

CITY OF DULUTH, MINNESOTA



COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008



City of Duluth Minnesota

Comprehensive Annual Financial Report
for the Fiscal Year Ending
December 31, 2008



Department of Finance

**CITY OF DULUTH, MINNESOTA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 December 31, 2008**

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INTRODUCTORY SECTION



June 29, 2009

To the Honorable Mayor, City Council, Administration,
and Citizens of the City of Duluth, Minnesota

State law and the City Charter mandate the City of Duluth have an annual audit of its financial statements. State law requires the audit to be conducted within 180 days after fiscal year end. This report was prepared to satisfy these requirements for the fiscal year ended December 31, 2008.

The City's management assumes full responsibility for the completeness and reliability of the information contained in this report and has established a comprehensive framework of internal control for that purpose. The objective of the City's internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement. Absolute assurance is not achievable because the costs of internal controls should not exceed anticipated benefits.

The Minnesota Office of the State Auditor has issued an unqualified opinion on the City of Duluth's financial statements for the year ended December 31, 2008. The independent auditor's report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

GOVERNMENT PROFILE

Duluth is the seat of St. Louis County, and is the largest city in the northern two-thirds of Minnesota. It is located at the western tip of Lake Superior; the city limits encompass 67 square miles of land and nearly 50 square miles of water. Situated on a hillside along Lake Superior's north shore, Duluth is 23 miles long and eight miles wide at its broadest point. Duluth's population exceeds 85,000 and contributes to a market area of more than 500,000 from northern Minnesota, northwest Wisconsin, the Upper Peninsula of Michigan, and lower Ontario. Duluth and its neighbor, Superior, Wisconsin, share the Great Lakes' largest port and the largest freshwater harbor in the world.

As one of only three first class cities in the state, Duluth operates under a Home Rule Charter granted by the constitution and laws of the State of Minnesota. The city has operated under a mayor-council form of government since 1956. The Mayor is the chief executive officer of the city, and is aided by a chief administrative officer who is chosen by, and is responsible to the Mayor. All executive and administrative powers are vested in the mayor, chief administrative officer, and other officers authorized by City Charter. The City Council is comprised of nine councilors, four chosen at large and five from geographical districts. All legislative powers are vested in the council. The mayor and councilors are subject to the control and direction of the people at all times by the initiative, referendum and recall provisions in the City Charter.

The city provides a full range of governmental services including police and fire protection, street construction and maintenance, library and recreational facilities and public utilities for water, gas, sewer, and storm water services. Certain economic development activities are provided through a legally separate entity, Duluth Economic Development Authority, which functions, in essence, as a department of the City and therefore is included as an integral part of the City's financial statements. The City also is financially accountable for several legally separate entities including an airport, convention center, transit services and a ski hill, all of which are reported separately in the City's financial statements. Additional information regarding these legally separate entities is provided in Note 1 to the financial statements.

The City Council is required to adopt a final budget before year end. The budget ordinance approved by the Council establishes appropriations for the General Fund. The total of all appropriations within a department are defined as a budget item and form the legal level of budgetary control, as defined in the budget ordinance. The Mayor, Chief Administrative Officer, or a designee may make transfers between appropriations; however, the total of all transfers to or from any budget item in excess of ten percent of that budget item must be approved by the City Council. The Council may revise the budget at any time by ordinance upon recommendation of the Administration.

LOCAL ECONOMY

Once dependent on heavy industry for its economic health, Duluth has diversified and is now a strong regional center for shipping, tourism, education, health care, retail sales, technology, architecture, engineering and aviation. According to the Minnesota Department of Employment and Economic Security, Duluth had a peak of 61,736 jobs reported to the state in 2008.

Duluth also serves as a major shipping port for the region. The Seaway Port Authority of Duluth reports that 1126 ships used the port last year including 772 U.S-flag vessels, 285 Canadian-flag vessels and 60 foreign-flag vessels. Tonnage carried by those vessels was 45,640,002 tons, with a new record set for shipments of coal at 22,094,365 tons during the 2008 navigation season.

Duluth continues to excel in the key industry of tourism bringing approximately 3.5 million visitors to Duluth. Duluth's efforts in attracting conventions to the city resulted in 57 conventions hosted by the Duluth Entertainment Convention Center (DECC) during 2008. The DECC remains in the top twenty nationwide in terms of convention center business and is uniquely located on the world's largest inland port. Legislative approval was obtained in 2008 for a third expansion of the DECC, to house a new home for the University of Minnesota-Duluth's men's and women's hockey teams and attract even more, and larger, conventions to the city. This expansion is estimated to cost nearly \$80 million.

According to survey results from the Minnesota Board of Trade and Economic Development and the Minnesota Office of Tourism, visitors to Duluth contribute over \$700 million to the local and regional economy.

Enrollment at Duluth's three institutions of higher learning, the University of Minnesota-Duluth, The College of St. Scholastica, and Lake Superior College, has never been higher. The College of St. Scholastica has been called a "hidden gem" by the Washington Post in its "100 Schools To Consider." UMD and St. Scholastica are regularly ranked in the top tier of midwestern universities by *U.S. News and World Report*. With a student population of 11,200, UMD provides bachelor degrees in 75 majors, 27 graduate programs, and a doctor of education (Ed.D.) degree. Lake Superior College has grown by more than 50% over the past decade.

Work was also completed on the Heritage Hockey Center project, a youth hockey facility, which will provide unparalleled opportunities for Duluth's youth and help the city claim its rightful place as a capital city in the state of hockey. This unique center opened during the spring of 2008.

LONG-TERM FINANCIAL PLANNING

Unreserved, undesignated fund balance in the general fund was in a deficit position and does not fall within the policy guidelines set by the Administration and Council for budgetary and planning purposes. According to the policy, unreserved, undesignated fund balance should fall within the following range of general fund expenditures and transfers; 5% as a minimum, 7% as a moderate scenario, with 10% regarded as optimum. The City will develop a fund balance recovery initiative to work towards rebuilding unreserved, undesignated fund balance to meet policy requirements during 2009 and 2010.

RELEVANT FINANCIAL POLICIES

The City established a Community Investment Fund in 1994. The Fund is financed by the City's share of revenues generated from the operation of the Fond-du-Luth Casino administered by the Fond du Lac Band of Lake Superior Chippewa. Investment earnings from the Community Investment Fund are dedicated to the City's General Fund by charter provision. All other monies appropriated from the Fund must be approved by resolution by at least seven members of the nine-member City Council. As of December 31, 2008, the Community Investment Fund reported a fund balance of \$57.6 million.

As of December 31, 2008, the City Council has approved resolutions authorizing the use of \$ 1.4 million of future Community Investment Fund revenues for a variety of projects including the creation of affordable housing. In addition, in 2008, the City Council transferred \$1.2 million from the Community Investment Fund into an irrevocable trust for funding the City's other post employment benefits obligation. Finally, in 2009, the City Council approved using \$7.4 million to partially pay off debt issued to finance the City's street improvement program and approved transferring \$11,200,000 over the two-year period of 2009-2010 to partially fund the City's street improvement program. It is anticipated that over the next two years, the street improvement program will result in the improvement of over 33 miles of city streets.

MAJOR INITIATIVES

In 2007, the City established an irrevocable trust to pre-fund the City's other post employment benefit liability. Contributions totaling \$17.8 million were made to the irrevocable trust in 2007 and 2008. Future contributions will be made from a variety of funding sources including property taxes, public utility revenues and the Community Investment Fund.

In 2008, the City approved an additional three-quarter of one percent food and beverage tax for the Duluth Entertainment Convention Center (DECC) project. The DECC project will be financed by state grants of \$38 million and City general obligation bonds of \$41 million. The City general obligation bonds will be repaid with food and beverage tax collections and operating revenues from the DECC.

In 2008, the City reached a tentative agreement to sell the assets of Steam District #2 for \$2.5 million to Minnesota Power. The sale is pending Minnesota Public Utility Commission approval.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Duluth, for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2007. This was the thirty-third consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR whose contents conform to both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine eligibility for another certificate.

In addition, the City of Duluth also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the year 2008. In order to qualify for the Distinguished Budget Presentation Award, a governmental unit's budget must be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

When looking at a report such as this CAFR, it is sometimes difficult to comprehend how much time and effort is devoted by employees from the beginning of the audit to the final printing and distribution of the CAFR. As the requirements and demands of financial reporting in government increase, so too must the knowledge, effort and skills of a government's accounting staff; we wish to acknowledge the financial analysts in the Finance Department who continue to meet this challenge.

Respectfully submitted,



Wayne Parson, CPA
City Auditor

**ELECTED AND APPOINTED OFFICIALS
CITY OF DULUTH, MINNESOTA
2008**

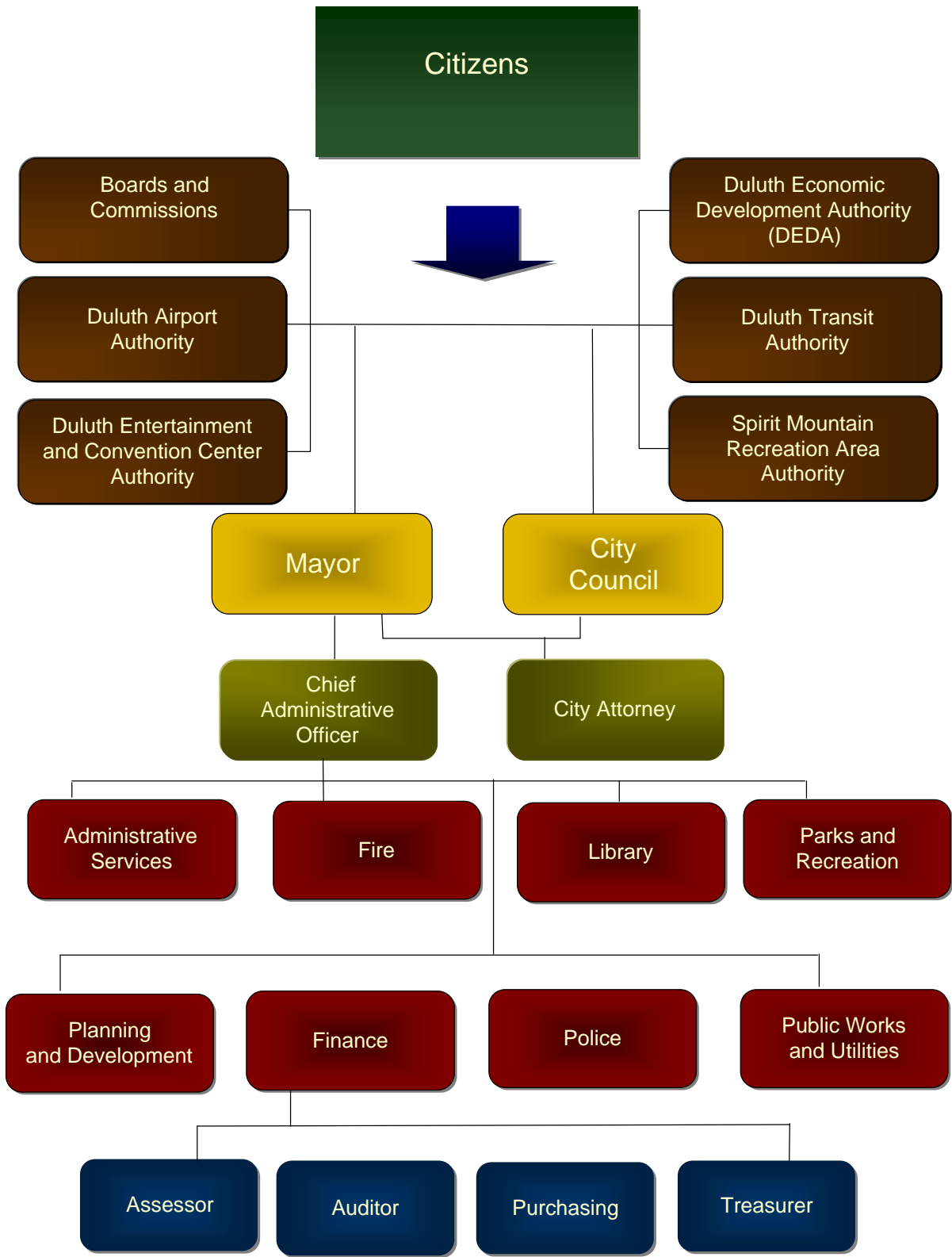
ELECTED POSITIONS	DISTRICT	TERM EXPIRES
Mayor		
Don Ness		2012
City Council		
Jeff Anderson	At large	2012
Tony Cuneo	At large	2012
Roger Reinert	At large	2010
James Stauber	At large	2010
Todd Fedora	1	2012
Greg Gilbert	2	2010
Sharla Gardner	3	2012
Garry Krause	4	2010
Jay Fosle	5	2012

*All terms expire in January

APPOINTED POSITIONS

Chief Administrative Officer	Lisa Potswald
Attorney	Gunnar Johnson
Director, Administrative Services	Mark McShane
Director, Finance	Genevieve Stark
Director, Parks & Recreation	Kathy Bergen
Director, Planning	Robert Bruce
Director, Public Libraries	David Ouse
Director, Public Works and Utilities	James Benning
Fire Chief	John Strongitharm
Police Chief	Gordon Ramsay
Assessor	John Gellatly
Auditor	Wayne Parson
Clerk	Jeffrey Cox
Treasurer	Brian Hansen

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Duluth
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "M. L. Post".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

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FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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525 PARK STREET
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(651) 296-2551 (Voice)
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INDEPENDENT AUDITOR'S REPORT

The Honorable Don Ness, Mayor,
and Members of the City Council
City of Duluth, 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 Duluth, Minnesota, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. The financial statements include the Spirit Mountain Recreation Area Authority's activities as of and for the year ended April 30, 2008. These financial statements are the responsibility of the City'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 Steam District #2 Enterprise Fund, which is 4.1 percent, 5.9 percent, and 8.7 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Steam District #2 Enterprise Fund, is based solely upon 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. The financial statements of the Steam District #2 Enterprise Fund were not audited in accordance with *Government Auditing Standards*. 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 for the City of Duluth as of December 31, 2008, including the Spirit Mountain Recreation Area Authority as of April 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Duluth's basic financial statements. The combining and individual fund statements and schedules, supplementary information, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules and supplementary information have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 25, 2009, on our consideration of the City of Duluth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 25, 2009

Management's Discussion and Analysis (MD & A)

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

The City of Duluth's Finance Department has prepared this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2008 to assist users of this report to gain a better understanding of the City's financial health and history. The information presented in this section should be considered in conjunction with that presented in the letter of transmittal and the notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities at December 31, 2008 by \$425.5 million; this amount is identified as net assets. Of this amount, \$91.2 million is unrestricted and may be used to meet the City's ongoing obligations.
- As of December 31, 2008, the City's governmental funds reported combined ending fund balances of \$138.9 million. Although \$67.9 million is reported as unreserved-undesignated fund balance, which is considered available for spending at the City's discretion, 85% of that amount is in the Community Investment Fund, which is dedicated towards future capital improvements of the City. Use of those monies requires a "super-majority" vote of the City Council, or seven of nine votes.
- In 2007, the City created an irrevocable trust to pre-fund a portion of the City's other post-employment benefits. As of December 31, 2008, the trust reported net assets totaling \$14.6 million.
- In 2008, the City issued \$40.6 million general obligation revenue bonds to assist in the financing of an expansion of the Duluth Entertainment and Convention Center (DECC). The bonds will be repaid with dedicated food and beverage tax collections and pledged DECC revenues.
- As of December 31, 2008, the General Fund reported a deficit unreserved-undesignated fund balance. The deficit was created by an unanticipated reduction (unallotment) in local government aid by the State of Minnesota in mid December.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City of Duluth's basic financial statements, which consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to give users a broad overview of the City's finances, in a manner similar to that of a private-sector business. The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets over time may serve as a useful indicator of whether the City's financial position is improving or deteriorating. The Statement of Activities shows how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event that caused the change occurs, regardless of the timing of the related cash flows. There are revenues and expenses reported in this statement for some items that will only result in cash flows in future fiscal years; examples include uncollected taxes and vacation days that are earned, but not used.

Both of the government-wide financial statements distinguish between functions that are mainly supported by taxes and intergovernmental revenues and other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The first functions are identified in the statements as governmental activities, while the latter functions are reported as business-type activities.

The City's governmental activities include general government, public safety, public works, culture and recreation, and urban and economic development. The City's business-type activities include water, gas, sewer, steam and storm water utilities, street lighting, parking activities, and municipal golf courses.

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

The government-wide financial statements include not only the City of Duluth, referred to as the primary government, but also four legally separate component units, for which the City is financially accountable. Financial information for these component units is reported separately from the financial information of the City, as the primary government. Complete financial statements for the Duluth Entertainment and Convention Center Authority, the Duluth Airport Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority can be obtained from their respective offices, which addresses are provided in Note 1 of the notes to the financial statements. The Duluth Economic Development Authority, although also legally separate, functions for all practical purposes as a department of the City of Duluth, and therefore has been included as an integral part of the primary government.

The two government-wide financial statements are immediately after this discussion and analysis.

FUND FINANCIAL STATEMENTS

A fund is a set of related accounts that is used to control resources that have been segregated to carry on specific activities or to attain certain objectives in accordance with special regulations, restrictions, or limitations. The City of Duluth, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All City funds are divided into one of three categories: governmental funds, proprietary funds or fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. A major difference between the government-wide financial statements and the governmental fund financial statements is that the latter focuses on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than the government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in order to gain a better understanding of the long-term impact of the City's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to aid in the comparison of governmental funds with governmental activities.

The City maintains a number of individual governmental funds. Information is presented separately in the governmental fund financial statements for the General Fund, the Community Investment Special Revenue Fund, the Special Assessment Debt Service Fund, DEDA Debt Service Fund and the DECC Capital Improvement Capital Project Fund, all of which are considered to be major funds. Data from the remaining governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is included in the combining and individual fund section of this report.

The City of Duluth adopts an annual appropriated budget for its General Fund. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, included in the basic financial statement section of this report, demonstrates compliance with this budget. There are also two more detailed General Fund budgetary schedules included in the combining and individual fund section of this report.

Proprietary Funds

The City maintains two different types of proprietary funds. The first type is enterprise funds, which are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

for the Water, Gas, Sewer, Steam District #1, and Parking funds, all of which are considered to be major funds. Data from the remaining enterprise funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is included in the combining and individual fund section of this report.

Internal service funds are the other type of proprietary fund. Internal service funds are used to accumulate and allocate costs internally among the City's various functions for fleet services, self-insurance, employee medical benefits and compensated absences. Because these services predominantly benefit governmental functions rather than business-type functions, they have been included with the governmental activities portion of the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is included in the combining and individual fund section of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the City, and are not included in the government-wide financial statements because their resources are not available to support the City's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The Statement of Fiduciary Net Assets and a Statement of Changes in Plan Net Assets are included in the basic financial statement section of this report, while the Statement of Changes in Assets and Liabilities for agency funds is included in the combining and individual fund section of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also contains the combining and individual fund statements referred to earlier in connection with nonmajor governmental, nonmajor proprietary, and internal service funds, as well as fund financial statements for the Duluth Economic Development Authority, and schedules related to capital assets, debt and intergovernmental revenues. These schedules and statements follow the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net assets may serve as a useful indicator of the City's financial position. The largest portion of the City's net assets (72 percent) is invested in capital assets (land, buildings, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to its citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it is important to realize that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (6 percent) represents resources that are subject to external restrictions on how they may be used, with the largest amount set aside for debt service. The remaining balance of net assets (22 percent) is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. At the end of the past two fiscal years, all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities, had positive balances. The following table presents a summary of the City's net assets at December 31 for the past two fiscal years (dollars in thousands):

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 182,979	\$ 139,677	\$ 36,531	\$ 36,269	\$ 219,510	\$ 175,946
Capital assets	255,634	254,208	189,723	177,230	445,357	431,438
Total assets	\$ 438,613	\$ 393,885	\$ 226,254	\$ 213,499	\$ 664,867	\$ 607,384
Long-term liabilities outstanding	\$ 142,440	\$ 97,610	\$ 73,243	\$ 68,005	\$ 215,683	\$ 165,615
Other liabilities	10,571	12,226	13,151	13,200	23,722	25,426
Total liabilities	\$ 153,011	\$ 109,836	\$ 86,394	\$ 81,205	\$ 239,405	\$ 191,041
Net assets:						
Invested in capital assets net of related debt	\$ 188,130	\$ 183,582	\$ 119,658	\$ 112,994	\$ 307,788	\$ 296,576
Restricted	24,242	23,912	2,204	2,223	26,446	26,135
Unrestricted	73,230	76,555	17,998	17,077	91,228	93,632
Total net assets	\$ 285,602	\$ 284,049	\$ 139,860	\$ 132,294	\$ 425,462	\$ 416,343

Overall, the City's financial position improved from 2007. The City's net assets grew by \$9.1 million, an increase of 2.2%. This increase was due to a variety of factors with an emphasis on the City's investment in capital assets in both governmental and business-type activities. In governmental activities, the large increase in current assets was due to unspent bond proceeds relating to the DECC expansion financed by a \$40.6 million bond issue. This bond issue also explains the large increase in governmental activities long-term liabilities. For business-type activities the increase in capital assets was due to utility infrastructure improvements and due in part to the creation of a street lighting enterprise fund and transfer of related capital assets from governmental activities.

