2013 is a minimum of \$525,000 (\$175,000 projected budget each year for the years ending December 31, 2012, 2013, and 2014).

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 and 2011, is presented below:

<u>Year</u>	<u>Estimated Annual Expenditures</u>	<u>Actual Expenditures</u>	<u>Funded by General Fund</u>
2006	\$ 125,000	\$ 141,244	\$ 141,244
2007	\$ 132,832	\$ 146,959	\$ 146,959
2008	\$ 139,680	\$ 150,345	\$ 150,345
2009	\$ 175,311	\$ 192,151	\$ 192,151
2010	\$ 175,311	\$ 183,088	\$ 183,088
2011	\$ 180,000	\$ 331,896	\$ 331,896

## CITY OF HIBBING, MINNESOTA

## SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS

Year ended December 31, 2011

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 )
12/31/2011	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 )
12/31/2011	12/31/2011	\$ -	\$ 37,454,104	\$ 37,454,104	0.0%	\$ 5,224,365	716.9%
12/31/2010	12/31/2008	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 4,975,828	608.6%
12/31/2009	12/31/2008	\$ -	\$ 30,281,516	\$ 30,281,516	0.0%	\$ 5,065,929	597.7%

**CITY OF HIBBING, MINNESOTA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

December 31, 2011

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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, 2011.

## OTHER SUPPLEMENTARY INFORMATION

**CITY OF HIBBING, MINNESOTA**

**NONMAJOR GOVERNMENTAL FUNDS**

December 31, 2011

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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 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, 2011

	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	\$ 48,357	\$ 24,816	\$ 28,685	\$ 2,755,912
Taxes receivable	-	-	-	5,831
Special assessments receivable	-	-	-	-
Accounts receivable	-	-	50,000	-
Due from other governments	-	-	-	-
Loans receivables	-	63,365	6,066	-
<b>TOTAL ASSETS</b>	<u>\$ 48,357</u>	<u>\$ 88,181</u>	<u>\$ 84,751</u>	<u>\$ 2,761,743</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-
Contracts payable	-	-	-	-
Deferred revenue	-	63,365	6,066	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>63,365</u>	<u>6,066</u>	<u>-</u>
<b>FUND BALANCES</b>				
Nonspendable	\$ -	\$ -	\$ 50,000	\$ -
Restricted	-	-	-	-
Committed	48,357	24,816	28,685	2,761,743
Assigned	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>48,357</u>	<u>24,816</u>	<u>78,685</u>	<u>2,761,743</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 48,357</u>	<u>\$ 88,181</u>	<u>\$ 84,751</u>	<u>\$ 2,761,743</u>

2002 G.O. Refunding Bonds Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund	Mining Effects Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 357,631	\$ 1,229,938	\$ 38,375	\$ 160,908	\$ 1,027,274	\$ 366,282	\$ 20,886	\$ 6,059,064
-	1,135	3,242	-	12,428	-	-	22,636
-	-	162,840	-	-	-	-	162,840
-	135,085	-	1,748	-	-	-	186,833
-	101,116	-	-	16,382	-	-	117,498
-	-	-	-	-	-	-	69,431
<u>\$ 357,631</u>	<u>\$ 1,467,274</u>	<u>\$ 204,457</u>	<u>\$ 162,656</u>	<u>\$ 1,056,084</u>	<u>\$ 366,282</u>	<u>\$ 20,886</u>	<u>\$ 6,618,302</u>
\$ -	\$ 29,683	\$ -	\$ -	\$ 46,109	\$ -	\$ -	\$ 75,792
-	-	-	-	-	-	-	-
-	52,572	-	-	1,552	-	-	54,124
-	3,917	162,840	-	-	-	-	236,188
-	86,172	162,840	-	47,661	-	-	\$ 366,104
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000
357,631	1,381,102	41,617	-	416,763	-	-	2,197,113
-	-	-	162,656	590,467	-	-	3,616,724
-	-	-	-	1,193	366,282	20,886	388,361
<u>357,631</u>	<u>1,381,102</u>	<u>41,617</u>	<u>162,656</u>	<u>1,008,423</u>	<u>366,282</u>	<u>20,886</u>	<u>6,252,198</u>
<u>\$ 357,631</u>	<u>\$ 1,467,274</u>	<u>\$ 204,457</u>	<u>\$ 162,656</u>	<u>\$ 1,056,084</u>	<u>\$ 366,282</u>	<u>\$ 20,886</u>	<u>\$ 6,618,302</u>