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

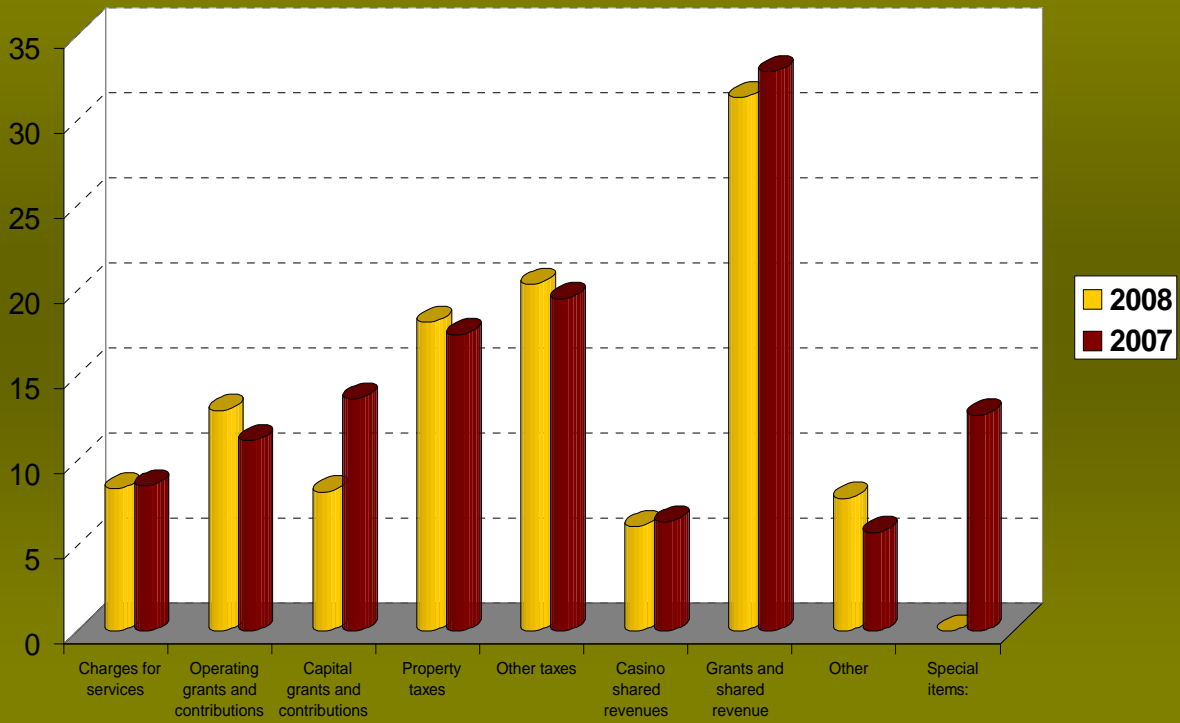
To give users a better understanding of the sources and uses of the City's net assets, the following table presents a summary of revenues, expenses, and changes in net assets for the past two fiscal years ending December 31 (dollars in thousands):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 8,380	\$ 8,552	\$ 112,878	\$ 97,618	\$ 121,258	\$ 106,170
Operating grants and contributions	12,997	11,210	-	-	12,997	11,210
Capital grants and contributions	8,200	13,674	1,970	4,468	10,170	18,142
General Revenues:						
Property taxes	18,170	17,452	-	-	18,170	17,452
Other taxes	20,413	19,561	-	-	20,413	19,561
Casino shared revenues	6,157	6,431	-	-	6,157	6,431
Grants and shared revenues not restricted to specific programs	31,398	32,916	-	-	31,398	32,916
Other	7,819	5,791	557	901	8,376	6,692
Special Item:						
Northwest maintenance facility	-	12,708	-	-	-	12,708
Total revenues	113,534	128,295	115,405	102,987	228,939	231,282
Expenses:						
General government	25,028	35,024	-	-	25,028	35,024
Public safety	36,479	30,351	-	-	36,479	30,351
Public works	15,817	15,232	-	-	15,817	15,232
Culture and recreation	13,962	6,851	-	-	13,962	6,851
Urban and economic development	18,181	16,146	-	-	18,181	16,146
Interest	4,749	4,795	-	-	4,749	4,795
Water	-	-	11,325	10,865	11,325	10,865
Gas	-	-	54,337	47,107	54,337	47,107
Sewer	-	-	16,747	15,024	16,747	15,024
Stormwater	-	-	2,876	2,866	2,876	2,866
Steam District #1	-	-	5,852	5,367	5,852	5,367
Steam District #2	-	-	10,240	11,398	10,240	11,398
Golf	-	-	1,887	1,888	1,887	1,888
Parking	-	-	2,030	1,871	2,030	1,871
Street lighting	-	-	310	-	310	-
Total expenses	114,216	108,399	105,604	96,386	219,820	204,785
Increase in net assets before transfers	(682)	19,896	9,801	6,601	9,119	26,497
Transfers	2,235	(3,761)	(2,235)	3,761	-	-
Increase in net assets	1,553	16,135	7,566	10,362	9,119	26,497
Net assets, January 1	284,049	267,914	132,294	121,932	416,343	389,846
Net assets, December 31	\$ 285,602	\$ 284,049	\$ 139,860	\$ 132,294	\$ 425,462	\$ 416,343

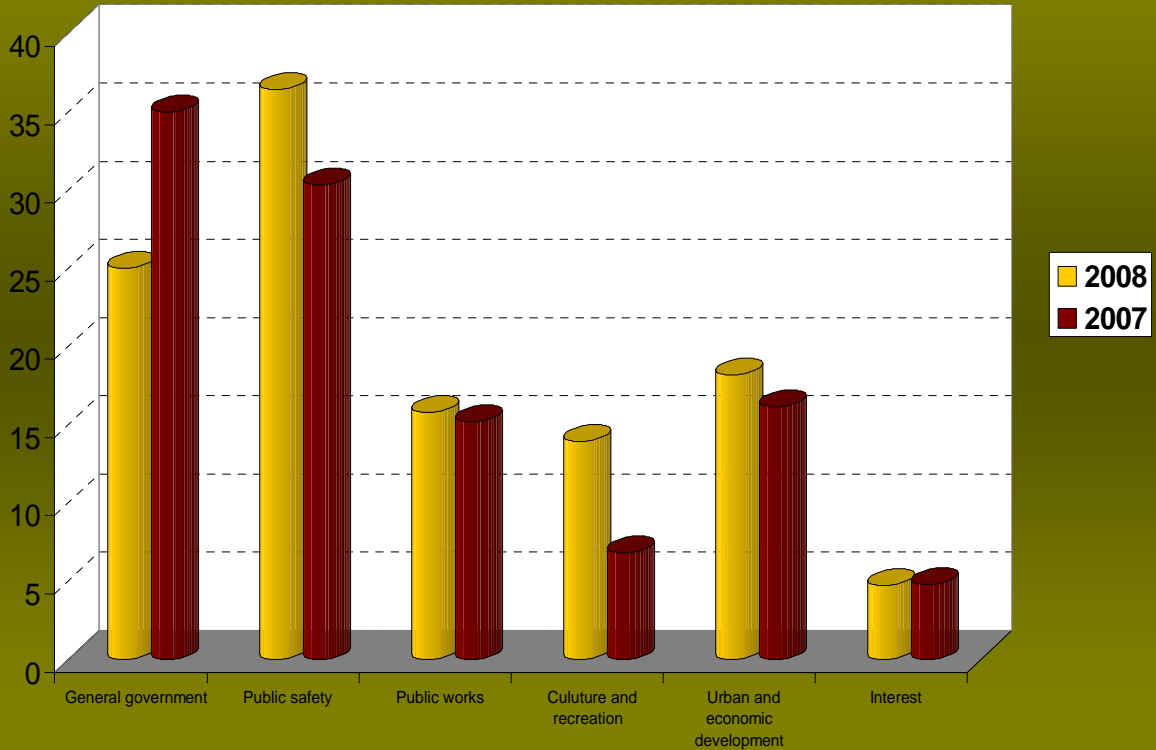
The governmental activities revenue decrease of \$14.8 million was due primarily to a reduction in capital grants and a special item. The decrease in capital grants was due to a reduction in grant funded capital projects. The special item in 2007 was the elimination of debt associated with a city owned aircraft maintenance facility pursuant to the Northwest Airlines bankruptcy settlement agreement. The business-type activities revenue increase of \$12.4 million was due primarily to an increase in gas utility revenues which fluctuate based upon the cost of natural gas. In addition, new fees were initiated for street lighting and to fund a clean water program to prevent sewage overflows into Lake Superior.

Total expenses increased for both governmental and business-type activities. The governmental activities expense increase of \$5.8 million was due primarily to expenses associated with the Duluth Entertainment and Convention Center (DECC) expansion and the Duluth Heritage Sport Center. The DECC expansion is reported as a capital asset of the DECC, a component unit of the City. The business-type activities expense increase of \$9.2 million was due primarily to the increased cost of natural gas, sewage processing fees, and costs associated with the generation of steam.

**Revenue by Source - Governmental Activities
(In Millions)**



**Expense by Function - Governmental Activities
(In Millions)**



**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

FUND FINANCIAL ANALYSIS

As noted earlier, the City of Duluth uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is helpful in assessing the City's financing requirements; unreserved fund balance may be an especially useful measure of the net resources available for spending at the end of the fiscal year.

As of December 31, 2008, the City's governmental funds reported combined ending fund balances of \$138.9 million, an increase of \$42.4 million from 2007. Of the total fund balance amount, \$125 million, or 90%, is reported as unreserved fund balance, which is available for spending at the City's discretion. Of the unreserved amount, \$57.1 million is already designated for specific purposes, with the largest amount, \$44.6 million, set aside for capital improvements. Of the \$67.9 million reported as unreserved, undesignated fund balance, 85% of it is in the Community Investment Special Revenue Fund, which is to be used to finance future capital improvements of the City. The remaining \$13.9 million of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate existing contracts and purchase orders totaling \$3.1 million; 2) to pay \$7.1 million for debt service; and 3) \$3.7 million for a variety of other restricted purposes.

The General Fund is the main operating fund of the City of Duluth. At December 31, 2008, the General Fund had a deficit unreserved, undesignated fund balance of \$1.3 million. The deficit was due primarily to an unexpected shortfall in state aids of \$4.5 million and lower than anticipated investment earnings of \$1.4 million.

The Community Investment Special Revenue fund balance increased by \$2.5 million in 2008 in accordance with the City's policy of retaining revenues received from the operations of the Fond du Luth Casino for future capital improvement needs.

The DECC Capital Improvement Capital Project Fund is a new fund created to account for bond proceeds issued to finance the construction of an addition to the Duluth Entertainment and Convention Center (DECC).

PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, only in more detail. The following table shows the unrestricted net assets for each of the City's major proprietary funds, as well as the change in net assets for each fund during the past two fiscal years (dollars in thousands):

	Unrestricted Net Assets December 31		Increase (Decrease) Net Assets December 31	
	2008	2007	2008	2007
	Water	\$ 1,620	\$ 2,934	\$ (284)
Gas	9,488	9,206	728	(3,237)
Sewer	1,229	2,170	514	2,909
Steam District #1	266	148	1	860
Parking	2,640	1,100	2,501	9,158

Unrestricted net assets decreased for Water and Sewer because of the planned investment in capital assets financed by operating revenues. The unrestricted net asset increase for Gas, Steam District #1, and Parking was due to favorable operating results. The Parking Fund was created in 2007. In 2007 the Parking Fund reported large capital contributions for the initial transfer of capital assets from governmental activities. Previously, parking related revenues and expenses were accounted for in the General Fund.

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$.5 million increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$.3 million appropriation increase for prior year carryovers.
- \$.2 million appropriation for grants, gifts and donations.

The carryover appropriation increase was possible due to prior year fund balance reserves and designations. The other appropriation increases were offset by associated revenues.

Comparison of actual results (budgetary basis) to the final modified budget disclosed the following significant differences:

- Revenues and other financing sources were under budget by \$5.8 million. Unfavorable variances occurred in building inspection fees due to an unanticipated decrease in new building activity. A significant unfavorable variance in intergovernmental revenue was due an unanticipated shortfall in state aid due to conditions beyond the control of the City. Investment income was impacted negatively by an investment valuation adjustment for commercial paper and due to a decrease in investment earning rates.
- Expenditures and transfers were under budget by \$2 million due primarily to staff vacancies and associated benefits.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City of Duluth's investment in capital assets for its governmental and business-type activities as of December 31, 2008 was \$445.4 million, net of accumulated depreciation. This investment includes land and improvements, buildings, equipment, roads and bridges, traffic signals, and utility-related infrastructure. In 2008, the City's total investment in capital assets, net of accumulated depreciation, increased by \$13.9 million. The net increase of \$13.9 million was due primarily to the City's ongoing street improvement program, replacement of water and sewer lines, work on a sanitary system overflow storage project, and improvements to Steam District #1. Capital assets (net) totaling \$2.5 million were transferred from governmental activities to business-type activities in conjunction with the establishment of a street lighting enterprise fund to account for the City's street lights and traffic signal operations. Additional information related to the City's capital assets can be found in Note 6 of the notes to the financial statements. The following table shows the City's investment in capital assets, net of accumulated depreciation at December 31 for the past two fiscal years (dollars in thousands):

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
Capital Assets:				
Land and improvements	\$ 22,146	\$ 22,480	\$ 4,630	\$ 3,756
Buildings	40,450	40,091	36,355	37,494
Equipment	7,237	7,350	24,909	19,823
Infrastructure	166,396	162,631	110,432	103,006
Construction in progress	19,405	21,655	13,397	13,151
Total	<u>\$ 255,634</u>	<u>\$ 254,207</u>	<u>\$ 189,723</u>	<u>\$ 177,230</u>

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

LONG-TERM DEBT

The City of Duluth had \$174.9 million of bonded debt outstanding as of December 31, 2008. Of this amount, \$67.8 million is debt backed by the full faith and credit of the City. \$48.8 million is special assessment debt for which the City is obligated only to the extent that collections from special assessments are insufficient to retire the outstanding bonds. The City has a contingent liability for the \$56.3 million outstanding revenue and general obligation bonds if income from various enterprise operations is insufficient to retire their respective bonds. Several types of revenue bonds constitute the remainder of the City's debt, and are secured solely by specific revenue sources. The following table shows the City's outstanding bonded debt for both governmental and business-type activities as of December 31 for the past two fiscal years (dollars in thousands).

	<u>Balance 12/31/08</u>	<u>Balance 12/31/07</u>
Governmental Activities:		
General Obligation Bonds	\$ 60,815	\$ 19,502
General Obligation Tax Increment Bonds	-	23
General Obligation Tax Abatement Bonds	310	310
Tax Increment Revenue Bonds	175	1,240
Lease Revenue Bonds	1,125	1,250
Special Assessment Debt with Government Commitment	48,845	52,060
General Obligation Certificates	<u>6,715</u>	<u>5,270</u>
Total Governmental Activities Bonded Debt	<u>\$ 117,985</u>	<u>\$ 79,655</u>
Business-type Activities:		
Revenue Bonds	550	675
Revenue and General Obligation Bonds	<u>56,315</u>	<u>60,595</u>
Total Business-type Activities Bonded Debt	<u>\$ 56,865</u>	<u>\$ 61,270</u>

During 2008, the City's total debt increased by \$ 33.9 million. In 2008, the City issued \$43.7 million of general obligation bonds, \$5.4 million special assessment debt with government commitment, and \$2.5 million of general obligation certificates. Of the \$43.7 million general obligation bonds issued, \$40.6 million was issued to assist in the financing of an expansion of the Duluth Entertainment and Convention Center (DECC). Although considered general obligation debt, the DECC bonds are to be repaid with a dedicated food and beverage tax and pledged DECC revenues. The City also issued \$2.0 million utility revenue and general obligation bonds and \$.2 million utility general obligation notes. The City has an "Aa3" rating from Moody's Investors Service and an "AA-" rating from Standard and Poors.

State statutes limit the amount of general obligation debt the City can incur to no more than 2% of the market value of taxable property in the City. The City's current legal debt margin is \$109.5 million, which is significantly higher than the City's net debt of \$22.4 million. Additional information about the City's long-term debt can be found in Note 11 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The final approved 2009 General Fund budget of \$81.3 million is \$.4 million or .4% more than the 2008 approved budget. State local government aid (LGA) payments are anticipated to supply 37.8% of General Fund revenues. State aid payments are the single biggest financing source for the General Fund.

In the 2003 state legislative session, the Legislature reduced local government aid to cities across the state as part of the solution to the State's budget deficit and has enacted significant changes to the LGA program for 2005 and beyond. The amount of dollars allocated to the program has been reduced and the Legislature also eliminated the automatic inflationary increase that had been in place since 1993. The greatest change to the program however, was the adoption of a new formula which measures each city's expenditure need based on a number of statistical variables. Once a city's need is calculated, it is compared to a city's ability to pay or revenue

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008**

raising capacity. Cities that have spending needs that exceed their ability to pay receive a share of the LGA distribution. For Duluth's 2009 allocation, the certified formula aid increase was \$1.7 million for a total aid amount of \$30.7 million. However, the City anticipates that a projected state deficit for the 2009-2010 biennium budget, will result in a sizeable decrease in its 2009 certified formula aid. In December 2008, due to a projected state deficit, the governor made a \$1.7 reduction (unallotment) in the City's final 2008 state aid payment. In 2002, prior to the LGA legislative changes, the City's allocation was \$30.2 million.

In 2007, the City contracted with an actuary to calculate its annual required contribution for post employment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. The annual required contribution for 2008 was calculated to be \$23.7 million. For the year ended December 31, 2008, the City made contributions of \$4.1 million to an irrevocable trust and paid an additional \$9.1 million of retiree claims resulting in an increase of \$10.5 million in the City's net other post employment liability. The City has budgeted contributions of \$4.3 million to the irrevocable trust for 2009.

Adapting to significant changes in levels of state aids, combined with inflationary tendencies in employee salaries and benefits, including funding other post employment benefits, will be a major budget challenge in the future for the City.

REQUESTS FOR INFORMATION

This financial report is meant to provide a general overview of the City of Duluth's finances for all those with an interest in the City's finances. Questions concerning information provided in the report or requests for additional financial information should be addressed to the City Auditor's Office, 411 West First Street, Room 107, Duluth, MN 55802, or contact the City Auditor via email at wparson@duluthmn.gov.

Basic Financial Statements

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 141,949,427	\$ 10,125,055	\$ 152,074,482	\$ 6,618,582
Assets held by trustee	139,446	-	139,446	-
Receivables, net	27,462,344	14,700,590	42,162,934	1,213,125
Due from primary government	-	-	-	117,104
Internal balances	1,759,998	(1,759,998)	-	-
Due from component units	2,450,924	-	2,450,924	-
Due from other governments	6,984,724	197,184	7,181,908	1,192,077
Inventories	411,166	1,957,460	2,368,626	477,784
Prepays	528,529	5,336,772	5,865,301	107,120
Restricted assets:				
Cash and cash equivalents	-	1,975,483	1,975,483	1,685,821
Accounts receivable	-	-	-	39,244
Loans receivable	-	3,409,829	3,409,829	-
Grants receivable	-	-	-	814,883
Due from other governments	-	-	-	2,334,561
Assets held by trustee	-	106,733	106,733	86,245
Deferred charges	1,292,433	481,402	1,773,835	777,406
Capital assets (Note 6):				
Non-depreciable	41,550,798	18,027,242	59,578,040	15,851,768
Depreciable, net	214,082,981	171,696,199	385,779,180	113,664,025
Total assets	438,612,770	226,253,951	664,866,721	144,979,745
LIABILITIES				
Accounts payable and other short-term liabilities	6,494,085	9,080,121	15,574,206	2,789,161
Accrued interest payable	2,395,596	1,014,242	3,409,838	55,902
Due to component units	121,810	-	121,810	-
Due to primary government	-	-	-	2,387,508
Due to other government	1,260,090	1,035,629	2,295,719	42,434
Unearned revenues	299,605	2,020,612	2,320,217	957,677
Liabilities payable from restricted assets	-	-	-	230,610
Noncurrent liabilities (Note 11):				
Due within one year	17,173,907	5,605,663	22,779,570	1,861,059
Due in more than one year	125,265,726	67,637,245	192,902,971	4,567,067
Total liabilities	153,010,819	86,393,512	239,404,331	12,891,418
NET ASSETS				
Investment in capital assets, net of related debt	188,129,975	119,657,883	307,787,858	125,124,187
Restricted for:				
Debt service	18,919,441	-	18,919,441	86,245
Capital projects	2,120,343	-	2,120,343	351,609
Special projects	2,206,103	258,506	2,464,609	-
Loans	983,477	1,945,516	2,928,993	-
Other	12,227	-	12,227	4,330,116
Unrestricted	73,230,385	17,998,534	91,228,919	2,196,170
Total net assets	\$ 285,601,951	\$ 139,860,439	\$ 425,462,390	\$ 132,088,327

The notes to the financial statements are an integral part of this statement.

CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 25,028,329	\$ 3,846,472	\$ 164,750	\$ 677,905
Public safety	36,478,984	2,434,033	1,513,036	293,512
Public works	15,817,121	392,155	1,130,697	6,259,441
Culture and recreation	13,962,001	797,188	337,196	-
Urban and economic development	18,180,805	910,181	9,851,679	969,485
Interest	4,749,041	-	-	-
Total governmental activities	114,216,281	8,380,029	12,997,358	8,200,343
Business-type activities:				
Water	11,325,128	11,370,681	-	47,512
Gas	54,336,765	58,604,811	-	29,804
Sewer	16,747,150	17,224,701	-	232,472
Stormwater	2,876,181	4,563,498	-	-
Steam district #1	5,851,628	5,959,836	-	-
Steam district #2	10,240,440	9,049,941	-	1,174,076
Golf	1,886,874	1,879,530	-	-
Parking	2,030,206	4,136,535	-	486,633
Street Lighting	309,920	88,924	-	-
Total business-type activities	105,604,292	112,878,457	-	1,970,497
Total primary government	\$ 219,820,573	\$ 121,258,486	\$ 12,997,358	\$ 10,170,840
Component units :				
Duluth Entertainment and Convention Center Authority	\$ 9,826,385	\$ 7,730,681	\$ -	\$ 5,620,786
Duluth Airport Authority	8,340,785	3,954,467	83,540	4,752,139
Duluth Transit Authority	14,717,776	2,292,569	7,627,443	1,951,245
Spirit Mountain Recreation Area Authority	4,179,993	4,215,634	-	275,000
Total component units	\$ 37,064,939	\$ 18,193,351	\$ 7,710,983	\$ 12,599,170

(continued)

The notes to the financial statements are an integral part of this statement.

CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Primary Government:				
Governmental activities:				
General government	\$ (20,339,202)	\$ -	\$ (20,339,202)	\$ -
Public safety	(32,238,403)	-	(32,238,403)	-
Public works	(8,034,828)	-	(8,034,828)	-
Culture and recreation	(12,827,617)	-	(12,827,617)	-
Urban and economic development	(6,449,460)	-	(6,449,460)	-
Interest	(4,749,041)	-	(4,749,041)	-
Total governmental activities	(84,638,551)	-	(84,638,551)	-
Business-type activities:				
Water	-	93,065	93,065	-
Gas	-	4,297,850	4,297,850	-
Sewer	-	710,023	710,023	-
Stormwater	-	1,687,317	1,687,317	-
Steam district #1	-	108,208	108,208	-
Steam district #2	-	(16,423)	(16,423)	-
Golf	-	(7,344)	(7,344)	-
Parking	-	2,592,962	2,592,962	-
Street Lighting	-	(220,996)	(220,996)	-
Total business-type activities	-	9,244,662	9,244,662	-
Total primary government	(84,638,551)	9,244,662	(75,393,889)	-
Component units :				
Duluth Entertainment and Convention Center Authority	-	-	-	3,525,082
Duluth Airport Authority	-	-	-	449,361
Duluth Transit Authority	-	-	-	(2,846,519)
Spirit Mountain Recreation Area Authority	-	-	-	310,641
Total component units	-	-	-	1,438,565
General Revenues:				
Property taxes	18,170,135	-	18,170,135	2,319,313
Market value credit aid	1,086,482	-	1,086,482	-
Sales taxes	18,363,052	-	18,363,052	-
Other taxes	2,049,848	-	2,049,848	-
Casino shared revenues	6,156,767	-	6,156,767	-
Grants and shared revenues not restricted to specific programs	30,311,915	-	30,311,915	1,707,862
Investment income	4,058,373	545,151	4,603,524	183,833
Gain on sale or disposition of capital assets	136,787	11,577	148,364	17,194
Miscellaneous	3,623,533	-	3,623,533	325,552
Transfers	2,234,661	(2,234,661)	-	-
Total general revenues and transfers	86,191,553	(1,677,933)	84,513,620	4,553,754
Change in net assets	1,553,002	7,566,729	9,119,731	5,992,319
Net assets - beginning, as restated	284,048,949	132,293,710	416,342,659	126,096,008
Net assets - ending	\$ 285,601,951	\$ 139,860,439	\$ 425,462,390	\$ 132,088,327

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	<u>General Fund</u>	<u>Community Investment</u>	<u>Special Assessment Debt Service</u>	<u>DEDA Debt Service</u>
ASSETS				
Cash and cash equivalents	\$ 950,688	\$ 56,331,640	\$ 851,517	\$ 4,277,377
Assets held by trustee	139,446	-	-	-
Receivables, net:				
Taxes	2,470,363	-	-	462,850
Accounts	351,998	1,432,059	-	17,416
Assessments	1,094,326	-	7,000,998	-
Loans	259,738	-	-	16,941
Grants	-	-	-	-
Accrued interest	457,695	463,635	-	-
Deposits	-	-	-	-
Due from other funds	1,282,847	-	490,100	94,272
Due from component units	162,087	-	-	-
Interfund loan receivable	-	-	-	-
Due from other governments	1,242,059	-	-	-
Land held for resale	-	-	-	-
Prepays	-	-	-	-
	<u>\$ 8,411,247</u>	<u>\$ 58,227,334</u>	<u>\$ 8,342,615</u>	<u>\$ 4,868,856</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,725,972	\$ -	\$ -	\$ -
Contracts payable	106,837	-	-	-
Due to other funds	4,414,823	54,431	54,148	3,617,523
Due to component units	10,860	-	-	-
Interfund loan payable	-	-	-	-
Loans payable	-	-	-	-
Due to other governments	132,972	-	-	693,991
Accrued salaries payable	1,297,241	-	-	-
Deferred revenue	1,742,136	561,048	6,997,154	444,175
	<u>9,430,841</u>	<u>615,479</u>	<u>7,051,302</u>	<u>4,755,689</u>
Fund balances:				
Reserved for:				
Encumbrances	98,698	-	-	-
Debt service	-	-	-	113,167
Special accounts	226,732	-	-	-
Unreserved:				
Designated for, reported in:				
Debt service	-	-	1,291,313	-
Special revenue funds	-	-	-	-
Debt service funds	-	-	-	-
Capital project funds	-	-	-	-
Undesignated, reported in:				
General fund	(1,345,024)	-	-	-
Special revenue funds	-	57,611,855	-	-
Capital project funds	-	-	-	-
	<u>(1,019,594)</u>	<u>57,611,855</u>	<u>1,291,313</u>	<u>113,167</u>
Total fund balances	<u>(1,019,594)</u>	<u>57,611,855</u>	<u>1,291,313</u>	<u>113,167</u>
Total liabilities and fund balances	<u>\$ 8,411,247</u>	<u>\$ 58,227,334</u>	<u>\$ 8,342,615</u>	<u>\$ 4,868,856</u>

(continued)

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	DECC Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 35,648,526	\$ 29,110,028	\$ 127,169,776
Assets held by trustee	-	-	139,446
Receivables, net:			
Taxes	-	827,899	3,761,112
Accounts	-	113,928	1,915,401
Assessments	-	3,747,908	11,843,232
Loans	-	8,338,574	8,615,253
Grants	-	592,113	592,113
Accrued interest	119,573	-	1,040,903
Deposits	-	250,000	250,000
Due from other funds	-	14,851,325	16,718,544
Due from component units	1,794,916	178,951	2,135,954
Interfund loan receivable	-	2,822,758	2,822,758
Due from other governments	-	5,742,665	6,984,724
Land held for resale	-	192,500	192,500
Prepays	-	528,529	528,529
	<u>\$ 37,563,015</u>	<u>\$ 67,297,178</u>	<u>\$ 184,710,245</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 465,176	\$ 2,191,148
Contracts payable	-	2,217,091	2,323,928
Due to other funds	-	3,971,536	12,112,461
Due to component units	-	110,950	121,810
Interfund loan payable	-	3,963,231	3,963,231
Loans payable	-	439,302	439,302
Due to other governments	-	416,539	1,243,502
Accrued salaries payable	-	60,665	1,357,906
Deferred revenue	-	12,324,338	22,068,851
	<u>-</u>	<u>23,968,828</u>	<u>45,822,139</u>
Fund balances:			
Reserved for:			
Encumbrances	-	3,023,897	3,122,595
Debt service	-	6,974,930	7,088,097
Special accounts	-	3,487,557	3,714,289
Unreserved:			
Designated for, reported in:			
Debt service	-	-	1,291,313
Special revenue funds	-	1,287,848	1,287,848
Debt service funds	-	9,910,354	9,910,354
Capital project funds	37,563,015	7,013,131	44,576,146
Undesignated, reported in:			
General fund	-	-	(1,345,024)
Special revenue funds	-	8,175,997	65,787,852
Capital project funds	-	3,454,636	3,454,636
	<u>37,563,015</u>	<u>43,328,350</u>	<u>138,888,106</u>
Total liabilities and fund balances	<u>\$ 37,563,015</u>	<u>\$ 67,297,178</u>	<u>\$ 184,710,245</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Fund Balance--total governmental funds	\$ 138,888,106
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds. The cost of the assets is \$384,116,352, and the accumulated depreciation is \$129,131,831.	255,164,521
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	21,108,862
Internal service funds are used by management to charge the costs of fleet services, group health insurance, loss control activities, and vacation benefits payable to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets for \$9,539,645 less \$1,806,200 attributed to business-type activities.	7,733,445
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:	
Bonds and Notes payable, net of issuance costs	121,001,716
PERA police and fire pension liability	3,524,605
Other post employment benefits	10,453,617
Interest accrued on long-term debt	2,367,718
	(137,347,656)
Other assets that are not available to pay for current period expenditures, and therefore, are not reported in the funds.	54,673
Net assets of governmental activities	\$ 285,601,951

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>General Fund</u>	<u>Community Investment</u>	<u>Special Assessment Debt Service</u>	<u>DEDA Debt Service</u>
REVENUES				
Taxes:				
Property taxes	\$ 7,074,659	\$ -	\$ -	\$ 5,750,929
Sales taxes	11,563,693	-	-	-
Other taxes	2,039,493	-	-	-
Licenses and permits	985,506	-	-	-
Intergovernmental revenues	32,970,884	-	-	69,037
Charges for services	5,561,693	-	-	-
Fines and forfeits	1,056,783	-	-	-
Special assessments	406,876	-	1,218,056	-
Investment income	211,706	1,883,218	686	180,978
Miscellaneous revenues	2,346,428	5,595,719	-	17,416
	<u>64,217,721</u>	<u>7,478,937</u>	<u>1,218,742</u>	<u>6,018,360</u>
EXPENDITURES				
Current:				
General government	21,772,883	1,200,000	-	-
Public safety	34,614,349	-	-	-
Public works	10,496,029	-	-	-
Culture and recreation	6,198,779	-	-	-
Urban and economic development	404,414	-	-	696,388
Debt service:				
Principal retirement	125,000	-	1,147,900	1,185,002
Interest and fiscal fees	52,000	-	409,337	893,303
Bond issuance costs	-	-	-	-
Capital outlay	-	-	-	-
	<u>73,663,454</u>	<u>1,200,000</u>	<u>1,557,237</u>	<u>2,774,693</u>
Excess (deficiency) of revenues over expenditures	<u>(9,445,733)</u>	<u>6,278,937</u>	<u>(338,495)</u>	<u>3,243,667</u>
OTHER FINANCING SOURCES (USES)				
Issuance of bonds	-	-	-	-
Premium on issuance of bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	11,118,004	-	744,670	94,272
Transfers out	<u>(4,305,892)</u>	<u>(3,778,025)</u>	<u>-</u>	<u>(4,324,273)</u>
Total other financing sources (uses)	<u>6,812,112</u>	<u>(3,778,025)</u>	<u>744,670</u>	<u>(4,230,001)</u>
Net change in fund balance	(2,633,621)	2,500,912	406,175	(986,334)
Fund balance - January 1, 2008	<u>1,614,027</u>	<u>55,110,943</u>	<u>885,138</u>	<u>1,099,501</u>
Fund balance - December 31, 2008	<u>\$ (1,019,594)</u>	<u>\$ 57,611,855</u>	<u>\$ 1,291,313</u>	<u>\$ 113,167</u>

(continued)

The notes to the financial statements are an integral part of this statement.

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	DECC Capital Project	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property taxes	\$ -	\$ 4,950,647	\$ 17,776,235
Sales taxes	-	6,799,359	18,363,052
Other taxes	-	10,355	2,049,848
Licenses and permits	-	-	985,506
Intergovernmental revenues	-	17,275,158	50,315,079
Charges for services	-	240,567	5,802,260
Fines and forfeits	-	-	1,056,783
Special assessments	-	984,653	2,609,585
Investment income	530,593	556,960	3,364,141
Miscellaneous revenues	-	4,242,445	12,202,008
	<u>530,593</u>	<u>35,060,144</u>	<u>114,524,497</u>
EXPENDITURES			
Current:			
General government	-	89,698	23,062,581
Public safety	-	1,047,241	35,661,590
Public works	-	1,610,068	12,106,097
Culture and recreation	-	1,839,018	8,037,797
Urban and economic development	-	15,414,643	16,515,445
Debt service:			
Principal retirement	-	7,526,100	9,984,002
Interest and fiscal fees	-	3,022,520	4,377,160
Bond issuance costs	316,353	227,834	544,187
Capital outlay	3,286,225	12,463,318	15,749,543
	<u>3,602,578</u>	<u>43,240,440</u>	<u>126,038,402</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(3,071,985)</u>	<u>(8,180,296)</u>	<u>(11,513,905)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	40,635,000	10,965,000	51,600,000
Premium on issuance of bonds	-	383,591	383,591
Payment to refunded bond escrow agent	-	(3,570,023)	(3,570,023)
Transfers in	-	13,943,792	25,900,738
Transfers out	-	(7,957,479)	(20,365,669)
	<u>40,635,000</u>	<u>13,764,881</u>	<u>53,948,637</u>
Total other financing sources (uses)			
Net change in fund balance	37,563,015	5,584,585	42,434,732
Fund balance - January 1, 2008	-	37,743,765	96,453,374
Fund balance - December 31, 2008	<u>\$ 37,563,015</u>	<u>\$ 43,328,350</u>	<u>\$ 138,888,106</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net change in fund balances - total governmental funds		\$ 42,434,732
Amounts reported for governmental activities in the statement of activities are different because:		
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	13,954,168	
Depreciation expense	<u>(9,416,843)</u>	
Excess of capital outlay over depreciation expense		4,537,325
Miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and other disposals) decreased net assets.		(377,139)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of \$2,966,372 from internal funds less \$493,885 attributed to business-type activities is reported with governmental activities.		2,472,487
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Bonds issued, including a bond premium of \$336,623 less issuance costs of \$497,641.	48,383,982	
Refunding bonds, including a bond premium of \$46,968 less issuance costs of \$46,549.	<u>3,055,419</u>	
Total bond proceeds		(51,439,401)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement	9,984,002	
PERA police and fire liability	3,248,483	
Payments to the bond refunding agent	<u>3,485,000</u>	
Total long-term debt repayment		16,717,485
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year.		(483,768)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Net decrease in accrued interest	19,469	
Increase in net other post employment benefits payable	(9,722,422)	
Amortization of deferred amounts:		
for bond premiums	315,933	
for bond issuance costs	(142,355)	
on refundings	<u>(33,884)</u>	
Total additional expenditures		(9,563,259)
Transfer of capital assets and related long-term debt to business-type activities decreased net assets		<u>(2,745,460)</u>
Change in net assets of governmental activities		<u>\$ 1,553,002</u>

The notes to the financial statements are an integral part of this statement.

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDING DECEMBER 31, 2008

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis) (Note 2)
REVENUES			
Taxes	\$ 21,644,600	\$ 21,644,600	\$ 20,677,845
Licenses and permits	1,114,300	1,114,300	985,506
Intergovernmental revenues	36,972,700	37,145,984	32,970,884
Charges for services	6,808,400	6,808,400	5,561,693
Fines and forfeits	1,128,600	1,147,404	1,056,783
Special assessments	407,900	407,900	406,876
Investment income	2,650,000	2,663,535	211,706
Miscellaneous revenues	654,700	634,848	2,346,428
	<u>71,381,200</u>	<u>71,566,971</u>	<u>64,217,721</u>
Total revenues			
EXPENDITURES			
Current:			
General government	22,136,000	22,121,656	21,853,165
Public safety	34,343,500	34,912,571	34,623,249
Public works	10,392,000	10,685,700	10,496,029
Culture and recreation	6,902,900	6,438,271	6,208,295
Urban and economic development	649,200	589,200	404,414
Debt service:			
Capital lease obligation - principal	135,000	135,000	125,000
Capital lease obligation - interest	40,000	42,000	52,000
	<u>74,598,600</u>	<u>74,924,398</u>	<u>73,762,152</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(3,217,400)</u>	<u>(3,357,427)</u>	<u>(9,544,431)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	9,612,100	9,612,100	11,118,004
Transfers out	(6,394,700)	(6,545,076)	(4,305,892)
	<u>3,217,400</u>	<u>3,067,024</u>	<u>6,812,112</u>
Total other financing sources (uses)			
Net change in fund balance - budgetary basis	-	(290,403)	(2,732,319)
Net adjustments to reflect operations in accordance with generally accepted accounting principles			<u>98,698</u>
Net change in fund balance - GAAP basis	-	(290,403)	(2,633,621)
Fund balance - January 1, 2008	<u>1,614,027</u>	<u>1,614,027</u>	<u>1,614,027</u>
Fund balance - December 31, 2008	<u>\$ 1,614,027</u>	<u>\$ 1,323,624</u>	<u>\$ (1,019,594)</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008**

Business-type Activities - Enterprise Funds

	Water	Gas	Sewer	Steam District #1
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,924,597	\$ -	\$ 2,821,903	\$ 53,223
Restricted cash and cash equivalents:				
Customer deposits	89,040	1,014,744	-	-
Construction	-	-	3,393	-
Loans	-	868,306	-	-
Restricted assets held by trustee	-	-	-	-
Receivables, net:				
Accounts	928,966	9,480,457	1,392,704	948,505
Restricted loans	-	539,235	-	-
Assessments	116,042	22,035	17,406	-
Due from other funds	44,875	50,169	35,864	15,794
Due from component units	-	-	-	-
Interfund loan receivable	884,234	-	956,793	-
Due from other governments	718	171	320	-
Inventories	832,852	851,973	-	207,368
Prepays	-	4,962,814	-	111,305
Total current assets	4,821,324	17,789,904	5,228,383	1,336,195
Noncurrent assets:				
Assessments receivable	336,889	59,336	132,736	-
Due from other governments	-	-	-	25,000
Restricted loans receivable	-	2,870,594	-	-
Issuance costs	29,748	16,434	112,701	80,379
Capital assets, net	40,406,226	41,850,846	49,665,756	10,432,316
Total noncurrent assets	40,772,863	44,797,210	49,911,193	10,537,695
Total assets	45,594,187	62,587,114	55,139,576	11,873,890
LIABILITIES				
Current liabilities:				
Accounts payable	202,019	4,271,693	243,390	141,584
Contracts payable	82,104	252,000	608,462	398,739
Claims payable	-	-	-	-
Notes payable	181,608	-	159,742	2,903
Leases payable	126,861	116,290	109,242	-
Due to other funds	1,833,664	113,806	1,921,608	160
Interfund loan payable	-	167,358	-	344,134
Due to other governments	151,400	87,539	752,589	27,959
Accrued interest payable	91,760	202,772	262,449	129,043
Accrued salaries payable	107,697	128,967	78,366	-
Unearned revenue	-	1,815,430	-	-
Deposits	10,000	1,001,673	-	-
Revenue bonds payable	446,000	964,000	1,365,000	510,000
Total current liabilities	3,233,113	9,121,528	5,500,848	1,554,522
Noncurrent liabilities:				
Notes payable	1,862,124	-	2,688,196	6,891
Claims payable	-	-	-	-
Compensated absences	248,869	334,698	164,208	-
Leases payable	3,043,812	2,790,160	2,621,060	-
Net other postemployment benefits payable	810,345	910,469	97,691	-
Revenue bonds payable	4,001,000	11,124,000	13,748,000	7,160,000
Less unamortized bond discount	(22,130)	(123,834)	(65,303)	(2,940)
Total noncurrent liabilities	9,944,020	15,035,493	19,253,852	7,163,951
Total liabilities	13,177,133	24,157,021	24,754,700	8,718,473
NET ASSETS				
Invested in capital assets, net of related debt	30,796,699	26,996,664	29,152,520	2,889,064
Restricted for special accounts	-	-	3,393	-
Restricted for loans	-	1,945,516	-	-
Unrestricted	1,620,355	9,487,913	1,228,963	266,353
Total net assets	\$ 32,417,054	\$ 38,430,093	\$ 30,384,876	\$ 3,155,417