## CITY OF HIBBING, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
Year Ended December 31, 2011

	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	\$ -	\$ -	\$ -	\$ 485,943
Special assessments	-	-	-	-
Intergovernmental	-	-	-	26,355
Charges for services	-	-	-	-
Gifts and contributions	-	-	-	-
Interest	91	46	41	-
Miscellaneous	-	-	4,311	-
<b>TOTAL REVENUES</b>	<u>\$ 91</u>	<u>\$ 46</u>	<u>\$ 4,352</u>	<u>\$ 512,298</u>
<b>EXPENDITURES</b>				
Current				
Economic development	\$ -	\$ -	\$ 50,000	\$ -
Principal	-	-	-	-
Interest and other charges	-	-	-	-
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Miscellaneous	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>91</u>	<u>46</u>	<u>(45,648)</u>	<u>512,298</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	177,155
Transfers out	-	-	-	-
Debt issuance	-	-	-	-
Sale of capital assets	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>177,155</u>
<b>Net Change In Fund Balances</b>	<u>91</u>	<u>46</u>	<u>(45,648)</u>	<u>689,453</u>
<b>FUND BALANCE - JANUARY 1</b>	<u>48,266</u>	<u>24,770</u>	<u>124,333</u>	<u>2,072,290</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 48,357</u>	<u>\$ 24,816</u>	<u>\$ 78,685</u>	<u>\$ 2,761,743</u>



2002 G.O. Refunding Bonds Debt Service Fund	Permanent Improvement Capital Projects Fund	Privately- Financed Capital Projects Fund	Memorial Building Capital Projects Fund	Capital Equipment and Improvement Capital Projects Fund	Mining Effects Capital Projects Fund	MDI Maintenance Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 94,870	\$ -	\$ -	\$ 1,036,203	\$ -	\$ -	\$ 1,617,016
-	-	47,769	-	-	-	-	47,769
-	1,413,619	-	-	86,373	-	-	1,526,347
-	-	-	14,466	-	-	-	14,466
-	-	-	-	2,029	-	-	2,029
-	2,688	135	293	1,193	-	39	4,526
-	-	-	-	-	-	-	4,311
<u>\$ -</u>	<u>\$ 1,511,177</u>	<u>\$ 47,904</u>	<u>\$ 14,759</u>	<u>\$ 1,125,798</u>	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ 3,216,464</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000
-	-	-	-	394,164	-	-	394,164
-	-	-	-	53,315	-	-	53,315
-	-	-	-	4,745	-	-	4,745
-	-	-	-	118,568	-	-	118,568
-	1,417,114	92,617	-	439,832	-	-	1,949,563
-	-	-	-	83,045	-	-	83,045
-	-	-	-	47,808	-	-	47,808
-	<u>1,417,114</u>	<u>92,617</u>	<u>-</u>	<u>1,141,477</u>	<u>-</u>	<u>-</u>	<u>\$ 2,701,208</u>
-	94,063	(44,713)	14,759	(15,679)	-	39	515,256
-	-	-	-	-	366,282	-	\$ 543,437
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	5,357	-	-	5,357
-	-	-	-	<u>5,357</u>	<u>366,282</u>	<u>-</u>	<u>548,794</u>
-	94,063	(44,713)	14,759	(10,322)	366,282	39	1,064,050
357,631	1,287,039	86,330	147,897	1,018,745	-	20,847	5,188,148
<u>\$ 357,631</u>	<u>\$ 1,381,102</u>	<u>\$ 41,617</u>	<u>\$ 162,656</u>	<u>\$ 1,008,423</u>	<u>\$ 366,282</u>	<u>\$ 20,886</u>	<u>\$ 6,252,198</u>

## CITY OF HIBBING, MINNESOTA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2011

**REVENUES****Taxes**

General property	\$ 1,721,246
Taconite	
Production	507,899
Homestead credit	442,847
Municipal aid	1,231,646
Franchise	160,918
Other	332,284

<b>Total Taxes</b>	4,396,840
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<b>Licenses and Permits</b>	143,901
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**Intergovernmental**

Federal grants	
Federal Transportation grant	74,200
Bulletproof vest grant	6,969
Community -Oriented Policing Services - NLEAC	68,342
Rural Access to Emergency Devices	4,000
Employee Retiree Health Care	51,509
State grants	
Market value credit	101,521
Local government aid	7,996,607
Police aid	172,955
Firemen's aid	102,442
State transportation grant	125,800
PERA rate increase aid	24,366
Petro tank reimbursement	14,379
Other	22,878
County grants	
Ambulance	4,484
Local grants	
Police liaison grant	35,461
<b>Total Intergovernmental</b>	8,805,913

**Charges for Services**

General government	
Bus transportation	46,764
Miscellaneous	14,971
Public safety	
Ambulance calls	1,714,752
Fire protection contracts	1,920
Other	5,000
Highways and streets	
Miscellaneous	863
Culture and recreation	
Rent	137,029
Other	168,876
Cemetery	86,654
<b>Total Charges for Services</b>	2,176,829

## CITY OF HIBBING, MINNESOTA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2011

**REVENUES (continued)****Fines**

Court fines	\$ 131,582
Police forfeitures	27,661
Administrative fines	1,895
<b>Total Fines</b>	<u>161,138</u>

**Gifts and Contributions**

	<u>36,876</u>
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**Interest**

Interest on Investments	12,892
(Decrease) in fair value of investments	1,288
<b>Total Interest</b>	<u>14,180</u>

**Miscellaneous**

Insurance recoveries	50
Insurance dividends	108,092
Other	37,454
<b>Total Miscellaneous</b>	<u>145,596</u>

**TOTAL REVENUES**

	<u>15,881,273</u>
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**EXPENDITURES****Current****General Government**

Mayor and council	189,290
Elections	31,316
City administration	88,952
City clerk	417,197
City hall	80,806
Accounting	48,000
Data processing	58,069
Legal	128,184
Personnel administration	151,104
Zoning and housing	264,884
Assessor	253,812

**Total General Government**

	<u>1,711,614</u>
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**Public Safety**

Police	2,934,500
Animal Shelter	108,521
Fire	1,554,317
Paid on-call fire	114,280
Ambulance	982,114
Civil defense	3,969

**Total Public Safety**

	<u>5,697,701</u>
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**Public Works**

Highways and streets	
Streets and alleys	1,759,368
Engineering	301,554
Garage	463,465
Street lighting	49,818

**Total Public Works**

	<u>2,574,205</u>
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## CITY OF HIBBING, MINNESOTA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2011

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

Recreation	\$ 472,973
Memorial building	795,937
Municipal golf course	50,771
Parks	494,826

**Total Culture and Recreation** 1,814,507

**Economic Development**

Administration	<u>114,697</u>
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**Transportation**

Bus	<u>283,144</u>
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**Miscellaneous**

Cemetery	195,312
Public access	102,798
Insurance	1,602,105
Donations and contributions	26,742
Other	62,580

**Total Miscellaneous** 1,989,537

**Debt Service**

Principal	293,745
Interest and agent fees	43,209

**Total General Government** 336,954

**TOTAL EXPENDITURES** 14,522,359

**EXCESS (DEFICIENCY) OF REVENUES  
OVER EXPENDITURES** 1,358,914

**OTHER FINANCING SOURCES (USES)**

Transfers out	(366,282)
Sale of capital assets	13,310

**TOTAL OTHER FINANCING SOURCES (USES)** (352,972)

**NET CHANGE IN FUND BALANCE** 1,005,942

**FUND BALANCE - JANUARY 1** 10,646,737

**FUND BALANCE - DECEMBER 31** \$ 11,652,679

## CITY OF HIBBING, MINNESOTA

**LIBRARY SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2011

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**REVENUES****Taxes**

General property	\$ 461,077
Taconite homestead credit	96,204
Other	60,381
<b>Total Taxes</b>	<u>617,662</u>

**Intergovernmental**

State grants	
Market value credit	<u>33,497</u>

<b>Charges for Services</b>	<u>20,320</u>
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<b>Gifts and Contributions</b>	<u>11,597</u>
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<b>Interest</b>	<u>121</u>
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<b>TOTAL REVENUES</b>	<u>683,197</u>
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**EXPENDITURES****Current****Culture and Recreation**

Library	
Personal services	504,921
Supplies	66,493
Other services and charges	81,329
Other	13

<b>TOTAL EXPENDITURES</b>	<u>652,756</u>
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**EXCESS (DEFICIENCY) OF REVENUES  
OVER EXPENDITURES**

30,441

**OTHER FINANCING SOURCES**

Transfer in	<u>-</u>
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**NET CHANGE IN FUND BALANCES**

30,441

**FUND BALANCE - JANUARY 1**

151,281

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

CITY OF HIBBING, MINNESOTA

HOUSING INCENTIVE SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended December 31, 2011

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REVENUES

Interest	\$	91
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EXPENDITURES

	-
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NET CHANGE IN FUND BALANCE

91
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FUND BALANCE - JANUARY 1

48,266
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FUND BALANCE - DECEMBER 31

\$ 48,357
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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, 2011**

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**REVENUES**

Interest	\$	46
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**EXPENDITURES**

-

**NET CHANGE IN FUND BALANCE**

46

**FUND BALANCE - JANUARY 1**

24,770

**FUND BALANCE - DECEMBER 31**

\$ 24,816

CITY OF HIBBING, MINNESOTA

MINNESOTA INVESTMENT REVOLVING LOANS SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
Year Ended December 31, 2011

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**REVENUES**

<b>Interest</b>	\$	41
<b>Miscellaneous</b>		
Principal on loans repayments		3,860
Interest on loans repayments		451
<b>Total Miscellaneous</b>		<u>4,311</u>
<b>TOTAL REVENUE</b>		<u>4,352</u>

**EXPENDITURES**

<b>Current</b>		
Economic Development		50,000
<b>Miscellaneous</b>		
Repayments to DEED		<u>-</u>
<b>TOTAL EXPENDITURES</b>		<u>50,000</u>
<b>NET CHANGE IN FUND BALANCE</b>		(45,648)
<b>FUND BALANCE - JANUARY 1</b>		<u>124,333</u>
<b>FUND BALANCE - DECEMBER 31</b>	\$	<u><u>78,685</u></u>