(continued)

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2008**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Parking	Other Enterprise Funds	Total Enterprise Funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,004,958	\$ 2,320,374	\$ 10,125,055	\$ 14,779,651
Restricted cash and cash equivalents:				
Customer deposits	-	-	1,103,784	-
Construction	-	-	3,393	-
Loans	-	-	868,306	-
Restricted assets held by trustee	-	106,733	106,733	-
Receivables, net:				
Accounts	16,452	1,235,587	14,002,671	61,129
Restricted loans	-	-	539,235	-
Assessments	-	13,475	168,958	-
Due from other funds	1,315	19,108	167,125	465,575
Due from component units	-	-	-	314,970
Interfund loan receivable	-	613,300	2,454,327	-
Due from other governments	2,992	167,983	172,184	-
Inventories	-	65,267	1,957,460	218,666
Prepays	-	262,653	5,336,772	-
Total current assets	3,025,717	4,804,480	37,006,003	15,839,991
Noncurrent assets:				
Assessments receivable	-	-	528,961	-
Due from other governments	-	-	25,000	-
Restricted loans receivable	-	-	2,870,594	-
Issuance costs	188,390	53,750	481,402	-
Capital assets, net	23,199,620	24,168,677	189,723,441	469,258
Total noncurrent assets	23,388,010	24,222,427	193,629,398	469,258
Total assets	26,413,727	29,026,907	230,635,401	16,309,249
LIABILITIES				
Current liabilities:				
Accounts payable	66,915	1,354,605	6,280,206	148,104
Contracts payable	-	80,229	1,421,534	2,935
Claims payable	-	-	-	1,543,592
Notes payable	-	-	344,253	-
Leases payable	-	94,017	446,410	41,710
Due to other funds	1,106	1,003,452	4,873,796	364,987
Interfund loan payable	-	802,362	1,313,854	-
Due to other governments	1	16,141	1,035,629	16,588
Accrued interest payable	280,819	47,399	1,014,242	27,878
Accrued salaries payable	6,831	44,847	366,708	30,762
Unearned revenue	22,545	182,637	2,020,612	11,088
Deposits	-	-	1,011,673	-
Revenue bonds payable	430,000	300,000	4,015,000	-
Total current liabilities	808,217	3,925,689	24,143,917	2,187,644
Noncurrent liabilities:				
Notes payable	-	-	4,557,211	-
Claims payable	-	-	-	1,320,540
Compensated absences	7,649	91,712	847,136	3,147,671
Leases payable	-	97,651	8,552,683	113,749
Net other postemployment benefits payable	-	-	1,818,505	-
Revenue bonds payable	13,910,000	2,907,000	52,850,000	-
Less unamortized bond discount	29,773	(3,856)	(188,290)	-
Total noncurrent liabilities	13,947,422	3,092,507	68,437,245	4,581,960
Total liabilities	14,755,639	7,018,196	92,581,162	6,769,604
NET ASSETS				
Invested in capital assets, net of related debt	9,018,237	20,804,699	119,657,883	313,799
Restricted for special accounts	-	255,113	258,506	-
Restricted for loans	-	-	1,945,516	-
Unrestricted	2,639,851	948,899	16,192,334	9,225,846
Total net assets	\$ 11,658,088	\$ 22,008,711	138,054,239	\$ 9,539,645

Amounts reported for business-type activities in the statement of net assets are different because of the consolidation of internal service fund activities related to enterprise funds.

Net assets of business-type activities \$ 139,860,439

The notes to the financial statements are an integral part of this statement.

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Gas</u>	<u>Sewer</u>	<u>Steam Dist #1</u>
OPERATING REVENUES				
Sales	\$ -	\$ 57,434,234	\$ -	\$ -
Charges for services	11,131,136	600,928	17,152,381	5,864,597
Miscellaneous revenues	222,626	546,284	64,037	95,239
Total operating revenues	<u>11,353,762</u>	<u>58,581,446</u>	<u>17,216,418</u>	<u>5,959,836</u>
OPERATING EXPENSES				
Cost of sales and services	-	42,819,209	-	-
Personal services	6,129,147	7,485,586	3,739,247	-
Supplies	909,832	888,826	306,999	2,161,778
Utilities	1,113,050	39,048	102,592	331,780
Other services and charges	1,774,284	1,692,130	11,237,464	2,075,735
Amortization	4,374	1,256	11,746	7,020
Depreciation	1,157,899	1,088,666	908,117	962,589
Medical and insurance	-	-	-	-
Total operating expenses	<u>11,088,586</u>	<u>54,014,721</u>	<u>16,306,165</u>	<u>5,538,902</u>
Operating income	<u>265,176</u>	<u>4,566,725</u>	<u>910,253</u>	<u>420,934</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	107,175	156,429	151,741	-
Intergovernmental revenue	16,919	23,365	8,283	-
Gain (Loss) on sale or disposition of capital assets	3,372	6,145	1,900	-
Interest expense	(240,761)	(505,728)	(639,712)	(311,996)
Total non-operating revenue (expenses)	<u>(113,295)</u>	<u>(319,789)</u>	<u>(477,788)</u>	<u>(311,996)</u>
Income before contributions and transfers	151,881	4,246,936	432,465	108,938
Capital contributions	47,512	29,804	232,472	-
Transfers in	21,000	21,000	9,000	-
Transfers out	(504,411)	(3,569,494)	(160,187)	(108,000)
Change in net assets	(284,018)	728,246	513,750	938
Total net assets - January 1, 2008	<u>32,701,072</u>	<u>37,701,847</u>	<u>29,871,126</u>	<u>3,154,479</u>
Total net assets - December 31, 2008	<u>\$ 32,417,054</u>	<u>\$ 38,430,093</u>	<u>\$ 30,384,876</u>	<u>\$ 3,155,417</u>

(continued)

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Parking</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	
OPERATING REVENUES				
Sales	\$ -	\$ 495,633	\$ 57,929,867	\$ 2,138,375
Charges for services	2,531,770	15,025,524	52,306,336	26,339,505
Miscellaneous revenues	1,604,765	11,993	2,544,944	924,981
Total operating revenues	<u>4,136,535</u>	<u>15,533,150</u>	<u>112,781,147</u>	<u>29,402,861</u>
OPERATING EXPENSES				
Cost of sales and services	-	282,834	43,102,043	1,872,811
Personal services	197,211	1,616,230	19,167,421	4,671,719
Supplies	144,240	1,835,162	6,246,837	70,029
Utilities	133,364	1,430,402	3,150,236	-
Other services and charges	328,497	8,228,171	25,336,281	2,441,671
Amortization	13,203	23,208	60,807	-
Depreciation	482,495	1,870,656	6,470,422	50,841
Medical and insurance	-	-	-	17,052,649
Total operating expenses	<u>1,299,010</u>	<u>15,286,663</u>	<u>103,534,047</u>	<u>26,159,720</u>
Operating income	<u>2,837,525</u>	<u>246,487</u>	<u>9,247,100</u>	<u>3,243,141</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	63,857	65,949	545,151	345,010
Intergovernmental revenue	-	48,743	97,310	5,836
Gain (Loss) on sale or disposition of capital assets	-	160	11,577	-
Interest expense	(786,471)	(139,461)	(2,624,129)	(12,667)
Total non-operating revenue (expenses)	<u>(722,614)</u>	<u>(24,609)</u>	<u>(1,970,091)</u>	<u>338,179</u>
Income before contributions and transfers	2,114,911	221,878	7,277,009	3,581,320
Capital contributions	486,633	3,919,536	4,715,957	-
Transfers in	1,197,920	9,000	1,257,920	-
Transfers out	(1,298,941)	(537,008)	(6,178,041)	(614,948)
Change in net assets	2,500,523	3,613,406	7,072,845	2,966,372
Total net assets - January 1, 2008	<u>9,157,565</u>	<u>18,395,305</u>	<u>130,981,394</u>	<u>6,573,273</u>
Total net assets - December 31, 2008	<u>\$ 11,658,088</u>	<u>\$ 22,008,711</u>	<u>\$ 138,054,239</u>	<u>\$ 9,539,645</u>

Amounts reported in business-type activities in the statement of activities are different because:

Change in net assets	\$ 7,072,845
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>493,884</u>
Change in net assets of business-type activities	<u>\$ 7,566,729</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Business-type Activities - Enterprise Funds			
	Water	Gas	Sewer	Steam District #1
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 11,165,276	\$ 58,755,588	\$ 16,921,115	\$ 5,797,761
Cash paid to suppliers	(3,938,994)	(49,029,439)	(11,321,123)	(4,596,378)
Cash paid to employees	(5,695,169)	(6,986,942)	(3,653,734)	-
Other operating revenues	152,878	202,241	9,725	10,323
Net cash provided (used) by operating activities	<u>1,683,991</u>	<u>2,941,448</u>	<u>1,955,983</u>	<u>1,211,706</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(442,778)	(3,569,494)	(138,078)	(108,000)
Operating grants	16,919	23,365	8,283	-
Interfund financing	(884,234)	167,358	(956,793)	73,053
Net cash provided (used) by noncapital financing activities	<u>(1,310,093)</u>	<u>(3,378,771)</u>	<u>(1,086,588)</u>	<u>(34,947)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants and contributions	6,384	27,109	471,258	-
Transfer from other funds	-	-	-	-
Interest received on capital	-	-	-	-
Issuance of revenue bonds and notes	-	-	449,515	-
Principal paid on bonds, notes and capitalized leases	(789,814)	(933,000)	(1,224,185)	(482,991)
Interest paid on bonds, notes and capitalized leases	(231,758)	(507,485)	(584,006)	(318,261)
Transfer to trustee debt service account	-	-	-	-
Payment of bond issuance costs	-	-	-	-
Special assessments received	216,543	23,398	61,023	-
Sale of capital assets	3,371	6,145	1,900	-
Acquisition or construction of capital assets	(860,409)	(707,548)	(2,274,039)	(682,568)
Net cash provided (used) by capital and related financing activities	<u>(1,655,683)</u>	<u>(2,091,381)</u>	<u>(3,098,534)</u>	<u>(1,483,820)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment interest	80,054	151,978	107,869	-
Net increase (decrease) in cash and cash equivalents	(1,201,731)	(2,376,726)	(2,121,270)	(307,061)
Cash and cash equivalents - January 1, 2008	3,215,368	4,259,776	4,946,566	360,284
Cash and cash equivalents - December 31, 2008	<u>\$ 2,013,637</u>	<u>\$ 1,883,050</u>	<u>\$ 2,825,296</u>	<u>\$ 53,223</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	<u>\$ 265,176</u>	<u>\$ 4,566,725</u>	<u>\$ 910,253</u>	<u>\$ 420,934</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	1,162,273	1,089,922	919,863	969,609
Change in assets and liabilities:				
Decrease (increase) in receivables	(63,444)	(1,018,598)	(245,655)	(115,750)
Decrease (increase) in inventory	(141,825)	(55,087)	-	(1,084)
Decrease (increase) in prepaid items	-	(1,883,076)	-	(78,230)
Increase (decrease) in payables	461,811	117,346	371,522	16,227
Increase (decrease) in deferred revenues	-	124,216	-	-
Total adjustments	<u>1,418,815</u>	<u>(1,625,277)</u>	<u>1,045,730</u>	<u>790,772</u>
Net cash provided (used) by operating activities	<u>\$ 1,683,991</u>	<u>\$ 2,941,448</u>	<u>\$ 1,955,983</u>	<u>\$ 1,211,706</u>

(continued)

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Parking	Other Enterprise Funds	Total Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 4,153,521	\$ 15,689,605	\$ 112,482,866	\$ 28,753,784
Cash paid to suppliers	(578,812)	(12,045,482)	(81,510,228)	(21,675,101)
Cash paid to employees	(230,271)	(1,627,898)	(18,194,014)	(4,321,949)
Other operating revenues	-	-	375,167	1,371
Net cash provided (used) by operating activities	<u>3,344,438</u>	<u>2,016,225</u>	<u>13,153,791</u>	<u>2,758,105</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers to other funds	(1,298,941)	(535,305)	(6,092,596)	(220,236)
Operating grants	-	39,606	88,173	5,836
Interfund financing	-	(544,568)	(2,145,184)	(94,712)
Net cash provided (used) by noncapital financing activities	<u>(1,298,941)</u>	<u>(1,040,267)</u>	<u>(8,149,607)</u>	<u>(309,112)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants and contributions	-	1,174,076	1,678,827	-
Transfer from other funds	1,269,355	-	1,269,355	-
Interest received on capital	-	453	453	-
Issuance of revenue bonds and notes	1,994,006	-	2,443,521	-
Principal paid on bonds, notes and capitalized leases	(2,920,000)	(258,402)	(6,608,392)	(37,540)
Interest paid on bonds, notes and capitalized leases	(840,605)	(119,744)	(2,601,859)	(13,785)
Transfer to trustee debt service account	-	(141,201)	(141,201)	-
Payment of bond issuance costs	(28,600)	-	(28,600)	-
Special assessments received	-	4,812	305,776	-
Sale of capital assets	-	160	11,576	-
Acquisition or construction of capital assets	(15,885)	(1,521,535)	(6,061,984)	(34,942)
Net cash provided (used) by capital and related financing activities	<u>(541,729)</u>	<u>(861,381)</u>	<u>(9,732,528)</u>	<u>(86,267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment interest	<u>63,857</u>	<u>62,128</u>	<u>465,886</u>	<u>345,010</u>
Net increase (decrease) in cash and cash equivalents	1,567,625	176,705	(4,262,458)	2,707,736
Cash and cash equivalents - January 1, 2008	<u>1,437,333</u>	<u>2,143,669</u>	<u>16,362,996</u>	<u>12,071,915</u>
Cash and cash equivalents - December 31, 2008	<u>\$ 3,004,958</u>	<u>\$ 2,320,374</u>	<u>\$ 12,100,538</u>	<u>\$ 14,779,651</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	<u>\$ 2,837,525</u>	<u>\$ 246,487</u>	<u>\$ 9,247,100</u>	<u>\$ 3,243,141</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	495,698	1,893,864	6,531,229	50,841
Change in assets and liabilities:				
Decrease (increase) in receivables	14,905	79,785	(1,348,757)	(214,714)
Decrease (increase) in inventory	-	2,036	(195,960)	(10,736)
Decrease (increase) in prepaid items	-	(45,648)	(2,006,954)	-
Increase (decrease) in payables	(5,775)	(190,889)	770,242	(294,625)
Increase (decrease) in deferred revenues	2,085	30,590	156,891	(15,802)
Total adjustments	<u>506,913</u>	<u>1,769,738</u>	<u>3,906,691</u>	<u>(485,036)</u>
Net cash provided (used) by operating activities	<u>\$ 3,344,438</u>	<u>\$ 2,016,225</u>	<u>\$ 13,153,791</u>	<u>\$ 2,758,105</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Parking				
Contributions of capital assets net of debt from government, \$486,633.				

The notes to the financial statements are an integral part of this statement.

**CITY OF DULUTH, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
DECEMBER 31, 2008**

	Other Post Employment Benefits Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 59,077	\$ 2,157,915
Receivables:		
Taxes	-	5
Loans	-	1,465,927
Investments, at fair value:		
Fixed income pool	9,017,497	-
Equity pool	5,556,312	-
Other assets	<u>-</u>	<u>349,520</u>
 Total assets	 <u>\$ 14,632,886</u>	 <u>\$ 3,973,367</u>
 LIABILITIES		
Accounts payable	\$ -	\$ 80
Due to other governments	-	39,078
Due to agency	<u>-</u>	<u>3,934,209</u>
 Total liabilities	 <u>-</u>	 <u>\$ 3,973,367</u>
 NET ASSETS		
Held in trust for post employment benefits	<u>\$ 14,632,886</u>	

The notes to the financial statements are an integral part of this statement

**CITY OF DULUTH, MINNESOTA STATEMENT OF
 CHANGES IN FIDUCIARY NET ASSETS OTHER POST
 EMPLOYMENT BENEFITS TRUST FUND FOR THE YEAR
 ENDED DECEMBER 31, 2008**

ADDITIONS

Contributions	<u>\$ 4,100,000</u>
Investment earnings:	
Interest	637,568
Net (decrease) in fair value of investments	<u>(3,357,484)</u>
Total investment earnings	<u>(2,719,916)</u>
Total additions	<u>1,380,084</u>

DEDUCTIONS

Benefits	<u>500,000</u>
Change is net assets	880,084
Net assets -January 1, 2008	<u>13,752,802</u>
Net assets -December 31, 2008	<u><u>\$14,632,886</u></u>

The notes to the financial statements are an integral part of this statement

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
COMPONENT UNITS
DECEMBER 31, 2008**

	Duluth Entertainment & Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	Totals
ASSETS					
Cash and cash equivalents	\$ 745,275	\$ 616,587	\$ 4,787,309	\$ 469,411	\$ 6,618,582
Receivables, net					
Taxes	-	-	79,204	-	79,204
Accounts	458,156	509,790	57,946	33,322	1,059,214
Grants	-	74,707	-	-	74,707
Due from primary government	117,104	-	-	-	117,104
Due from other governments	-	-	1,192,077	-	1,192,077
Inventories	136,887	77,777	197,913	65,207	477,784
Prepays	19,119	30,091	11,100	46,810	107,120
Deferred charges	4,534	722,836	-	50,036	777,406
Restricted assets:					
Cash and cash equivalents	226,224	1,107,988	-	351,609	1,685,821
Accounts receivable	6,041	33,203	-	-	39,244
Grants receivable	-	814,883	-	-	814,883
Due from other governments	2,334,561	-	-	-	2,334,561
Assets held by trustee	86,245	-	-	-	86,245
Capital assets, net:					
Non-depreciable	5,778,276	7,215,450	222,367	2,635,675	15,851,768
Depreciable	36,385,236	58,874,744	16,291,631	2,112,414	113,664,025
Total assets	46,297,658	70,078,056	22,839,547	5,764,484	144,979,745
LIABILITIES					
Accounts payable and other short-term liabilities	287,224	159,620	837,793	143,646	1,428,283
Contracts payable	537,882	822,996	-	-	1,360,878
Accrued interest payable	23,703	12,350	-	19,849	55,902
Due to primary government	1,822,617	458,116	14,473	92,302	2,387,508
Due to other government	-	35,937	-	6,497	42,434
Deferred revenue	168,961	589,664	68,340	130,712	957,677
Deposits	230,610	-	-	-	230,610
Non-current liabilities:					
Due within one year	924,822	97,459	487,178	351,600	1,861,059
Due in more than one year	2,479,151	1,149,537	-	938,379	4,567,067
Total liabilities	6,474,970	3,325,679	1,407,784	1,682,985	12,891,418
NET ASSETS					
Invested in capital assets, net of related debt	39,274,306	65,767,971	16,513,998	3,567,912	125,124,187
Restricted for:					
Debt service	86,245	-	-	-	86,245
Capital projects	-	-	-	351,609	351,609
Other	-	-	4,163,591	166,525	4,330,116
Unrestricted	462,137	984,406	754,174	(4,547)	2,196,170
Total net assets	\$ 39,822,688	\$ 66,752,377	\$ 21,431,763	\$ 4,081,499	\$ 132,088,327

The notes to the financial statements are an integral part of this statement

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2008**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Duluth Entertainment & Convention Center Authority				
Business-type activities:				
Entertainment and convention facility	\$ 9,826,385	\$ 7,730,681	\$ -	\$ 5,620,786
Duluth Airport Authority				
Business-type activities:				
Airport facility	8,340,785	3,954,467	83,540	4,752,139
Duluth Transit Authority				
Business-type activities:				
Public transportation	14,717,776	2,292,569	7,627,443	1,951,245
Spirit Mountain Recreation Area Authority				
Business-type activities:				
Ski hill operations	4,179,993	4,215,634	-	275,000
Total component units	\$ 37,064,939	\$ 18,193,351	\$ 7,710,983	\$ 12,599,170

(continued)

The notes to the financial statements are an integral part of this statement

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Net (Expense) Revenue and Changes in Net Assets</u>				
<u>Functions/Programs</u>	<u>Duluth Entertainment & Convention Center Authority</u>	<u>Duluth Airport Authority</u>	<u>Duluth Transit Authority</u>	<u>Spirit Mountain Recreation Area Authority</u>	<u>Totals</u>
Duluth Entertainment & Convention Center Authority					
Business-type activities:					
Entertainment and convention facility	\$ 3,525,082	\$ -	\$ -	\$ -	\$ 3,525,082
Duluth Airport Authority					
Business-type activities:					
Airport facility	-	449,361	-	-	449,361
Duluth Transit Authority					
Business-type activities:					
Public transportation	-	-	(2,846,519)	-	(2,846,519)
Spirit Mountain Recreation Area Authority					
Business-type activities:					
Ski hill operations	-	-	-	310,641	310,641
Total component units					<u>1,438,565</u>
General revenues:					
Property taxes	1,002,415	-	1,316,898	-	2,319,313
Grants and shared revenues not restricted to specific programs	-	-	1,707,862	-	1,707,862
Investment income	13,612	27,950	125,777	16,494	183,833
Gain on sale of capital assets	-	17,194	-	-	17,194
Miscellaneous	268,152	-	-	57,400	325,552
Total general revenues and transfers	<u>1,284,179</u>	<u>45,144</u>	<u>3,150,537</u>	<u>73,894</u>	<u>4,553,754</u>
Change in net assets	4,809,261	494,505	304,018	384,535	5,992,319
Net assets - beginning, as restated	<u>35,013,427</u>	<u>66,257,872</u>	<u>21,127,745</u>	<u>3,696,964</u>	<u>126,096,008</u>
Net assets - ending	<u>\$ 39,822,688</u>	<u>\$ 66,752,377</u>	<u>\$ 21,431,763</u>	<u>\$ 4,081,499</u>	<u>\$ 132,088,327</u>

The notes to the financial statements are an integral part of this statement

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Notes to the Financial Statements

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

Guide to Notes

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Duluth was first incorporated in 1870. The City has operated under the Mayor-Council form of government since 1956, with five council members elected from geographical districts and four members elected at-large. The term of office of the Mayor and Council members is four years.

The accounting policies of the City and its component units conform to generally accepted accounting principles. Accounting policies of the component units are disclosed with those of the City. Any differences or additional policies are identified by component unit.

REPORTING ENTITY

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities, and has considered all potential component units for which the City is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

BLENDED COMPONENT UNIT

The Duluth City Council is the governing board of the Duluth Economic Development Authority (DEDA). Although legally separate, DEDA, is in substance, part of City operations. DEDA funds are reported as governmental funds.

DISCRETELY PRESENTED COMPONENT UNITS

As required by generally accepted accounting principles, the financial statements in this report present the City of Duluth, the primary government, and its four component units: the Duluth Entertainment and Convention Center Authority, the Duluth Airport Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority. The component units are included as part of the City's reporting entity because of the significance of their operational or financial relationships with the City. Each component unit has a December 31 year end, except for the Spirit Mountain Recreation Area Authority, which has an April 30 year end.

The governing board of each component unit is appointed by the Mayor and approved by the City Council, except for the Duluth Entertainment and Convention Center Authority, which has seven City appointees and four directors appointed by the Governor of Minnesota.

The City Council approves the budget of each component unit. The City Council also approves the issuance and funding of debt for each component unit. The City Council currently provides an annual subsidy to the Duluth Entertainment and Convention Center Authority, and the Spirit Mountain Recreation Area Authority. For the Duluth Transit Authority, the City Council approves rate changes and approves an annual tax levy to finance operating and capital needs.

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
DISCRETELY PRESENTED COMPONENT UNITS (continued)

Combining statements for the City's component units are presented in the Basic Financial Statements section of this report. Complete financial statements for each of the other component units can be obtained from their respective offices at the following addresses:

Duluth Entertainment and Convention Center Authority
350 South Fifth Avenue West
Duluth, MN 55802

Duluth Airport Authority
Duluth International Airport
Duluth, MN 55811

Spirit Mountain Recreation
Area Authority
9500 Spirit Mountain Place
Duluth, MN 55810

Duluth Transit Authority
2402 West Michigan Street
Duluth, MN 55806

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements; exceptions include payments-in-lieu of taxes and payments for utilities between the General Fund and various enterprise funds. Governmental activities, which are supported mostly by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees and charges. The financial data of the City's component units is discretely presented in a separate column in the combined financial statements to emphasize that they are legally separate from the City.

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 those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for the agency fund type which has no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT
PRESENTATION (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 90 days of the end of the current fiscal year, except for property taxes, which are considered available if collected within 60 days of the fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, sales and excise taxes, franchise taxes, special assessments, licenses, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial transactions not accounted for in another fund.

The **Community Investment Special Revenue Fund** accounts for the City's share of revenues received from operation of the Fond du Luth Casino, in accordance with an agreement with the Fond du Lac Band of Lake Superior Chippewa. Such monies are to be used to finance future capital improvements of the City, with investment earnings of the fund to be transferred annually to the General fund.

The **Special Assessment Debt Service Fund** accounts for the resources accumulated and payments made for the principal and interest on long-term special assessment debt.

The **DEDA Debt Service Fund** accounts for the resources for, and payment of, tax increment backed debt.

The **DECC Capital Improvement Fund** accounts for costs associated with the construction of an expansion to the to the Duluth Entertainment Convention Center (DECC)

The City reports the following major proprietary funds:

The **Water Enterprise Fund** accounts for the collection, treatment, and distribution of water.

The **Gas Enterprise Fund** accounts for the distribution of natural gas, as well as inspection, maintenance and servicing of customer gas utilization equipment.

The **Sewer Enterprise Fund** accounts for the operation and maintenance of the sanitary sewer system.

The **Steam District #1 Enterprise Fund** accounts for the generation and distribution of steam in the downtown area.

The **Parking Fund** accounts for the operation and maintenance of municipal parking ramps, municipal lots, and parking meters.

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT
PRESENTATION (continued)

Additionally, the City reports the following fund types:

Internal Service Funds account for fleet services, insurance coverage for property, casualty, liability, workers' compensation, medical and dental claims, and compensated absences, provided to other departments, employees, authorities of the City, or to other governmental units, on a cost reimbursement basis.

Trust Fund accounts for an irrevocable trust established for funding other post-employment benefits for eligible retired employees under a single-employer defined benefit plan.

Agency Funds are used to account for assets held by the City as an agent for the Duluth 1200 Loan, Duluth Public Arts, and the Seaway Port Authority entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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 enterprise funds and internal service funds are charges to customers and participants for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CASH AND CASH EQUIVALENTS

Available cash balances from all funds are pooled and invested in accordance with Minnesota Statutes. Each fund's share of the pool is shown on the financial statements as "Cash and Cash Equivalents." For reporting purposes, petty cash and change funds are also considered cash and cash equivalents. For Proprietary Fund-type statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, are considered to be cash equivalents. Investments are stated at fair value.

ASSETS HELD BY TRUSTEE

The assets represent funds held for debt service reserves.

RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund loans receivable/payable. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
RECEIVABLES

Amounts due from individuals, organizations or other governmental units are recorded as receivables at year-end. These amounts include charges for services rendered, or for goods and materials provided by the City, including amounts for unbilled services. Receivables are shown net of an allowance for uncollectible accounts where applicable. Receivables are also recognized for property taxes, sales and excise taxes, loans, assessments, accrued interest, and intergovernmental grants.

Taxes and tax increments receivable consist of uncollected taxes levied and payable in prior years, net of allowance for uncollectible taxes. These receivables are offset by deferred revenue to indicate they are not available to finance expenditures of the current fiscal period.

Loans receivable include both the current and long-term portions of loans issued by the City. Business development loans are reported in both special revenue and agency funds. Most of these loans receivable are reported as an asset in the amount of loan proceeds disbursed; however, some loans, depending on their original funding source, report a deferred revenue equal to the loan amount and recognize a revenue when principal payments are received. Loans made at terms where the stated interest rate is significantly less than prevailing market interest rates are reported as an asset at the present value of the loan. Low interest home energy loans accounted for in the Gas Enterprise Fund, report a loan receivable and a contract payable in the amount of the loan agreement.

Assessments receivable include current, delinquent and deferred assessments for garbage service, as well as for street and utility improvements. Because the City requires all property owners to contract for garbage collection, the City assesses property owners for unpaid garbage bills, as a service to the licensed garbage haulers. These assessments are reported in the General Fund. The amount reported by the garbage haulers as unpaid is set up as a receivable and the revenue is deferred. As payments are received, a payable to the contractor is set up. Any unpaid assessments at year-end are certified to St. Louis County for payment with the following year's property taxes. Revenue is recognized for any penalties and interest the County collects on the City's behalf.

Assessments for street improvements are reported in a governmental fund; revenues are deferred until the collections are received. Assessments for utility improvements are reported in a proprietary fund; deferred revenue is set up in the amount of the assessment due.

INVENTORIES AND PREPAID ITEMS

The inventories of the enterprise funds consist of expendable supplies held for consumption. Fuel, chemicals and service department inventories are priced at the lower of cost or market using the first-in, first-out method and are based on an annual physical inventory. Other materials and supplies are on a perpetual inventory system and are priced using the moving average method. The inventory of the internal service funds consists of materials and supplies, which are on a perpetual inventory system and are priced using the moving average method.

The inventories of the Duluth Entertainment and Convention Center Authority and the Spirit Mountain Recreation Area Authority component units consist of merchandise held for resale and are based on a physical inventory and priced at the lower of cost or market using the first-in, first-out method.

The inventory of the Duluth Airport Authority component unit consists of materials and supplies held for consumption. They are priced at the lower of cost or market on a first-in, first-out basis.

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
INVENTORIES AND PREPAID ITEMS (continued)

The inventory of the Duluth Transit Authority component unit consists of materials, supplies, and diesel fuel, and is based on perpetual records and priced using the moving average method. Gasoline inventory is based on perpetual records at cost using the first-in, first-out method.

The City Council has authorized the Department of Public Works and Utilities to enter into cooperative agreements for the purpose of purchasing and storing natural gas for future use. Such purchases begin June 1 for the coming heating season and must be removed from storage by April 30 of the following year. The Duluth Economic Development Authority has a prepaid lease agreement for space rental which is being amortized over 15 years.

RESTRICTED ASSETS

Restricted assets consist of customers' deposits, employee flexible benefits plan, sewer surcharge, bond monies specified for construction, and monies restricted for the payment of bond principal and interest.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, 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. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 for equipment, \$50,000 for buildings and infrastructure, and all property which has an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend an asset's life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-75
Equipment	5-40
Infrastructure	15-80

COMPENSATED ABSENCES

Employees are granted from 5 to 35 vacation days per year depending on their years of service and union bargaining unit. Depending on bargaining unit, varying amounts of vacation may be accumulated and carried over to the succeeding year.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
COMPENSATED ABSENCES (continued)

A liability for unused vacation is reported in an internal service fund and the governmental activities column of the government-wide statement of net assets for employees paid from governmental funds. All other liabilities for employees' unused vacation is recognized in the fund from which they are paid.

Sick leave is recorded as an expenditure or expense when paid. Employees are granted from 18 to 120 days of sick leave each year, depending on their union bargaining unit. Employees are not compensated for unused sick leave. Any contingent liability for unused sick leave has not been determined and is not recognized in the financial statements. Retired employees are given a credit toward health insurance deductibles based on sick leave usage. This is described in further detail in Note 14 - Other Postemployment Benefits.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

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 an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

RESTATEMENTS AND RECLASSIFICATIONS

In 2008, the Duluth Entertainment and Convention Center (DECC) determined that certain capital assets had been depreciated beyond their original cost, which resulted in accumulated depreciation being overstated in the prior year. The over depreciation of capital assets resulted in the following adjustment to net assets:

<u>Statement of Activities</u>	<u>Component Units</u>
Net Assets, January 1, 2008, as previously reported	125,920,094
Capital asset understatement	175,914
Net Assets, January 1, 2008, restated	<u>126,096,008</u>
 <u>Statement of Activities - Component Units</u>	 <u>DECC</u>
Balance January 1, 2008, as previously reported	34,837,513
Capital asset overstatement	175,914
Balance January 1, 2008, restated	<u>35,013,427</u>

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

RESTATEMENTS AND RECLASSIFICATIONS (continued)

In addition, several account balances were reclassified for the year ended December 31, 2007, as previously reported. These reclassifications were required for the comparability to the current year's financial statements and must be considered when comparing the financial statements of this report with those of prior reports.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
BUDGETARY INFORMATION

The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are treated as budgeted expenditures in the year in which the commitment to purchase is made, and new capital leases are not budgeted.

By mid-September, the Mayor must submit a proposed budget to the City Council for its consideration and approval. The Council meets with the various operating departments and component units to review their budget requests. In December, a public hearing is held to discuss the proposed tax levy and budget. The Council must then adopt a final budget before year end.

The budget ordinance approved by the Council establishes appropriations for the General Fund. The total of all appropriations within a department are defined as a budget item and form the legal level of budgetary control, as defined in the budget ordinance. The Mayor, Chief Administrative Officer, or a designee may make transfers between appropriations; however, the total of all transfers to or from any budget item in excess of ten percent of that budget item must be approved by the City Council. The budget ordinance allows the budget to be increased for reimbursements received for damages or repairs to city property or work done for others and not anticipated in the original budget; it also allows for grants accepted by City Council resolution to be added to the budget. Finally, the budget ordinance requires that use of the General Fund's fund balance that has been designated in a prior year, must be approved by the Council if used for a purpose other than what had been specified. The Council may revise the budget at any time by ordinance upon recommendation of the Administration.

Encumbrance accounting is used in governmental funds. Encumbered appropriations for purchase orders or contracts are carried over into the following year, while the unencumbered appropriations lapse at the end of the year. Outstanding encumbrances at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

DEFICIT FUND EQUITY

The Street Improvement Program Capital Project Fund had a deficit fund balance of \$759,347 at December 31, 2008. This deficit is a result of expenditures for projects to be funded in the future.

The DEDA Operating Special Revenue Fund deficit fund balance of \$152,848 as of December 31, 2008 is expected to be eliminated by future grants, transfers and loan proceeds.

The General Fund had a deficit fund balance of \$1,019,594 at December 31, 2008. This deficit was created by a reduction of \$1.7 million in local government aid by the governor of Minnesota in mid December. The deficit is expected to be eliminated by future revenues and expenditure reductions.

FEDERAL AUDIT REQUIREMENTS

The Single Audit Act requires the City to have a single, independent audit of its financial operations, including compliance with certain provisions of federal law and regulations. This audit requirement was complied with for fiscal year ended December 31, 2008; an auditor's report on compliance and internal accounting control will be issued at a later date.

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

3. DEPOSITS AND INVESTMENTS

Reconciliation of City's total cash and investments to the basic financial statements follows:

Government-wide statement of net assets	
Governmental Activities	
Cash and cash equivalents	\$ 141,949,427
Assets held by trustee	139,446
Business-type activities	
Cash and cash equivalents	10,125,055
Cash and cash equivalents - restricted assets	1,975,483
Assets held by trustee	106,733
Discrete Component Units	
Cash and cash equivalents	6,618,582
Cash and cash equivalents - restricted assets	1,685,821
Assets held by trustee	86,245
Statement of fiduciary net assets	
Cash and cash equivalents	2,216,992
Investments, at fair value	<u>14,573,809</u>
 Total Cash and Investments	 <u><u>\$ 179,477,593</u></u>

DEPOSITS

Minnesota Statutes Sections 118A.02 and 118A.04 authorizes the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the City Council. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy to obtain pledged collateral for all deposits in excess of FDIC insurance. As of December 31, 2008; deposits with financial institutions were fully insured or collateralized by securities held in the City's name.

INVESTMENTS

Minnesota Statutes Sections 118A.04 and 118A.05 authorizes the following types of securities available to the City for investment:

- 1) governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities defined in Minnesota Statutes Section 118A.04 Subd. 6), and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.

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

3. DEPOSITS AND INVESTMENTS
INVESTMENTS (continued)

- 2) any security which is a (1) general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service; (2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and (3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- 3) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.
- 4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States banks.
- 5) in general obligation temporary bonds of the same governmental entity issued under Minnesota Statutes Sections 429.091, Subd. 7, 469.178, Subd. 5, or 475.61, Subd. 6.
- 6) repurchase agreements consisting of collateral allowable in Minnesota Statutes Section 118A.04, and reverse repurchase agreements may be entered into with any of the following entities:
 - (1) a financial institution qualified as a "depository" of public funds of the government entity;
 - (2) any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
 - (3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
 - (4) a securities broker-dealer licensed pursuant to chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.Reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs. In no event may reverse repurchase agreements be entered into for the purpose of generating cash for investments, except as stated in Minnesota Statutes Section 118A.05, Subd. 3.
- 7) securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of Minnesota Statutes Section 118A.05, Subd. 2, clause (1) or (2), and having its principal executive office in Minnesota. Securities lending transactions may be entered into with entities meeting the qualifications of Minnesota Statutes Section 118A.05, Subd. 2 and the collateral for such transactions shall be restricted to the securities described in Minnesota Statutes Section 118A.04 and 118A.05.
- 8) agreements or contracts for:
 - (1) shares of a Minnesota joint powers investment trust whose investments are restricted to securities described in Minnesota Statutes Sections 118A.04 and 118A.05, Subd. 2;
 - (2) units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency, in which investments are restricted to securities described in Minnesota Statutes Section 118A.04 and 118A.05;
 - (3) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or
 - (4) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and whose shares are registered under the Federal Securities Act of 1933, as long as the investment company's fund receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization and is invested in financial instruments with a final maturity no longer than 13 months.

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

**3. DEPOSITS AND INVESTMENTS
INVESTMENTS (continued)**

- 9) agreements or contracts for guaranteed investment contract may be entered into if they are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries. The credit quality of the issuer's or guarantor's short- and long-term unsecured debt must be rated in one of the two highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be down-graded below "A", the government entity must have withdrawal rights.

Interest Rate Risk. Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City minimizes its exposure to interest rate risk by limiting the investment horizon to either seven or ten years depending on the investment objective.

At December 31, 2008 the City had the following investments:

Investment type	Fair Value	Less than 1 year	1 - 5 years	6 - 10 years
U.S. Government Agency Securities	\$ 81,710,645	\$ 58,564,504	\$ 21,027,017	\$ 2,119,124
Guaranteed Investment Contract	35,648,526	35,648,526		
Negotiable Certificates of Deposit	15,861,256	15,861,256		
Mutual Funds	43,120,040	43,120,040		
Total Investments	\$ 176,340,467	\$ 153,194,326	\$ 21,027,017	\$ 2,119,124
Deposits	\$ 3,137,126			
Total Deposits and Investments*	\$ 179,477,593			

* Component Units are included in the City's cash and investment pool. The component units do not have separately identifiable deposits or investments in the City's pool and, therefore, are aggregated with the City in the note disclosure.

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by state statute.

The City's exposure to credit risk as of December 31, 2008 is as follows:

<u>S & P Rating</u>	<u>Fair Value</u>
AAA	\$81,710,645
<u>Moody's Rating</u>	
Aaa	28,099,343
<u>Not Rated</u>	
Mutual Funds	15,020,697
Guaranteed Investment Contract	35,648,526
Negotiable Certificates of Deposit	15,861,256
Total	<u>\$176,340,467</u>

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2008 none of the City's investments were subject to custodial credit risk.

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

3. DEPOSITS AND INVESTMENTS
INVESTMENTS (continued)

Concentration of Credit Risk. The concentration of credit risk is the risk of loss that may be caused by the city's investment in a single issuer. It is the City's policy that U.S. Government and agency securities can be held without limit. Other investments in a single security type or with a single financial institution shall not exceed 50% of the City's total investment portfolio. The City limits its commercial paper holdings to a maximum of \$5,000,000 in any issuer. Investments in any one issuer that represent 5% or more of the City's investments are as follows:

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Bank	\$ 64,585,195
FSA Capital Management Services, LLC Guaranteed Investment Contract	34,648,526

4. PROPERTY TAXES

Property tax levies are set by the City Council in September each year and certified to St. Louis County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over assessable property. Such taxes become a lien on January 1 and are recorded as receivables by the City at that date. Revenues are accrued and recognized in the year collectible, net of delinquencies.

Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The County is required to distribute collections to the City three times each year. Taxes which remain unpaid at year-end are delinquent. Collections made by the County through the end of the year and remitted to the City within 60 days after year-end are recognized as revenue and the remainder is deferred. The current year collection rate at December 31, 2008 was 96.6%.