## CITY OF HIBBING, MINNESOTA

**DEBT SERVICE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2011

REVENUES	Other Postemploy- ment Benefits	2002 G.O. Refunding Bonds	Totals
<b>Taxes</b>			
General property	\$ 362,742	\$ -	\$ 362,742
Taconite homestead credit	75,693	-	75,693
Other	47,508	-	47,508
Total Taxes	485,943	-	485,943
<b>Intergovernmental</b>			
State grants			
Market value credit	26,355	-	26,355
<b>TOTAL REVENUES</b>	<u>512,298</u>	<u>-</u>	<u>512,298</u>
<b>EXPENDITURES</b>			
<b>Debt Service</b>			
Principal	-	-	-
Interest	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>512,298</u>	<u>-</u>	<u>512,298</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in	177,155	-	177,155
Transfer out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>177,155</u>	<u>-</u>	<u>177,155</u>
<b>NET CHANGE IN FUND BALANCES</b>	689,453	-	689,453
<b>FUND BALANCE - JANUARY 1</b>	<u>2,072,290</u>	<u>357,631</u>	<u>2,429,921</u>
<b>FUND BALANCE - DECEMBER 31</b>	<u>\$ 2,761,743</u>	<u>\$ 357,631</u>	<u>\$ 3,119,374</u>

## CITY OF HIBBING, MINNESOTA

**CAPITAL PROJECTS FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Year Ended December 31, 2011

REVENUES	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement	Mining Effects	MDI Maintenance	Total
<b>Taxes</b>							
General property	\$ 70,893	\$ -	\$ -	\$ 773,640	\$ -	\$ -	\$ 844,533
Taconite homestead credit	14,732	-	-	161,316	-	-	176,048
Other	9,246	-	-	101,247	-	-	110,493
<b>Total Taxes</b>	<u>94,871</u>	<u>-</u>	<u>-</u>	<u>1,036,203</u>	<u>-</u>	<u>-</u>	<u>1,131,074</u>
<b>Special Assessments</b>							
Principal	-	47,016	-	-	-	-	47,016
Interest and penalties	-	753	-	-	-	-	753
<b>Total Special Assessments</b>	<u>-</u>	<u>47,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,769</u>
<b>Intergovernmental</b>							
Federal grants							
Public Safety Interoperable Communications	-	-	-	-	-	-	-
Other	-	-	-	4,760	-	-	4,760
State grants							
Market value credit	5,129	-	-	56,169	-	-	61,298
MSA maintenance municipal	302,346	-	-	-	-	-	302,346
MSA construction municipal	1,106,143	-	-	-	-	-	1,106,143
IRRRB	-	-	-	25,444	-	-	25,444
County grants	-	-	-	-	-	-	-
<b>Total Intergovernmental</b>	<u>1,413,618</u>	<u>-</u>	<u>-</u>	<u>86,373</u>	<u>-</u>	<u>-</u>	<u>1,499,991</u>
<b>Charges for Services</b>							
Rent and advertising	-	-	14,466	-	-	-	14,466
<b>Gifts and Contributions</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,029</u>	<u>-</u>	<u>-</u>	<u>2,029</u>
<b>Interest</b>	<u>2,688</u>	<u>135</u>	<u>293</u>	<u>1,193</u>	<u>-</u>	<u>-</u>	<u>4,309</u>
<b>Miscellaneous</b>							
Other	-	-	-	-	-	39	39
<b>TOTAL REVENUES</b>	<u>\$ 1,511,177</u>	<u>\$ 47,904</u>	<u>\$ 14,759</u>	<u>\$ 1,125,798</u>	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ 2,699,677</u>