5. RECEIVABLES

Receivables, net of uncollectible amounts, are reported in the governmental, proprietary, and fiduciary financial statements for goods and services, taxes, assessments, loans, grants and interest. The amount of delinquent assessments included for the current fiscal year is \$1,559,589. The uncollectible amounts related to the revenues of the City's utility enterprise funds at December 31, 2008 are as follows:

Water	\$ 149,261
Gas	787,723
Sewer	227,746
Steam District #1	<u>2,171</u>
Total Uncollectibles	<u>\$ 1,166,901</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition for resources that have been received, but not yet earned. The following schedule shows the detail of deferred revenue at December 31, 2008:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes	\$ 993,142	\$ -
Grants	2,440,343	237,771
Assessments	12,001,239	-
Loans	5,113,090	50,315
Deposits	-	431
Casino shared revenues	561,048	-
Total for governmental funds	<u>\$ 21,108,862</u>	<u>\$ 288,517</u>

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

6. CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2008 was as follows:

Primary Government

	Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land and land improvements	\$ 22,479,598	\$ -	\$ 1,200	\$ 335,054	\$ 22,145,744
Construction in progress	21,655,037	-	12,343,866	14,593,849	19,405,054
Total capital assets, not being depreciated	<u>44,134,635</u>	<u>-</u>	<u>12,345,067</u>	<u>14,928,903</u>	<u>41,550,798</u>
Capital assets, being depreciated:					
Buildings	73,942,399	-	2,288,613	-	76,231,012
Equipment	22,540,614	(35,480)	1,654,086	1,259,966	22,899,254
Infrastructure	237,978,293	(5,634,525)	12,295,195	-	244,638,963
Total capital assets being depreciated	<u>334,461,306</u>	<u>(5,670,005)</u>	<u>16,237,894</u>	<u>1,259,966</u>	<u>343,769,229</u>
Less accumulated depreciation for:					
Buildings	33,850,994	-	1,929,972	-	35,780,966
Equipment	15,190,260	(35,480)	1,752,922	1,245,417	15,662,285
Infrastructure	75,347,272	(2,889,065)	5,784,790	-	78,242,997
Total accumulated depreciation	<u>124,388,526</u>	<u>(2,924,545)</u>	<u>9,467,684</u>	<u>1,245,417</u>	<u>129,686,248</u>
Total capital assets, being depreciated, net	<u>210,072,780</u>	<u>(2,745,460)</u>	<u>6,770,210</u>	<u>14,549</u>	<u>214,082,981</u>
Governmental activities capital assets, net	<u>\$ 254,207,415</u>	<u>\$ (2,745,460)</u>	<u>\$ 19,115,277</u>	<u>\$ 14,943,452</u>	<u>\$ 255,633,779</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land and land improvements	\$ 3,756,409	\$ -	\$ 874,000	\$ -	\$ 4,630,409
Construction in progress	13,150,676	-	14,982,583	14,736,426	13,396,833
Total capital assets, not being depreciated	<u>16,907,085</u>	<u>-</u>	<u>15,856,583</u>	<u>14,736,426</u>	<u>18,027,242</u>
Capital assets, being depreciated:					
Buildings	58,085,655	-	137,632	-	58,223,287
Equipment	73,575,727	5,670,005	2,213,456	789,853	80,669,335
Infrastructure	138,649,461	-	12,947,401	116,067	151,480,795
Total capital assets, being depreciated	<u>270,310,843</u>	<u>5,670,005</u>	<u>15,298,489</u>	<u>905,920</u>	<u>290,373,417</u>
Less accumulated depreciation for:					
Buildings	20,591,531	-	1,277,163	-	21,868,694
Equipment	53,753,354	35,480	2,676,632	705,264	55,760,202
Infrastructure	35,642,632	2,889,065	2,516,625	-	41,048,322
Total accumulated depreciation	<u>109,987,517</u>	<u>2,924,545</u>	<u>6,470,420</u>	<u>705,264</u>	<u>118,677,218</u>
Total capital assets, being depreciated, net	<u>160,323,326</u>	<u>2,745,460</u>	<u>8,828,069</u>	<u>200,656</u>	<u>171,696,199</u>
Business-type activities capital assets, net	<u>\$ 177,230,411</u>	<u>\$ 2,745,460</u>	<u>\$ 24,684,652</u>	<u>\$ 14,937,082</u>	<u>\$ 189,723,441</u>

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

6. CAPITAL ASSETS (continued)

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

Governmental activities:		
General government	\$	1,441,948
Public safety		756,564
Public works, including depreciation of general infrastructure assets		6,404,204
Culture and recreation		814,127
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		<u>50,841</u>
Total depreciation expense - governmental activities	\$	<u>9,467,684</u>
Business-type activities:		
Water	\$	1,157,899
Gas		1,088,666
Sewer		908,117
Stormwater		322,824
Steam #1		962,587
Steam #2		1,190,754
Street Lighting		209,957
Parking		482,494
Golf		<u>147,122</u>
Total depreciation expense - business-type activities	\$	<u>6,470,420</u>

Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 6,918,870	\$ 17,077	\$ -	\$ 6,935,947
Construction in progress	<u>9,369,523</u>	<u>10,572,116</u>	<u>11,025,818</u>	<u>8,915,821</u>
Total capital assets, not being depreciated	<u>16,288,393</u>	<u>10,589,193</u>	<u>11,025,818</u>	<u>15,851,768</u>
Capital assets, being depreciated:				
Buildings	101,959,354	12,272,195	-	114,231,549
Equipment	45,996,523	1,931,581	327,094	47,601,010
Infrastructure	66,894,005	(882,680)	-	66,011,325
Other	<u>422,016</u>	<u>-</u>	<u>-</u>	<u>422,016</u>
Total capital assets being depreciated	<u>215,271,898</u>	<u>13,321,096</u>	<u>327,094</u>	<u>228,265,900</u>
Less accumulated depreciation for:				
Buildings	47,482,834	3,312,271	-	50,795,105
Equipment	28,874,556	3,146,407	297,538	31,723,425
Infrastructure	28,595,955	3,158,965	-	31,754,920
Other	<u>313,592</u>	<u>14,833</u>	<u>-</u>	<u>328,425</u>
Total accumulated depreciation	<u>105,266,937</u>	<u>9,632,476</u>	<u>297,538</u>	<u>114,601,875</u>
Total capital assets, being depreciated, net	<u>110,004,961</u>	<u>3,688,620</u>	<u>29,556</u>	<u>113,664,025</u>
Component unit capital assets, net	\$ <u>126,293,354</u>	\$ <u>14,277,813</u>	\$ <u>11,055,374</u>	\$ <u>129,515,793</u>

Depreciation expense was charged to component units as follows:

Duluth Airport Authority	\$	4,495,883
Duluth Entertainment and Convention Center Authority		1,843,829
Duluth Transit Authority		2,889,846
Spirit Mountain Recreation Area Authority		<u>402,918</u>
Total Depreciation expense - component units	\$	<u>9,632,476</u>

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

7. COMMITMENTS
CONSTRUCTION COMMITMENTS

At December 31, 2008, the City had construction commitments of approximately \$1,400,404 for various projects and street improvements. The Duluth Airport Authority component unit had construction commitments of \$5,285,387 for airport improvements. Funding for these future expenditures or expenses will be available from federal and state grants, municipal state aid construction funds, tax levies, bond proceeds, and special assessments.

8. 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; employee health and dental; and natural disasters.

The Self-Insurance Fund, an internal service fund, was established for the reporting of all risk management except for employee health and dental. All risk, except for building property insurance and small losses by various funds, is assumed. No actuarial process is used to establish an estimate of the present cost of the exposure to future liability, and consequently no actuarially established amount is reserved for property replacement and continuance of operations. Contributions to the property insurance pool are determined by an insurance market cost comparison, and in this sense they reflect actuarial experience of insurance carriers. The City also purchases commercial property insurance to insure for fire and related damage for certain buildings limited to the buildings estimated value. There were no significant reductions in insurance coverage from the previous year. There were no settlements that exceeded insurance coverage for each of the past three years.

The self-insurance for workers' compensation covers up to \$820,000 per single loss occurrence. At that point, the City is covered for losses by the Workers' Compensation Reinsurance Association, an organization created by Minnesota statutes in 1979 to implement a mandatory program of reinsurance for workers' compensation liability risks in the State of Minnesota for losses occurring on or after October 1, 1979. The Association provides full indemnification for the City for claims arising under Minnesota Statutes Ch. 176, in excess of the \$820,000 retention limit.

The accrued liability for workers' compensation is estimated by the benefits administrator at the time an injury or illness is reported. Interest cost is not included in the estimate. The estimated liability for general liability matters is accrued if the City determines settlement is probable, based on a case-by-case evaluation. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims incurred but not reported have been considered in the sense that management's experience has shown that they do not affect the predictions. An actuary was not used in determining the liabilities, but actuarial guidelines were used. The estimated liability for claims payable at year end is present valued at 5%. In addition, the City Attorney estimated settlements to be \$218,232 for various claims and cases which he considered reasonably possible losses to the City. Considerable prejudgment interest liability is not considered by the City Attorney in making his liability estimate. The amount of these estimated liabilities is not reflected in the financial statements. Changes in the balances of the Self-Insurance Fund's liability during 2007 and 2008 were as follows:

	<u>Liability</u> <u>January 1</u>	<u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>Liability</u> <u>December 31</u>
2007	1,047,039	1,687,779	1,393,662	1,341,156
2008	1,341,156	1,459,932	1,254,466	1,546,622

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

8. RISK MANAGEMENT (continued)

The Group Health Fund, an internal service fund, was established for the payment of employee medical and dental claims. The City pays Dental Plan of Minnesota, Blue Cross Blue Shield of Minnesota, and Clearscript an administrative fee to process dental, medical, and prescription drug claims, respectively. The City assumes all risk, except that which is covered by a medical stop-loss policy purchased from Blue Cross Blue Shield of Minnesota. The stop-loss policy has an individual limit of \$300,000 and an aggregate limit of 125% of projected claims for the year. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have occurred but have not been reported. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the balances of the Group Health Fund's liability during 2007 and 2008 were as follows:

	<u>Liability</u> <u>January 1</u>	<u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>Liability</u> <u>December 31</u>
2007	1,781,383	14,869,158	15,328,794	1,321,747
2008	1,321,747	16,599,335	16,603,572	1,317,510

9. LEASE OBLIGATIONS
OPERATING LEASES

The City and its component units are committed under various operating leases for small tracts of land or pipe right-of-way, parking facilities, and equipment. The following is a summary of the approximate operating lease expense for 2008:

<u>Type of Property</u>	<u>Governmental</u> <u>Activities</u>	<u>Component</u> <u>Units</u>
Police Garage	\$ 15,356	\$ -
Land & Right-of-way	69,679	-
Buildings	289,771	-
Equipment	477,586	195,230
Total Expense	<u>\$ 852,392</u>	<u>\$ 195,230</u>

Noncancelable Operating Leases

Future minimum lease payments under operating leases, which are not reflected in these financial statements, consist of the following at December 31, 2008:

<u>Year Ending December 31</u>	<u>Governmental</u> <u>Activities</u>
2009	\$ 103,634
2010	114,528
2011	139,903
2012	148,237
2013	156,570
2014-2018	782,853
2019-2023	500,251
2024-2028	451,780
2029-2033	346,068
Total minimum payments required	<u>\$ 2,743,824</u>

Component unit subleases of noncancelable operating leases provide for future minimum rentals to be received totaling \$2,225,572 at December 31, 2008.

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

9. LEASE OBLIGATIONS (continued)
CAPITAL LEASES

Capitalized leases for the City of Duluth and its component units at December 31, 2008, consist of the following capital assets shown at original cost as summarized below:

Type of Property	Governmental Activities	Business-Type Activities	Component Units
Buildings	\$ 750,000	\$ 466,136	\$ 1,744,333
Equipment	-	8,807,425	445,739
Total	750,000	9,273,561	2,190,072
Less: Accumulated amortization	(366,667)	(125,857)	(1,049,295)
Total Expense	<u>\$ 383,333</u>	<u>\$ 9,147,704</u>	<u>\$ 1,140,777</u>

Minimum future lease payments are:

Year Ending December 31	Governmental Activities	Business-Type Activities	Component Units
2009	\$ 48,968	\$ 516,678	\$ 267,847
2010	48,968	932,382	240,441
2011	48,968	831,660	155,000
2012	24,485	831,660	155,000
2013	-	831,660	155,000
2014-2018	-	4,158,303	340,413
2019-2023	-	4,158,303	-
2024-2028	-	415,829	-
Total minimum lease payments	171,389	12,676,475	1,313,701
Less: Imputed interest	(15,930)	(2,920,191)	(208,087)
Present value of minimum lease payments	<u>\$ 155,459</u>	<u>\$ 9,756,284</u>	<u>\$ 1,105,614</u>

10. SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2008 follows:

	Balance 01/01/08	Additions	Deductions	Balance 12/31/08
Governmental Activities:				
Loans Payable	\$ 463,463	\$ -	\$ 24,161	\$ 439,302
Tax and Aid Certificates	-	18,500,000	18,500,000	-
Total Governmental Activities Short-term Deb	<u>\$ 463,463</u>	<u>\$ 18,500,000</u>	<u>\$ 18,524,161</u>	<u>\$ 439,302</u>

Loans payable represent temporary financing obtained from the Duluth 1200 Fund for public costs associated with the Cirrus Design Corporation expansion project at Duluth International Airport. The loan is to be repaid with various grants pending from the State of Minnesota.

General Obligation Tax and Aid Anticipation Certificates were issued to fund governmental activities in anticipation of collection of taxes levied and state aids receivable for the City's General Fund. The obligations were general obligations of the City for which the City pledged its full faith and taxing power. The certificates matured on December 30, 2008.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

**11. LONG-TERM DEBT
CHANGES IN LONG-TERM LIABILITIES**

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

	Balance 01/01/08	Additions	Deletions	Balance 12/31/08	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 19,502,000	\$ 43,710,000	\$ 2,397,000	\$ 60,815,000	\$ 2,980,000
General Obligation Bonds - Tax Increment	23,000	-	23,000	-	-
General Obligation - Tax Abatement	310,000	-	-	310,000	-
Tax Increment Revenue Bonds	1,240,002	-	1,065,002	175,000	40,000
Lease Revenue Bonds	1,250,000	-	125,000	1,125,000	130,000
Special Assessment Debt with Government Commitment	52,060,000	5,375,000	8,590,000	48,845,000	4,665,000
General Obligation Certificates	5,270,000	2,515,000	1,070,000	6,715,000	1,220,000
Add deferred amounts:					
For Bond Premium	497,803	146,052	78,706	565,149	-
Tax Increment Revenue Notes	330,000	-	120,000	210,000	50,000
Public Facilities Authority Note	277,000	-	24,000	253,000	24,000
Greater Minnesota Housing Fund Note	200,000	-	-	200,000	-
Revenue Notes	3,136,000	-	55,000	3,081,000	55,000
Capital Leases Payable	192,999	-	37,540	155,459	41,710
Compensated Absences	3,153,222	2,845,251	2,850,802	3,147,671	2,900,000
Claims and Judgments	2,662,903	18,059,267	17,858,038	2,864,132	1,543,592
Net Other Post Employment Benefits Payable	731,195	9,722,422	-	10,453,617	-
PERA Police and Fire Pension Liability	6,773,088	-	3,248,483	3,524,605	3,524,605
Total Governmental Activity Long-Term Liabilities	\$ 97,609,212	\$ 82,372,992	\$ 37,542,571	\$ 142,439,633	\$ 17,173,907
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 675,000	\$ -	\$ 125,000	\$ 550,000	\$ 130,000
Revenue and General Obligation Bonds	60,595,000	1,965,000	6,245,000	56,315,000	3,885,000
Less deferred amounts:					
For Issuance Discounts	(258,835)	29,733	(40,812)	(188,290)	-
General Obligation Notes	4,945,940	210,730	265,000	4,891,670	341,350
Capital Leases Payable	282,069	8,807,425	90,401	8,999,093	446,410
Loans	17,785	-	7,991	9,794	2,903
Net Other Post Employment Benefits Payable	930,041	888,464	-	1,818,505	-
Compensated Absences	818,329	800,407	771,600	847,136	800,000
Total Business-Type Activity Long-Term Liabilities	\$ 68,005,329	\$ 12,701,759	\$ 7,464,180	\$ 73,242,908	\$ 5,605,663
Component Unit Activities:					
Duluth Entertainment and Convention Center Authority					
Bonds Payable					
General Obligation Bonds	\$ 2,910,000	\$ -	\$ 685,000	\$ 2,225,000	\$ 710,000
Less deferred amounts:					
For Issuance Discounts	(7,627)	-	(3,024)	(4,603)	-
On Refunding	(335,813)	-	(85,752)	(250,061)	-
Capital Leases	1,864,569	-	945,699	918,870	108,161
Compensated Absences	158,725	131,786	113,195	177,316	106,661
Net Other Post Employment Benefits Payable	176,825	160,626	-	337,451	-
Duluth Transit Authority					
Compensated Absences	500,557	487,178	500,557	487,178	487,178
Duluth Airport Authority					
Notes Payable	497,379	-	-	497,379	-
Loans Payable	348,889	-	26,667	322,222	26,667
Compensated Absences	63,419	70,792	63,419	70,792	70,792
Deferred Revenue	96,339	-	58,911	37,428	-
Net Other Post Employment Benefits Payable	158,824	160,351	-	319,175	-
Spirit Mountain Recreation Authority					
Revenue Bond Payable	1,167,820	-	174,388	993,432	182,324
Capital Leases	285,033	-	98,289	186,744	104,488
Due to Primary Government	136,015	-	91,000	45,015	-
Compensated Absences	65,844	64,788	65,844	64,788	64,788
Total Component Unit Activities Long-Term Liabilities	\$ 8,086,798	\$ 1,075,521	\$ 2,734,193	\$ 6,428,126	\$ 1,861,059

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

11. LONG-TERM DEBT (continued)
DEBT REQUIREMENTS AND SOURCES OF REPAYMENTS

Governmental Activities Long-Term Debt

General Obligation Bonds and Certificate Covenants

Deferred tax levies are provided for in the general obligation bond and certificate covenants. Minnesota State Laws require these levies to be 5% in excess of bond and certificate principal and interest maturities. They are not repealable in nature and can only be modified as they relate to current levies and then only upon certification to the County Auditor that funds are available to pay current maturities in whole or in part. Revenues derived from these levies are recorded in the Debt Service Fund for the payment of principal and interest on the general obligation bonds and certificates.

The general obligation tax increment bonds are payable from tax increment collections. However, the City is contingently liable for the payment of the principal and interest.

The general obligation tax abatement bonds are payable from tax abatement collections. However, the City is contingently liable for payments of principal and interest.

Annual debt service requirements to maturity for general obligation debt follows:

Year Ending December 31	General Obligation Bonds		General Obligation Certificates		General Obligation Tax Abatement	
	Interest	Principal	Interest	Principal	Interest	Principal
2009	\$ 2,653,118	\$ 2,980,000	\$ 223,253	\$ 1,220,000	\$ 12,230	\$ -
2010	2,584,588	3,345,000	203,800	1,440,000	12,230	-
2011	2,463,443	2,860,000	144,988	1,255,000	11,780	25,000
2012	2,358,101	2,430,000	93,278	1,300,000	10,880	25,000
2013	2,257,353	2,525,000	45,069	955,000	9,980	25,000
2014-2018	9,866,201	9,530,000	11,581	545,000	34,815	140,000
2019-2023	8,357,889	6,200,000	-	-	6,320	95,000
2024-2028	6,522,825	10,200,000	-	-	-	-
2029-2034	3,381,625	20,745,000	-	-	-	-
Total	<u>\$ 40,445,143</u>	<u>\$ 60,815,000</u>	<u>\$ 721,969</u>	<u>\$ 6,715,000</u>	<u>\$ 98,235</u>	<u>\$ 310,000</u>

Greater Minnesota Housing Notes

In 2006 the City issued a \$200,000 Promissory Note to fund the Duluth Tenant Remedies Action Revolving Maintenance Fund. Repayment of the note shall be from rents and assessments. The note matures in November of 2016 and bears no interest.

Tax Increment Revenue Bond and Notes

The DEDA tax increment revenue bonds and notes were issued to finance improvements pursuant to development agreements. The tax increment revenue bonds also include refunding issues. The bonds, notes and related interest are not a general obligation of the City and are payable solely from tax increment collections.

Annual debt service requirements to maturity for the tax increment revenue bonds and notes follow:

Year Ending December 31	Duluth Economic Development Tax Increment Revenue Bonds		Duluth Economic Development Tax Increment Revenue Notes	
	Interest	Principal	Interest	Principal
2009	\$ 12,400	\$ 40,000	\$ 10,545	\$ 50,000
2010	9,000	45,000	7,553	55,000
2011	5,400	45,000	4,418	55,000
2012	1,800	45,000	1,425	50,000
Total	<u>\$ 28,600</u>	<u>\$ 175,000</u>	<u>\$ 23,941</u>	<u>\$ 210,000</u>

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

11. LONG-TERM DEBT
DEBT REQUIREMENTS AND SOURCES OF REPAYMENTS

Governmental Activities Long-Term Debt (continued)

Lease Revenue Bond

During 1995, \$2,720,000 lease revenue bonds were issued for the development of a community center facility. Repayment of the bonds is limited to lease revenues and is not a general obligation of the City.

Annual debt service requirements to maturity for the outstanding lease revenue bond follow:

Year Ending December 31	Lease Revenue Bonds	
	Interest	Principal
2009	\$ 45,000	\$ 130,000
2010	39,800	135,000
2011	34,400	145,000
2012	28,600	150,000
2013	22,600	150,000
2014-2018	16,600	415,000
Total	<u>\$ 187,000</u>	<u>\$ 1,125,000</u>

United States Department of Housing and Urban Development Revenue Notes

During 2005, \$6,594,000 revenue notes were issued for the Fifth Street redevelopment project. Repayment of the notes shall be from tax credit equity participation amounts, surplus cash, tax savings, anticipated TIF, interest reserve account and additional funds previously paid by the developer and held by the City.

Annual debt service requirement to maturity for the outstanding notes follows:

Year Ending December 31	United States Dept. of Housing and Urban Development Revenue Notes	
	Interest	Principal
2009	\$ 173,583	\$ 55,000
2010	170,855	60,000
2011	167,861	60,000
2012	164,849	65,000
2013	161,580	75,000
2014-2018	767,381	130,000
2019-2023	747,210	85,000
2024-2028	291,121	2,551,000
Total	<u>\$ 2,644,440</u>	<u>\$ 3,081,000</u>

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

11. LONG-TERM DEBT
DEBT REQUIREMENTS AND SOURCES OF REPAYMENTS

Governmental Activities Long-Term Debt (continued)
Special Assessment Bonds

The City has a contingent liability against its full faith and credit on \$48,845,000 of special assessment bonds. The general credit of the City is obligated only to the extent that collections from special assessments and parking revenues are insufficient to retire outstanding bonds.

General Obligation Public Facilities Authority Notes

The City has pledged the proceeds of the special assessments levied for the project allocable to the debt service payments as well as a tax levy upon all taxable property within the city as necessary for full payment of the principal and interest of the note.

Annual debt service requirements to maturity to fund special assessments are as follows:

Year Ending December 31	Special Assessment Bonds		Public Facilities Authority	
	Interest	Principal	Interest	Principal
2009	\$ 1,817,308	\$ 4,665,000	\$ 2,530	\$ 24,000
2010	1,674,094	5,435,000	2,290	24,000
2011	1,478,933	4,965,000	2,050	25,000
2012	1,283,210	5,155,000	1,800	25,000
2013	1,097,865	4,270,000	1,550	25,000
2014-2018	3,064,850	17,735,000	3,940	130,000
2019-2023	515,533	6,420,000	-	-
2024-2028	4,750	200,000	-	-
Total	<u>\$ 10,936,543</u>	<u>\$ 48,845,000</u>	<u>\$ 14,160</u>	<u>\$ 253,000</u>

Other Debt

The capital leases are paid from the General Fund and the Fleet Services Internal Service Fund. They are not general obligations and are not backed by the City's full faith and credit.

The State of Minnesota merged the police and fire consolidation pension accounts into the PERA Police and Fire Fund and established a ten-year fixed amortization payment for unfunded liabilities. The General Fund will pay \$3,824,196 each year, which will be partially funded by the State's amortization aid program.

Governmental activities compensated absences are liquidated primarily through the General Fund.

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

11. LONG-TERM DEBT
DEBT REQUIREMENTS AND SOURCES OF REPAYMENTS (continued)

Business-type Activities Long-Term Debt

Revenue and General Obligation Bonds

The City has a contingent liability against its full faith and credit to the extent that income from the Water, Gas, Steam District #1, Sewer, and Stormwater operations is insufficient to retire their respective general obligation revenue bonds.

Revenue Bonds

Specific revenues from the Golf Enterprise Fund are pledged for the payment of these bonds, which are not backed by the full faith and credit of the City. The liability of the City is limited to the revenue pledged for the payment of the bonds.

General Obligation Public Facilities Authority Revenue Notes

The City has pledged its full faith and credit taxing powers of the City irrevocably for the payment of principal and interest when due on such notes as well as all net revenues to be derived from time to time from the operation of the municipal sewer or water utilities.

Annual debt service requirements to maturity for business-type activities follow:

Year Ending December 31	Revenue and General Obligation Bonds		Revenue Bonds		G.O. Revenue Notes Public Facilities Authority	
	Interest	Principal	Interest	Principal	Interest	Principal
2009	\$ 2,314,262	\$ 3,885,000	\$ 19,435	\$ 130,000	\$ 106,010	\$ 341,350
2010	2,186,829	4,160,000	15,210	135,000	83,856	418,000
2011	2,028,187	4,035,000	10,620	140,000	76,158	426,000
2012	1,865,446	4,165,000	5,510	145,000	68,177	434,000
2013	1,694,101	4,295,000	-	-	60,028	441,000
2014-2018	5,654,541	21,740,000	-	-	171,707	2,338,000
2019-2023	1,921,453	11,100,000	-	-	18,435	493,320
2024-2028	247,913	2,935,000	-	-	-	-
Total	<u>\$17,912,732</u>	<u>\$56,315,000</u>	<u>\$ 50,775</u>	<u>\$ 550,000</u>	<u>\$ 584,371</u>	<u>\$4,891,670</u>

The Steam District #1 Enterprise Fund has a loan for storefront renovations.

Component Unit Long-Term Debt

Spirit Mountain Recreation Area Authority

Revenue Bonds

\$1,646,750 City of Duluth Gross Revenue Recreational Facility Bonds dated March 28, 2003, with interest at 4.50 percent, due in semi-annual installments June 1 and December 1 and mature December 1, 2012. The bonds are not general obligations of the City and are payable from Authority gross revenues. The City has pledged tourism taxes in the amount of \$225,000 per year as part of the gross revenues of the project.

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

11. LONG-TERM DEBT
DEBT REQUIREMENTS AND SOURCES OF REPAYMENTS

Component Unit Long-Term Debt

Spirit Mountain Recreation Area Authority (continued)

The annual requirements to service the debt follow:

Year Ending April 30	Interest	Principal
2009	\$ 42,676	\$ 182,324
2010	34,379	190,620
2011	25,705	199,295
2012	16,636	208,365
2013	7,154	212,828
2014-2018	-	-
Total	<u>\$ 126,550</u>	<u>\$ 993,432</u>

Duluth Entertainment and Convention Center Authority

General Obligation Bonds

In 2001, the City of Duluth issued \$6,970,000 General Obligation Refunding Revenue Bonds to advance refund \$6,930,000 outstanding 1994 Gross Revenue Recreation Facility Bonds. The 2001 bonds are backed by the full faith and credit of the City. The City and Duluth Entertainment and Convention Center Authority have entered into an agreement in which the Authority has pledged its net revenues to the City in amounts sufficient to pay the principal and interest on the bonds when due. Therefore, the 2001 General Obligation Refunding Revenue Bonds will be reported as an obligation of the Authority.

Annual debt service requirements to maturity for the Duluth Entertainment and Convention Center Authority bonds follow:

Year Ending December 31	General Obligation Refunding Revenue Bonds	
	Interest	Principal
2009	\$ 91,475	\$ 710,000
2010	63,075	740,000
2011	32,550	775,000
2012	-	-
Total	<u>\$ 187,100</u>	<u>\$ 2,225,000</u>

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

11. LONG-TERM DEBT
DEBT REQUIREMENTS AND SOURCES OF REPAYMENTS

Component Unit Long-Term Debt (continued)

Duluth Airport Authority

On November 1, 2005, the Authority issued an Airport Facility Revenue Note, Series 2005A to finance the lease buyout of the Authority's fixed base operator. The principal of the note is \$497,379; payable in semi-annual payments on June 1 and December 1 each year; commencing June 1, 2007 and until final maturity on June 1, 2019 with an annual interest rate of 8.85 percent.

The annual requirements to service the debt follow:

Year Ending December 31	Airport Facility Revenue Note	
	Interest	Principal
2009	\$ 52,830	\$ 22,170
2010	41,327	33,673
2011	38,281	36,719
2012	34,960	40,040
2013	31,338	43,662
2014-2018	89,796	285,204
2019-2023	1,589	35,911
Total	<u>\$ 290,121</u>	<u>\$ 497,379</u>

The Authority obtained a loan from the Minnesota Investment Fund (MIF). Proceeds from the loan have been used to remedy soil conditions on Duluth Airport Authority property. The Duluth Airport Authority has agreed to make payments when due on the loan in the total amount of \$400,000. Payments are due in 180 monthly installments of \$2,222 from February 2006 to January 2021. There is no interest charged on this loan.

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

11. LONG-TERM DEBT (continued)
DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS
December 31, 2008

	Issue Date	Amount Outstanding	Total
Governmental Activities:			
General Obligation Bonds Payable -			
West Michigan Street Improvements	12-01-98	\$ 840,000	
Great Lakes Aquarium	12-01-99	630,000	
Bayfront Festival Park	04-01-01	1,270,000	
Duluth Transit Authority	09-01-01	230,000	
Airport Improvement G.O. Bonds	02-01-02	2,500,000	
Duluth Entertainment & Convention Center Authority Refunding	03-01-03	730,000	
Bayfront Festival Park	12-01-03	230,000	
G. O. Improvement	03-01-04	555,000	
Airpark Improvement	09-01-04	800,000	
Capital Improvement	06-01-05	1,010,000	
Lake Superior Center Refunding	12-19-05	1,505,000	
Zoo Refunding Issue	12-19-05	995,000	
Capital Improvement	09-07-06	810,000	
Capital Improvement	12-13-07	1,240,000	
Duluth Entertainment & Convention Center Authority Refunding	12-13-07	3,760,000	
Duluth Entertainment & Convention Center Authority Improvement	08-07-08	40,635,000	
Aerial Lift Bridge Improvement	08-07-08	1,475,000	
Capital Improvement	12-09-08	1,600,000	
Total General Obligation Bonds Payable			\$ 60,815,000
General Obligation Tax Abatement			
Lake Walk Homes Tax Abatement Bonds	10-01-05	310,000	310,000
Revenue Bonds Payable -			
Tax Increment Revenue Bonds -			
Cirrus Tax Increment Revenue	03-01-94	175,000	
Lease Revenue Bond			
	02-07-07	1,125,000	
Total Revenue Bonds Payable			1,300,000
Special Assessment Debt with Government Commitment			
	23 issues	48,845,000	48,845,000
General Long-Term Debt Certificates Payable:			
General Obligation Certificates Payable	5 issues	6,715,000	6,715,000
Total Governmental Activities Debt			117,985,000
Business-type Activities Debt:			
Revenue Bonds Payable:			
Golf Fund	1 issue	550,000	550,000
Revenue and General Obligation Bonds Payable:			
Parking Fund	3 issues	14,340,000	
Water Fund	5 issues	4,447,000	
Gas Fund	5 issues	12,088,000	
Steam District #1	6 issues	7,670,000	
Sewer Fund	10 issues	15,113,000	
Stormwater Fund	2 issues	2,657,000	
Total Revenue and General Obligation Bonds Payable			56,315,000
Total Business-type Activities Debt			56,865,000
Total Bonds Payable			174,850,000 (continued)

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

11. LONG-TERM DEBT
DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS (continued)
December 31, 2008

	Issue Date	Amount Outstanding	Total
Deductions Allowable:			
Bayfront Festival Park	04-01-01	1,270,000	
Airport Improvement G.O. Bonds	02-01-02	2,500,000	
Airpark Improvement	09-01-04	800,000	
Duluth Entertainment & Convention Center Authority Improvement	08-07-08	40,635,000	
Lake Walk Homes Tax Abatement Bonds	10-01-05	310,000	
Cirrus Tax Increment Revenue	03-01-94	175,000	
Lease Revenue Bond	05-01-95	1,125,000	
Special Assessment		48,845,000	
Golf Fund		550,000	
Parking Fund		14,340,000	
Water Fund		4,447,000	
Gas Fund		12,088,000	
Steam District #1		7,670,000	
Sewer Fund		15,113,000	
Stormwater Fund		2,627,000	
Total Deductions Allowable			<u>152,495,000</u>
Net Debt			<u>\$ 22,355,000</u>
Legal Debt Margin for Duluth			
Taxable Market Value (\$ 5,478,673,800 X 2%)			<u>\$ 109,573,476</u>

Overlapping Debt to Duluth

Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$ 75,775,000	87.5%	\$ 66,312,137
Independent School District 704	11,025,000	6.6%	726,692
St. Louis County	53,500,000	35.6%	19,068,262
			<u>\$ 86,107,091</u>

REFUNDING BOND ISSUES

Current Refunding Bonds

A current refunding occurs when the refunded bonds are retired within 90 days after the refunding issue is sold.

In 2008 the City issued \$3,055,000 General Obligation Street Improvement Refunding Bonds with the obligation to be paid by special assessment revenue and tax levy revenue. The transaction resulted in a net present value savings of \$108,717 and a reduction in future debt service payments of \$119,664.

The City also issued \$1,965,000 General Obligation Tax Increment Refunding Bonds with the obligation to be paid primarily by tax increment revenue and revenue of the City's Technology Village Ramp. The transaction resulted in a net present value savings of \$67,448 and a reduction in future debt service payments of \$77,797.

All current refunded debt is fully defeased.

**CITY OF DULUTH
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2008**

11. LONG-TERM DEBT
 REFUNDING BOND ISSUES (continued)

The following refunded bonds are scheduled to be recalled February 1, 2009:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
1999C	06/1/99	General Obligation Street Improvement Bonds	\$ 3,485,000
1999D	06/1/99	General Obligation Tax Increment Bonds	2,240,000

All other current refunded bonds have been paid in full.

Advance Refunding Bonds

When the City issues an advance refunding bond, an escrow account is established from the proceeds. Amounts in the escrow accounts are invested in special obligations of the United States Treasury or other obligations of the United States or its agencies, which mature in such amounts and at such times to be available to meet the refunded bonds' principal and interest requirements. Actuarial services necessary to insure the adequacy of the escrow accounts to provide timely payment of the debt service for which the escrow accounts are obligated has been performed by a certified public accounting firm. All other advance refunded bonds have been paid in full.

Crossover Advance Refunding Bonds

For reporting purposes, under a crossover advance refunding bond issue, the original issues (refunded bonds) are not considered defeased until they are retired. As with advance refunding bond issues, the proceeds of the crossover advance refunding bonds are placed into an escrow account.

However, unlike other types of advance refundings, the escrow account in a crossover advance refunding transaction is not immediately dedicated to debt service principal and interest payments on the refunded debt. Instead, the resources in the escrow account are temporarily used to meet debt service requirements on the refunding bonds. At a later date, known as the crossover date, the resources in the escrow account are dedicated exclusively to the payment of principal and interest on the refunded debt. Crossover refundings do not result in the defeasance of debt prior to the crossover date. All crossover refunded bonds have been defeased.

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

11. LONG-TERM DEBT
 REFUNDING BOND ISSUES (continued)

Included in the City's bonded debt are the following refunding issues:

	Issue Date	Issue Amount	Balance
Governmental Activities:			
Current Refunding Bonds:			
Zoo General Obligation	12-19-05	\$ 1,485,000	\$ 995,000
General Obligation Improvement	12-19-05	3,020,000	1,965,000
Street Improvement	12-19-06	2,395,000	1,965,000
Street Improvement	12-19-06	3,445,000	3,025,000
Art Space Refunding Bond	02-07-07	1,380,000	1,125,000
Duluth Entertainment and Convention Center Authority Parking	12-13-07	3,760,000	3,760,000
Street Improvement	12-09-08	3,055,000	3,055,000
Advance Refunding Bonds:			
Duluth Entertainment and Convention Center Authority	03-01-03	2,405,000	730,000
Street Improvement (1994)	03-01-03	818,000	241,700
Street Improvement (1995)	03-01-03	3,118,400	921,000
General Obligation and Improvement	03-01-03	583,600	172,300
Lake Superior Center General Obligation	12-19-05	1,765,000	1,505,000
Street Improvement	12-19-06	<u>3,190,000</u>	<u>2,890,000</u>
Total Governmental Activities		<u>\$ 30,420,000</u>	<u>\$ 22,350,000</u>
Business-type Activities:			
Current Refunding Bonds:			
Golf Course	12-04-04	\$ 1,040,000	\$ 550,000
Water Utility Revenue and G.O.	12-13-07	950,000	950,000
Sewer Utility Revenue and G.O.	12-13-07	1,325,000	1,325,000
Parking Improvements	12-09-08	1,965,000	1,965,000
Advance Refunding Bonds:			
Water Utility Revenue and G.O.	03-01-03	625,000	190,000
Sewer Utility Revenue and G.O.	03-01-03	<u>1,240,000</u>	<u>385,000</u>
Total Business-type Activities		<u>\$ 7,145,000</u>	<u>\$ 5,365,000</u>
Component Unit Activities:			
Duluth Entertainment and Convention Center Authority			
Advance Refunding:			
General Obligation DECC Refunding	04-01-01	<u>\$ 6,970,000</u>	<u>\$ 2,225,000</u>
		Total	<u>\$ 29,940,000</u>

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

**11. LONG-TERM DEBT (continued)
BONDS, CERTIFICATES, AND NOTES PAYABLE - BY ISSUE**

Bonds, certificates, and notes payable at December 31, 2008, are comprised of the following individual issues:

	<u>Interest Rate and Dates</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>	
BONDS AND CERTIFICATES BY ISSUE						
Governmental Activities:						
General Obligation Bonds Payable -						
General Obligation						
West Michigan Street Improvements	3.40 to 4.70%	02/01; 08/01	12-01-98	02-01-14	\$ 1,745,000	\$ 840,000
Great Lakes Aquarium	4.50 to 4.88%	02/01; 08/01	12-01-99	02-01-10	2,475,000	630,000
Bayfront Festival Park	3.50 to 4.25%	02/01; 08/01	04-01-01	02-01-12	3,135,000	1,270,000
Duluth Transit Authority	2.65 to 4.10%	02/01; 08/01	09-01-01	02-01-11	615,000	230,000
Airport Improvement	4.00 to 6.25%	02/01; 08/01	02-01-02	02-01-17	3,400,000	2,500,000
Duluth Entertainment & Convention Center Author. Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	2,405,000	730,000
Bayfront Festival Park Improvement	2.00 to 3.60%	02/01; 08/01	12-01-03	02-01-12	425,000	230,000
Improvement	2.00 to 3.40%	02/01; 08/01	03-01-04	02-01-14	800,000	555,000
Airpark Improvement	2.00 to 4.20%	02/01; 08/01	09-01-04	02-01-20	945,000	800,000
Capital Improvement	2.80 to 3.70%	02/01; 08/01	06-01-05	02-01-15	1,255,000	1,010,000
Lake Superior Center Refunding	3.25 to 4.00%	02/01; 08/01	12-19-05	02-01-17	1,765,000	1,505,000
Zoo Refunding Issue	3.20 to 4.00%	02/01; 08/01	12-19-05	02-01-12	1,485,000	995,000
Capital Improvement	4.00%	02/01; 08/01	09-07-06	02-01-16	895,000	810,000
Capital Improvement	4.00%	02/01; 08/01	12-13-07	02-01-17	1,240,000	1,240,000
Duluth Entertainment & Convention Center Author. Refunding	4.00%	02/01; 08/01	12-13-07	02-01-14	3,760,000	3,760,000
Duluth Entertainment & Convention Center Author. Improvement	4.00 to 5.00%	02/01; 08/01	08-07-08	02-01-34	40,635,000	40,635,000
Aerial Lift Bridge Improvement	3.00 to 4.30%	02/01; 08/01	08-07-08	02-01-19	1,475,000	1,475,000
Capital Improvement	3.00 to 4.25%	02/01; 08/01	12-09-08	02-01-18	1,600,000	1,600,000
Total General Obligation					\$ 70,055,000	\$ 60,815,000
General Obligation -Tax Abatement						
Lake Walk Homes Tax Abatement Bonds	3.60 to 4.30 %	02/01; 08/01	10-01-05	02-01-21	\$ 310,000	\$ 310,000
Total General Obligation Bonds Payable					\$ 70,365,000	\$ 61,125,000
Revenue Bonds Payable -						
Tax Increment Revenue Bonds Payable -						
Cirrus Tax Increment Revenue	7.00 to 8.00%	02/01; 08/01	03-01-94	02-01-12	\$ 645,000	\$ 175,000
Lease Revenue Bonds Payable -						
Artspace Community Center Refunding	4.00%	02/01; 08/01	02-07-07	08-01-14	1,380,000	1,125,000
Total Revenue Bonds Payable					\$ 2,025,000	\$ 1,300,000
Special Assessment Debt with Government Commitment -						
General Obligation Improvement	3.40 to 4.80%	02/01; 08/01	12-01-98	02-01-15	\$ 1,005,000	\$ 540,000
General Obligation Improvement	4.50 to 5.25%	02/01; 08/01	12-01-99	02-01-15	1,220,000	685,000
General Obligation Improvement	3.30 to 4.85%	02/01; 08/01	04-01-01	02-01-16	1,405,000	855,000
Street Improvement	3.50 to 4.70%	02/01; 08/01	09-01-01	02-01-17	4,800,000	3,095,000
Street Improvement	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	3,860,000	2,745,000
General Obligation Improvement	3.50 to 4.55%	02/01; 08/01	12-01-02	02-01-18	2,220,000	1,625,000
Street Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	3,118,400	921,000
Street Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	818,000	241,700
General Obligation Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	583,600	172,300
Street Improvement	2.00 to 4.50%	02/01; 08/01	09-01-03	02-01-19	5,035,000	3,925,000
General Obligation Improvement	2.50 to 4.20%	02/01; 08/01	12-01-03	02-01-19	2,010,000	1,580,000
Street Improvement	2.25 to 4.63%	02/01; 08/01	09-01-04	02-01-20	4,785,000	4,015,000
General Obligation Improvement	3.50 to 4.00%	02/01; 08/01	06-01-05	02-01-20	2,275,000	2,020,000
Street Improvement	3.50 to 4.25%	02/01; 08/01	10-01-05	02-01-21	4,260,000	3,835,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-05	02-01-12	2,820,000	1,965,000
General Obligation Improvement	4.00%	02/01; 08/01	09-07-06	02-01-21	1,985,000	1,880,000
Street Improvement	4.00%	02/01; 08/01	09-07-06	02-01-22	3,355,000	3,205,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-06	02-01-12	2,395,000	1,965,000
Street Improvement Refunding	3.75 to 4.00%	02/01; 08/01	12-19-06	02-01-14	3,445,000	3,025,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-06	02-01-16	3,190,000	2,890,000
Street Improvement	3.75 to 4.25%	02/01; 08/01	12-13-07	02-01-23	2,285,000	2,285,000
Street Improvement	4.00 to 4.75%	02/01; 08/01	08-07-08	02-01-24	2,320,000	2,320,000
Street Improvement Refunding	3.50 to 4.00%	02/01; 08/01	12-09-08	02-01-15	3,055,000	3,055,000
Total Special Assessment Debt with Government Commitment					\$ 62,245,000	\$ 48,845,000
General Obligation Certificates Payable -						
Equipment	3.00 to 3.25%	06/20; 12/20	02-20-04	12-20-09	\$ 1,355,000	\$ 285,000
Equipment	4.00%	06/19; 12/19	12-19-05	12-19-10	1,110,000	470,000
Equipment	3.63%	06/19; 12/19	12-19-06	02-01-12	1,785,000	1,460,000
Equipment	4.25 to 5.00%	02/01; 08/01	12-13-07	02-01-13	1,985,000	1,985,000
Equipment	3.50 to 4.00%	02/01; 08/01	12-09-08	02-01-14	2,515,000	2,515,000
Total General Obligation Certificates Payable					\$ 8,750,000	\$ 6,715,000
Total Governmental Activities Bonds and Certificates Payable					\$ 143,385,000	\$ 117,985,000