## CITY OF HIBBING, MINNESOTA

**CAPITAL PROJECTS FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (continued)**  
 Year Ended December 31, 2011

	Permanent Improvement	Privately- Financed	Memorial Building	Capital Equipment and Improvement	Mining Effects	MDI Maintenance	Total
<b>EXPENDITURES</b>							
<b>Debt Service</b>							
Principal	\$ -	\$ -	\$ -	\$ 394,164	\$ -	\$ -	\$ 394,164
Interest and other charges	-	-	-	53,315	-	-	53,315
<b>Total Debt Service</b>	-	-	-	447,479	-	-	447,479
<b>Capital Outlay</b>							
General government							
Elections	-	-	-	-	-	-	-
City hall	-	-	-	4,745	-	-	4,745
Data processing	-	-	-	-	-	-	-
Personnel administration	-	-	-	-	-	-	-
Public safety							
Police	-	-	-	87,021	-	-	87,021
Fire	-	-	-	-	-	-	-
Paid on-call fire	-	-	-	-	-	-	-
Ambulance	-	-	-	23,247	-	-	23,247
Civil defense	-	-	-	-	-	-	-
Animal shelter	-	-	-	8,300	-	-	8,300
Public works							
Streets and alleys	1,417,114	92,617	-	439,832	-	-	1,949,563
Garage	-	-	-	-	-	-	-
Culture and recreation							
Recreation	-	-	-	-	-	-	-
Memorial building	-	-	-	6,578	-	-	6,578
Municipal golf course	-	-	-	41,370	-	-	41,370
Parks	-	-	-	13,143	-	-	13,143
Library	-	-	-	21,954	-	-	21,954
Miscellaneous							
Cemetery	-	-	-	47,808	-	-	47,808
Other	-	-	-	-	-	-	-
<b>Total Capital Outlay</b>	1,417,114	92,617	-	693,998	-	-	2,203,729
<b>TOTAL EXPENDITURES</b>	1,417,114	92,617	-	1,141,477	-	-	2,651,208
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	94,063	(44,713)	14,759	(15,679)	-	39	48,469
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	-	-	-	366,282	-	366,282
Transfers out	-	-	-	-	-	-	-
Debt issuance	-	-	-	-	-	-	-
Sale of capital assets	-	-	-	5,357	-	-	5,357
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	-	-	5,357	366,282	-	371,639
<b>NET CHANGE IN FUND BALANCES</b>	94,063	(44,713)	14,759	(10,322)	366,282	39	420,108
<b>FUND BALANCES - JANUARY 1</b>	1,287,039	86,330	147,897	1,018,745	-	20,847	2,560,858
<b>FUND BALANCES - DECEMBER 31</b>	\$ 1,381,102	\$ 41,617	\$ 162,656	\$ 1,008,423	\$ 366,282	\$ 20,886	\$ 2,980,966

**CITY OF HIBBING, MINNESOTA**  
**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**COMBINING BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
December 31, 2011

	General Fund	Economic Development Special Revenue Fund	Tax Increment VII	Debt Service Funds Tax Increment XI	Central Range Public Works	Animal Shelter
<b>ASSETS</b>						
Cash and cash equivalents	\$ 85,262	\$ 1,111,034	\$ 50,440	\$ -	\$ 76,524	\$ 115,016
Cash - restricted	-	-	-	-	-	46,238
Investments - restricted	-	-	-	-	386,123	-
Taxes receivable						
Unapportioned	1,198	-	14,333	-	-	414
Delinquent	-	-	106,498	15,957	-	-
Accounts receivable	394	-	-	-	-	-
Due from other funds	1,664	78,000	-	-	-	-
Due from other governments	-	-	-	-	-	-
Loans receivable	-	482,176	-	-	-	-
Prepaid items	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 88,518</b>	<b>\$ 1,671,210</b>	<b>\$ 171,271</b>	<b>\$ 15,957</b>	<b>\$ 462,647</b>	<b>\$ 161,668</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 11,121	-	-	-	-	-
Salaries payable	462	-	-	-	-	-
Due to other funds	-	-	-	1,664	-	-
Due to other governments	-	-	615	500	-	-
Deferred revenue	-	482,176	106,498	15,957	-	-
<b>TOTAL LIABILITIES</b>	<b>11,583</b>	<b>482,176</b>	<b>107,113</b>	<b>18,121</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES</b>						
Nonspendable	-	-	-	-	-	-
Restricted	-	-	64,158	-	462,647	161,668
Committed	76,935	1,189,034	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	(2,164)	-	-
<b>TOTAL FUND BALANCES</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>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 88,518</b>	<b>\$ 1,671,210</b>	<b>\$ 171,271</b>	<b>\$ 15,957</b>	<b>\$ 462,647</b>	<b>\$ 161,668</b>

CITY OF HIBBING, MINNESOTA  
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT  
COMBINING BALANCE SHEET (CONTINUED)  
GOVERNMENTAL FUNDS  
December 31, 2011

	Capital Projects Funds			
	Storefront Renovation Project	District VIII Tax Increment	Tax Abatement	Totals
<b>ASSETS</b>				
Cash and cash equivalents	\$ 42,757	\$ 30,725	\$ 89,333	\$ 1,601,091
Cash - restricted	-	-	-	\$ 46,238
Investments	-	-	-	386,123
Taxes receivable	-	-	-	-
Unapportioned	-	47	169	16,161
Delinquent	-	235	-	122,690
Accounts receivable	-	-	-	394
Due from other funds	-	-	-	79,664
Due from other governments	-	-	-	-
Loans receivable	162,426	461,924	-	1,106,526
Prepaid items	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 205,183</u>	<u>\$ 492,931</u>	<u>\$ 89,502</u>	<u>\$ 3,358,887</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ 2,952	\$ 14,073
Salaries payable	-	-	-	462
Due to other funds	78,000	-	-	79,664
Due to other governments	-	494	-	1,609
Deferred revenue	162,426	462,160	-	1,229,217
<b>TOTAL LIABILITIES</b>	<u>240,426</u>	<u>462,654</u>	<u>2,952</u>	<u>1,325,025</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	-	\$ -
Restricted	-	30,277	-	718,750
Committed	-	-	-	1,265,969
Assigned	-	-	86,550	86,550
Unassigned	(35,243)	-	-	(37,407)
<b>TOTAL FUND BALANCES</b>	<u>(35,243)</u>	<u>30,277</u>	<u>86,550</u>	<u>2,033,862</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 205,183</u>	<u>\$ 492,931</u>	<u>\$ 89,502</u>	<u>\$ 3,358,887</u>

## CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year Ended December 31, 2011

	General Fund	Economic Development Special Revenue Fund	Tax Increment VII	Tax Increment XI	Debt Service Funds Central Range Public Works	Animal Shelter
<b>REVENUES</b>						
<b>Taxes</b>						
General	\$ 74,461	-	\$ 61,925	\$ 13,251	\$ -	\$ 25,884
Taconite homestead credit	15,546	-	-	-	-	5,372
Other	9,757	-	-	-	-	3,371
<b>Intergovernmental</b>						
State grants						
Market value credit	5,413	-	-	-	-	1,870
IRRA grant	-	-	-	-	-	-
<b>Charges for Services</b>	-	-	-	-	389,572	36,498
<b>Gifts and contributions</b>	-	-	-	-	-	-
<b>Interest</b>	156	218	24	9	39	9
<b>Miscellaneous</b>						
Principal on loan repayments	-	65,226	-	-	-	-
Interest on loan repayments	-	24,030	-	-	-	-
Other	-	-	-	-	-	-
<b>TOTAL REVENUES</b>	<u>105,333</u>	<u>89,474</u>	<u>61,949</u>	<u>13,260</u>	<u>389,611</u>	<u>73,004</u>
<b>EXPENDITURES</b>						
<b>Current</b>						
Economic development						
Community development	44,977	-	-	-	-	-
Administration	82,569	-	3,472	-	-	-
Professional services	11,891	-	615	500	-	-
Loans	-	80,000	-	-	-	-
Tax increment projects	-	-	-	-	-	-
<b>Debt Service</b>						
Principal	-	-	20,000	15,000	350,000	20,745
Interest	-	-	14,625	6,554	35,200	15,753
Fiscal charges	-	-	431	-	2,340	-
<b>Capital Outlay</b>						
Community development	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>139,437</u>	<u>80,000</u>	<u>39,143</u>	<u>22,054</u>	<u>387,540</u>	<u>36,498</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(34,104)</u>	<u>9,474</u>	<u>22,806</u>	<u>(8,794)</u>	<u>2,071</u>	<u>36,506</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Excess TIF to be remitted to County	-	-	-	-	-	-
Transfers in	-	-	-	8,810	-	-
Transfers out	-	-	(8,810)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>(8,810)</u>	<u>8,810</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(34,104)</u>		<u>13,996</u>	<u>16</u>	<u>2,071</u>	<u>36,506</u>
<b>FUND BALANCES - JANUARY 1</b>	<u>111,039</u>	<u>1,179,560</u>	<u>50,162</u>	<u>(2,180)</u>	<u>460,576</u>	<u>125,162</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 76,935</u>	<u>\$ 1,189,034</u>	<u>\$ 64,158</u>	<u>\$ (2,164)</u>	<u>\$ 462,647</u>	<u>\$ 161,668</u>

## CITY OF HIBBING, MINNESOTA

**HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS (CONTINUED)**  
 Year Ended December 31, 2011

	<u>Capital Projects Funds</u>			
	<u>Storefront Renovation Project</u>	<u>District VIII Tax Increment</u>	<u>Tax Abatement</u>	<u>Totals</u>
<b>REVENUES</b>				
<b>Taxes</b>				
General	\$ -	\$ 10,598	\$ 10,658	\$ 196,777
Taconite homestead credit	-	-	2,198	23,116
Other	-	-	1,379	14,507
<b>Intergovernmental</b>				
State grants				
Market value credit	-	-	765	8,048
IRRA grant	-	-	-	-
<b>Charges for Services</b>	-	-	-	426,070
<b>Gifts and contributions</b>	-	-	-	-
<b>Interest</b>	22	43	154	674
<b>Miscellaneous</b>				
Principal on loan repayments	44,539	-	-	109,765
Interest on loan repayments	6,176	-	-	30,206
<b>TOTAL REVENUES</b>	<u>50,737</u>	<u>10,641</u>	<u>15,154</u>	<u>809,163</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
Economic development				44,977
Community development	-	-	-	86,041
Administration	-	-	-	13,500
Professional services	-	494	-	102,405
Loans	12,635	-	9,770	-
Tax increment projects	-	-	-	-
<b>Debt Service</b>				
Principal	-	-	-	405,745
Interest	-	-	-	72,132
Fiscal charges	-	-	-	2,771
<b>Capital Outlay</b>				
Community development	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>12,635</u>	<u>494</u>	<u>9,770</u>	<u>727,571</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>38,102</u>	<u>10,147</u>	<u>5,384</u>	<u>81,592</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Excess TIF to be remitted to County	-	-	-	-
Transfers in	-	-	-	8,810
Transfers out	-	-	-	(8,810)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>38,102</u>	<u>10,147</u>	<u>5,384</u>	<u>81,592</u>
<b>FUND BALANCES - JANUARY 1</b>	<u>(73,345)</u>	<u>20,130</u>	<u>81,166</u>	<u>1,952,270</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ (35,243)</u>	<u>\$ 30,277</u>	<u>\$ 86,550</u>	<u>\$ 2,033,862</u>

CITY OF HIBBING, MINNESOTA  
HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT  
STATEMENT OF NET ASSETS  
ENTERPRISE FUND  
December 31, 2011

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	<u>Family Center</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 302,228
Due from other governments	-
Loans receivable	<u>549,600</u>
<b>TOTAL ASSETS</b>	<u>851,828</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 ASSETS</b>	
Unrestricted	<u>851,828</u>
 <b>TOTAL NET ASSETS</b>	<u><u>\$ 851,828</u></u>



## CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 ENTERPRISE FUND  
 December 31, 2011

	<u>Family Center</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ -
Miscellaneous	-
<b>TOTAL OPERATING REVENUES</b>	<u>-</u>
<b>OPERATING EXPENSES</b>	
Personal services	-
Supplies	-
Maintenance and repairs	-
Contracted services	-
Utilities	-
Depreciation	-
Miscellaneous	-
<b>TOTAL OPERATING EXPENSES</b>	<u>-</u>
<b>OPERATING INCOME</b>	<u>-</u>
<b>NONOPERATING REVENUES</b>	
Interest income	-
Interest on notes	34,072
Interest expense	-
Amortization	-
Gain on disposal of student housing facility	-
<b>TOTAL NONOPERATING REVENUES</b>	<u>34,072</u>
<b>INCOME BEFORE TRANSFERS</b>	<u>34,072</u>
Transfers in	-
Transfers out	-
<b>CHANGE IN NET ASSETS</b>	<u>34,072</u>
<b>TOTAL NET ASSETS - JANUARY 1</b>	<u>817,756</u>
<b>TOTAL NET ASSETS - DECEMBER 31</b>	<u><u>\$ 851,828</u></u>

## CITY OF HIBBING, MINNESOTA

HIBBING ECONOMIC DEVELOPMENT AUTHORITY - COMPONENT UNIT  
 STATEMENT OF CASH FLOWS  
 ENTERPRISE FUND  
 December 31, 2011

	Family Center
<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>	<u>-</u>
<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	39,415
Interest received on note	34,072
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>73,487</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>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>73,487</u>
<b>CASH AND CASH EQUIVALENTS, JANUARY 1</b>	<u>228,741</u>
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<u><u>\$ 302,228</u></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>\$ -</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, AND XI  
 Year Ended December 31, 2011

	Tax Increment District VII	
District type	Redevelopment	
Authorized under Minn. Stat, ch#	469	
Established in	1993	
Planned completion in	2019	
Original net tax capacity	\$	3,412
Current net tax capacity		53,815
<b>Captured Net Tax Capacity Retained by the City</b>	<b>\$</b>	<b>50,403</b>
	Accounted for in Prior Years	Current Year
<b>SOURCES OF FUNDS</b>		
Bond proceeds	\$ 320,000	\$ -
Note proceeds	-	-
Tax increments received	666,485	61,925
General property taxes received	-	-
Interest on invested funds	11,269	24
Grants	299,999	-
Local contributions	8,251	-
Miscellaneous	19,619	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,325,623</b>	<b>61,949</b>
<b>USES OF FUNDS</b>		
Building acquisition	-	-
Other public improvements	721,672	-
Bond payments		
Principal	115,000	20,000
Interest and fiscal charges	283,004	15,056
Professional services	30,792	615
Administrative costs	124,993	3,472
<b>TOTAL USES OF FUNDS</b>	<b>1,275,461</b>	<b>39,143</b>
<b>EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS BEFORE TRANSFERS</b>	<b>50,162</b>	<b>22,806</b>
<b>TRANSFERS</b>		
Decertified district - remittance to County	-	-
Transfers to other districts	-	-
Transfers to other funds	-	(8,810)
Transfers from other districts	-	-
Transfers from other funds	-	-
<b>TOTAL TRANSFERS</b>	<b>-</b>	<b>(8,810)</b>
<b>EXCESS (DEFICIENCY) OF SOURCES OVER USES OF FUNDS AND TRANSFERS</b>	<b>\$ 50,162</b>	<b>13,996</b>
<b>DISTRICT BALANCE - JANUARY 1</b>		<b>50,162</b>
<b>DISTRICT BALANCE - DECEMBER 31</b>		<b>\$ 64,158</b>

Tax Increment District VIII		Tax Increment District XI	
Qualified Housing 469 1993 2020		Redevelopment 469 1999 2025	
	\$ -		\$ 525
	8,574		14,690
	<u>\$ 8,574</u>		<u>\$ 10,722</u>
Accounted for in Prior Years	Current Year	Accounted for in Prior Years	Current Year
\$ -	\$ -	\$ 165,000	\$ -
-	-	-	-
181,467	10,598	100,674	13,251
-	-	-	-
5,412	43	1,788	9
385,000	-	-	-
-	-	67,786	-
18,670	-	2,786	-
<u>590,549</u>	<u>10,641</u>	<u>338,034</u>	<u>13,260</u>
555,095	-	-	-
67,392	-	253,248	-
-	-	-	-
-	-	70,000	15,000
-	-	114,034	6,554
9,124	494	30,768	500
30,205	-	45	-
<u>661,816</u>	<u>494</u>	<u>468,095</u>	<u>22,054</u>
<u>(71,267)</u>	<u>10,147</u>	<u>(130,061)</u>	<u>(8,794)</u>
-	-	-	-
-	-	-	-
(4,926)	-	-	-
-	-	35,055	-
96,323	-	92,826	8,810
<u>91,397</u>	<u>-</u>	<u>127,881</u>	<u>8,810</u>
<u>\$ 20,130</u>	<u>10,147</u>	<u>\$ (2,180)</u>	<u>16</u>
	20,130		(2,180)
	<u>\$ 30,277</u>		<u>\$ (2,164)</u>

# Fort & Company, P.A.

## Certified Public Accountants

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

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

Connor B. Michels, EA  
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, 2011, which collectively comprise the City of Hibbing, Minnesota's basic financial statements and have issued our report thereon dated June 18, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Public Utilities Commission, as described in our report on the City of Hibbing, Minnesota's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Hibbing, Minnesota's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2011-1, 2011-2, 2011-3 and 2011-4 to be significant deficiencies in internal control over financial reporting. 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.

## **Compliance and Other Matters**

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

### **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*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.


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

The results of our tests indicate that for the items tested, the City of Hibbing, Minnesota, complied with the material terms and conditions of applicable legal provisions.

We also noted certain additional matters that we reported to management of the City of Hibbing, Minnesota in a separate letter dated June 27, 2012, included under this cover.

City of Hibbing, Minnesota's responses to the internal control findings identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management, others within federal awarding agencies and pass-through entities, and should not be, used by anyone other than those specified parties.

  
Fort & Company, P.A.  
June 27, 2012

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2011

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**SIGNIFICANT DEFICIENCIES**

**2011-1. SEGREGATION OF DUTIES**

**Condition**

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

**Criteria**

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

**Effect**

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

**Cause**

This occurred because of staffing limitations caused by fiscal constraints.

**Recommendations**

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

**Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Finding.

There is no disagreement with the audit finding.

2. Actions Planned in Response of Finding

The City Finance Director will attempt to monitor transactions and structure the duties of office personnel to help ensure as much segregation of duties as possible within the City's staffing limitations and funding constraints. The Finance Director will provide additional oversight to the operations of the finance office. In addition, the City Clerk provides oversight, consistent with his statutory duties of City Clerk/Treasurer, operating in a statutory City with a standard plan.

3. Official Responsible for Ensuring CAP

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

4. Planned Completion Date for CAP

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

5. Plan to Monitor Completion of CAP

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

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Year Ended December 31, 2011

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**2011-2. 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, 2011

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**2011-3. GRANT PROCESS**

**Condition**

With the 2009 and 2010 awards of approximately \$5.9 million in grants for sanitary and storm water improvement projects and a Minnesota Public Facilities Authority (MPFA) loan for the South Wastewater Treatment Plant (SWTP), the City had a higher level of grant funding than in recent years. This higher level of funding highlighted a control process improvement in 2010 whereby the City needs to continue to improve its documentation of eligible expense tracking by grant and how that corresponds to grant revenues recorded in the financial statements by year.

**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 or the same expenditure inadvertently being reflected as eligible under two or more different grants.

**Recommendations**

When the City incurs/pays a grant or loan eligible expense, they should have a system to specifically identify which grant and/or loan that payment is attributable to at the time of payment and account coding.

**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 department heads and Clerk's office collaborate to ensure that invoices are coded with respect to not only expenditures but also grants or loans if any related to the financing of the project.

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 made after July 1, 2012.

5. Plan to Monitor Completion of CAP

The City Council will monitor the completion of this plan.

CITY OF HIBBING, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

Year Ended December 31, 2011

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**2011-4. SEFA PREPARATION**

**Condition**

The City did not prepare the schedule of expenditures of federal awards (SEFA).

**Criteria**

The City is responsible for preparing the SEFA in accordance with OMB circular A-133

**Effect**

Errors could be contained in the SEFA. Through the audit process, the City was able to identify all Federal awards and they were accumulated in the SEFA, as presented.

**Cause**

Internal controls over preparation of the SEFA are ineffective.

**Recommendations**

We recommend that the City assign responsibility for preparation of the SEFA to a member of the Finance Department and that a process of review involving department heads is developed.

**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 implement a process for preparation of SEFA by Accountant, Mary Ann, and review of SEFA by department heads.

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, 2012.

5. Plan to Monitor Completion of CAP

The City Council will monitor the completion of this plan.