(continued)

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

**11. LONG-TERM DEBT
BONDS, CERTIFICATES, AND NOTES PAYABLE - BY ISSUE (continued)**

Bonds, certificates, and notes payable at December 31, 2008, are comprised of the following individual issues:

	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding	
Business-type Activities: (continued)						
Revenue Bonds Payable -						
Golf Fund -						
Revenue Recreation Facility Refunding	2.00 to 3.80%	06/01; 12/01	12-04-04	12-01-12	\$ 1,040,000	\$ 550,000
Revenue and General Obligation Bonds Payable -						
Parking Fund -						
Medical District Tax Increment	5.25 to 5.50%	02/01; 08/01	12-16-05	02-01-26	\$ 12,785,000	\$ 12,375,000
Technology Village Parking Ramp Tax Increment Refunding	3.50 to 4.00%	02/01; 08/01	12-09-08	02-01-15	1,814,485	1,814,485
Parking Improvement Tax Increment Refunding	3.50 to 4.00%	02/01; 08/01	12-09-08	02-01-15	150,515	150,515
Total Parking Fund					\$ 14,750,000	\$ 14,340,000
Water Fund -						
Water Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	\$ 1,690,000	\$ 1,232,000
Water Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	12-01-18	1,385,000	1,005,000
Water Utility Revenue and General Obligation Refunding	2.00 to 3.25%	02/01; 08/01	03-01-03	02-01-10	625,000	190,000
Water Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	1,120,000	1,070,000
Water Utility Revenue and General Obligation Refunding	4.00%	02/01; 08/01	12-13-07	02-01-16	950,000	950,000
Total Water Fund					\$ 5,770,000	\$ 4,447,000
Gas Fund -						
Gas Utility Revenue and General Obligation	4.00 to 4.75%	02/01; 08/01	12-01-01	02-01-17	\$ 5,300,000	\$ 3,560,000
Gas Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	2,132,000	1,553,000
Gas Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	02-01-18	1,425,000	1,040,000
Gas Utility Revenue and General Obligation	2.50 to 4.20%	02/01; 08/01	12-01-03	02-01-19	6,090,000	4,800,000
Gas Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	1,190,000	1,135,000
Total Gas Fund					\$ 16,137,000	\$ 12,088,000
Steam District # 1 Fund -						
Steam Utility Revenue and General Obligation	3.40 to 4.30%	02/01; 08/01	12-01-98	02-01-09	\$ 310,000	\$ 35,000
Steam Utility Revenue and General Obligation	5.25 to 5.50%	02/01; 08/01	12-01-00	02-01-11	325,000	115,000
Steam Utility Revenue and General Obligation	4.30 to 4.50%	02/01; 08/01	02-01-02	02-01-12	345,000	160,000
Steam Utility Revenue and General Obligation	2.25 to 4.75%	02/01; 08/01	09-01-03	02-01-23	2,250,000	1,935,000
Steam Utility Revenue and General Obligation	2.80 to 4.15%	02/01; 08/01	06-01-05	02-01-20	1,250,000	1,110,000
Steam Utility Revenue and General Obligation	4.00 to 4.13%	02/01; 08/01	12-19-06	02-01-22	4,525,000	4,315,000
Total Steam District # 1 Fund					\$ 9,005,000	\$ 7,670,000
Sewer Fund -						
Sewer Utility Revenue and General Obligation	3.40 to 4.30%	02/01; 08/01	12-01-98	02-01-09	\$ 1,080,000	\$ 130,000
Sewer Utility Revenue and General Obligation	4.00 to 4.75%	02/01; 08/01	12-01-01	02-01-17	1,330,000	890,000
Sewer Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	2,003,000	1,458,000
Sewer Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	02-01-18	1,825,000	1,330,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.25%	02/01; 08/01	03-01-03	02-01-10	1,240,000	385,000
Sewer Utility Revenue and General Obligation	3.00 to 4.20%	02/01; 08/01	12-01-04	02-01-20	4,045,000	3,405,000
Sewer Utility Revenue and General Obligation	3.50 to 4.30%	02/01; 08/01	12-19-05	02-01-21	3,515,000	3,170,000
Sewer Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	945,000	900,000
Sewer Utility Revenue and General Obligation	3.75 to 4.25%	02/01; 08/01	12-13-07	02-01-23	2,120,000	2,120,000
Sewer Utility Revenue and General Obligation Refunding	4.00%	02/01; 08/01	12-13-07	02-01-16	1,325,000	1,325,000
Total Sewer Fund					\$ 19,428,000	\$ 15,113,000
Stormwater Fund -						
Stormwater Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	\$ 1,425,000	\$ 1,037,000
Stormwater Utility Revenue and General Obligation	4.00%	02/01; 08/01	09-07-06	02-01-22	1,705,000	1,620,000
Total Stormwater Fund					\$ 3,130,000	\$ 2,657,000
Total Revenue and General Obligation Bonds Payable					\$ 68,220,000	\$ 56,315,000
Total Business-type Activities Bonds Payable					\$ 69,260,000	\$ 56,865,000
Component Units:						
Spirit Mountain Recreation Area						
Revenue Bonds Payable -						
Spirit Mountain Recreation Area	4.50 to 4.50%	06/01; 12/01	03-31-03	12-01-12	\$ 1,646,750	\$ 993,432
Duluth Entertainment and Convention Center Authority						
General Obligation Bonds Payable -						
Duluth Entertainment and Convention Center Refunding	3.50 to 4.20%	06/01; 12/01	04-01-01	12-01-11	6,970,000	2,225,000
Total Component Units Bonds Payable					\$ 8,616,750	\$ 3,218,432

(continued)

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

**11. LONG-TERM DEBT
BONDS, CERTIFICATES, AND NOTES PAYABLE - BY ISSUE (continued)**

Bonds, certificates, and notes payable at December 31, 2008, are comprised of the following individual issues:

	<u>Interest Rate and Dates</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
NOTES PAYABLE BY ISSUE					
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	1.00% 02/20; 08/20	07-24-02	08-20-18	\$ 364,195	\$ 253,000
Greater Minnesota Housing Fund Note	None Note 1	11-06-06	11-06-16	200,000	200,000
Total General Obligation				\$ 564,195	\$ 453,000
Revenue Note					
U.S. Dept. of Housing and Urban Development	5.23 to 5.77%	01/22; 07/22	08-01-05	7,876,000	3,081,000
Tax Increment Revenue					
Fremont Tax Increment Limited Revenue	5.70%	02/01; 08/01	07-01-97	650,000	210,000
Total Governmental Activities				\$ 9,090,195	\$ 3,744,000
Business-type Activities:					
General Obligation:					
Water Fund -					
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03	870,000	628,732
Public Facilities Authority Note	2.530%	02/20; 08/20	07-23-04	1,971,532	1,415,000
Total Water Fund				\$ 2,841,532	\$ 2,043,732
Sewer Fund -					
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03	100,000	72,268
Public Facilities Authority Note	1.340%	02/20; 08/20	10-17-03	1,179,115	878,000
Public Facilities Authority Note (Note 2)	1.15%	02/20; 08/20	07-12-07	2,042,350	1,897,670
Total Sewer Fund				\$ 3,321,465	\$ 2,847,938
Total Business-type Activities				\$ 6,162,997	\$ 4,891,670
Component Units:					
Duluth Airport Authority					
Revenue Note	8.85%	06/01;12/01	11-01-05	497,379	497,379

Note 1: To be paid in one payment Nov. 6, 2016.

Note 2: Only \$ 1,897,670 has been drawn on the Public Facilities Authority Note dated 7/12/07.

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

12. INTERFUND ASSETS/LIABILITIES/TRANSFERS
DUE TO/FROM OTHER FUNDS

Due To/From Other Funds results from the time lag between the dates interfund goods or services are provided or reimbursable expenditures occur and when the payment between funds is made. Balances at December 31, 2008 are:

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General	Internal Service Funds	\$ 324,962
	Nonmajor Governmental Funds	4,075,033
	Parking Enterprise	140
	Steam Enterprise	14,688
Community Investment Trust	General	54,431
DEDA Debt Service	General	1,018
	Nonmajor Governmental Funds	3,616,505
Special Assessment Debt Service	Gas Enterprise	330
	General	922
	Nonmajor Governmental Funds	51,273
	Sewer Enterprise	1,082
	Water Enterprise	541
Parking Enterprise	Steam Enterprise	1,106
Water Enterprise	Internal Service Funds	19,566
	Nonmajor Governmental Funds	1,814,098
Gas Enterprise	Internal Service Funds	24,220
	Nonmajor Governmental Funds	89,586
Sewer Enterprise	Internal Service Funds	13,630
	Nonmajor Governmental Funds	1,907,978
Steam Enterprise	Internal Service Funds	160
Nonmajor Governmental Funds	DEDA Debt Service	94,272
	Gas Enterprise	20,242
	General	917,694
	Internal Service Funds	66,874
	Nonmajor Enterprise Funds	9,144
	Nonmajor Governmental Funds	2,342,456
	Parking Enterprise	1,175
	Sewer Enterprise	9,859
	Special Assessment Debt Service	490,100
	Water Enterprise	19,720
Nonmajor Enterprise Funds	General	39,040
	Internal Service Funds	10,016
	Nonmajor Governmental Funds	954,396
Internal Service Funds	Gas Enterprise	29,597
	General	269,742
	Internal Service Funds	6,147
	Nonmajor Enterprise Funds	9,964
	Sewer Enterprise	24,923
	Water Enterprise	24,614
	Total	<u>\$ 17,351,244</u>
Due from other funds, reported in	Balance Sheet - Governmental Funds	16,718,544
	Statement of Net Assets Proprietary Funds:	
	Businesstype Activities - Enterprise Funds	167,125
	Governmental Activities - Internal Service Funds	465,575
	Total	<u>\$ 17,351,244</u>

**CITY OF DULUTH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

12. INTERFUND ASSETS/LIABILITIES/TRANSFERS (continued)
DUE TO/FROM PRIMARY GOVERNMENT/COMPONENT UNITS

Due To/From primary government and component units results from the time lag between the dates goods or services are provided and when payment is made. Balances as shown below are reported on the Government-wide Statement of Net Assets. Balances are at December 31, 2008, with the exception of the Spirit Mountain Recreation Authority, whose fiscal year ended April 30, 2008.

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government: General Fund	Component Unit: Duluth Entertainment and Convention Center Authority	\$ 27,701
	Spirit Mountain Recreation Area Authority	79,186
	Duluth Airport Authority	45,200
	Duluth Transit Authority	10,000
Capital Project Funds	Duluth Entertainment and Convention	1,794,916
	Duluth Airport Authority	174,478
	Duluth Transit Authority	4,473
Internal Service Funds	Duluth Airport Authority	238,438
	Spirit Mountain Recreation Area Authority	<u>76,532</u>
Total Due from Component Units		<u>\$ 2,450,924</u>
Due to Primary Government:		
Current Liability		\$ 2,387,508
Non-Current Liability		<u>45,012</u>
Total Due to Primary Government		2,432,520
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2008		(137,314)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2008		<u>155,718</u>
		<u>\$ 2,450,924</u>
Component Unit: Duluth Entertainment and Convention Center Authority	Primary Government: Nonmajor Governmental Funds	<u>\$ 117,104</u>
Total Due from Primary Government		<u>\$ 117,104</u>
Due to Component Unit:		
Current Liability		\$ 121,810
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2008		(4,706)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2008		<u>-</u>
Total Due to Component Units		<u>117,104</u>

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

12. INTERFUND ASSETS/LIABILITIES/TRANSFERS (continued)
DUE TO/FROM PRIMARY GOVERNMENT/COMPONENT UNITS
INTERFUND LOAN RECEIVABLES/PAYABLES

These balances are a result of temporary interfund financing at year-end. Balances at December 31, 2008 are:

<u>Receivable Fund</u>	<u>Amount</u>
Water Enterprise	\$ 884,234
Sewer Enterprise	956,793
Nonmajor Governmental Funds	2,822,758
Nonmajor Enterprise Funds	<u>613,300</u>
Total	<u>\$ 5,277,085</u>
<u>Payable Fund</u>	
Permanent Improvement Capital Projects	\$ 1,133,359
Steam Enterprise	344,134
Gas Enterprise	167,358
Nonmajor Governmental Funds	2,829,872
Nonmajor Enterprise Funds	<u>802,362</u>
Total	<u>\$ 5,277,085</u>

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

12. INTERFUND ASSETS/LIABILITIES/TRANSFERS (continued)
INTERFUND TRANSFERS

The City reports transfers between many of its funds to move revenues from the fund in which they are collected to the fund required to expend them, including: payments in lieu of taxes, debt service payments, participation in projects, reimbursement of expenditures, and revenue recognition for investment earnings in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Interfund transfers for the year ended December 31, 2008 are as follows:

<u>Transfer to, reported in fund:</u>	<u>Transfer from, reported in fund:</u>	<u>Amount</u>
General	Community Investment Trust	\$ 1,978,025
	DEDA Debt Service	157,571
	Parking Enterprise	1,298,941
	Gas Enterprise	3,494,494
	Water Enterprise	442,779
	Sewer Enterprise	145,990
	Steam #1 Enterprise	108,000
	Nonmajor Governmental Funds	2,402,093
	Nonmajor Enterprise Funds	535,163
	Internal Service Funds	554,948
Special Assessment Debt Service	Nonmajor Governmental Funds	744,670
DEDA Debt Service	Nonmajor Governmental Funds	94,272
Water Enterprise	Internal Service Funds	21,000
Gas Enterprise	Internal Service Funds	21,000
Sewer Enterprise	Internal Service Funds	9,000
Parking Enterprise	DEDA Debt Service	440,620
	Nonmajor Governmental Funds	757,300
Nonmajor Governmental Funds	Community Investment Trust	1,800,000
	General	4,305,892
	DEDA Debt Service	3,726,082
	Gas Enterprise	75,000
	Water Enterprise	61,632
	Sewer Enterprise	14,197
	Nonmajor Governmental Funds	3,959,144
	Nonmajor Enterprise Funds	1,845
Nonmajor Enterprise Funds	Internal Service Funds	9,000
	Total	<u>\$ 27,158,658</u>
Transfers out, reported in	Statement of Revenue, Expenditures and Changes in Fund Balance:	
	Governmental Funds	\$ 20,365,669
	Statement of Revenues, Expenses, and Changes in Net Assets:	
	Business-type Activities - Enterprise Funds	6,178,041
	Governmental Activities - Internal Service Funds	614,948
	Total	<u>\$ 27,158,658</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

13. PENSION PLANS
PLAN DESCRIPTION

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

Public Employees Retirement Fund members belong to either the Coordinated or 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 Public Employees Police and Fire Fund.

The 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 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 Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2% of average salary for each of the first ten years and 1.7% for each successive year. Using Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For the Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0% for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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 yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the web at mnpera.org, by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088, or by calling 651-296-7460 or 1-800-652-9026.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

13. PENSION PLANS (continued)
FUNDING POLICY

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. 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. Statutory contribution rates of annual covered payroll for the plans are:

	<u>2009 Statutory Rates</u>		<u>2008 Statutory Rates</u>	
	<u>Employees</u>	<u>Employer</u>	<u>Employees</u>	<u>Employer</u>
Public Employees Retirement Fund				
Basic Members	9.10%	11.78%	9.10%	11.78%
Coordinated Members	6.00%	6.75%	6.00%	6.50%
Public Employees Police and Fire Fund	9.40%	14.10%	8.60%	12.90%

The City's contributions for the years ending December 31, 2008, 2007, and 2006 for the Public Employees Retirement Fund and Public Employees Police and Fire Fund were:
(Dollar amounts in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Public Employees Retirement Fund	\$ 1,867	\$ 1,854	\$ 1,862
Public Employees Police and Fire Fund	<u>6,188</u>	<u>5,929</u>	<u>5,750</u>
Totals	<u>\$ 8,055</u>	<u>\$ 7,783</u>	<u>\$ 7,612</u>

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

DEFINED CONTRIBUTION PLAN

Certain elected officials of the City are covered by the Public Employees Defined Contribution Plan, a multiple-employer, defined compensation plan administered by PERA in accordance with Minn. Stat. ch. 353D. The plan is established and administered in accordance with Minn. Stat. ch. 353D, which may be amended by the State Legislature. The plan 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 the time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 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 5.0 percent of salary, which is matched by the employer. Employees may elect to make member contributions in an amount not to exceed the employer share. Employee and employer 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 2.00 percent of the employer contributions and 0.25 percent of the assets in each member account annually.

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2008**

13. PENSION PLANS
DEFINED CONTRIBUTION PLAN (continued)

Total contributions by dollar amount and percentage of covered payroll made by the City during the year ended December 31, 2008, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 4,923	\$ 4,923
Percentage of covered payroll	5.00%	5.00%

COMPONENT UNITS' PENSION INFORMATION

Qualified employees of the Duluth Entertainment and Convention Center Authority, Duluth Airport Authority, and Spirit Mountain Recreation Area Authority belong to the Public Employees Retirement Association of Minnesota (PERA). Contributions were made by the above component units to PERA's Coordinated and Basic Plans in amounts required by state statutes. The PERA Coordinated and Basic Plans are the same pension plans available to City employees. Detailed information concerning each component unit's pension plan is presented in its publicly-available 2008 annual report.

The Duluth Transit Authority has no employees. Personnel services are provided through a management agreement with ATE Management and Service Company, Inc. Detailed information concerning the management agreement is presented in its publicly available 2008 annual report.

14. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

PLAN DESCRIPTION

The City of Duluth provides post-employment health insurance and life insurance benefits for certain eligible retired employees and their spouses under a single-employer defined benefit plan. Eligible employees are employees with a hire date prior to January 1, 2007. Employees must retire on or after January 1, 1983 and be eligible for retirement or disability benefits from the Public Employees Retirement Association. The extent of the benefit provided depends on the union contract and the date of hire. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

The health benefits are provided through the City of Duluth's self-insurance plan and are accounted for in the Group Health Internal Service Fund. The life insurance benefits are paid directly by the fund from which the employee retires. A separate report is not issued for the plan. The authority to provide these benefits is established in Minnesota Statute § 471.61, subdivision 2a.

As of December 31, 2008, there were 839 retirees receiving health benefits from the City's health plan and 783 active employees covered under the plan.

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2008**

14. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)

FUNDING POLICY

The City of Duluth has historically funded these liabilities on a pay-as-you go basis. Union contracts govern the premiums contributed by the City and the retirees. For eligible retirees, the City pays a portion of the premium ranging from 25%-100% depending on the years of service. Retirees pay the remaining portion of the premium. Premiums are paid to the Group Health Internal Service Fund which accounts for the activity of the plan. Premiums are intended to cover the cost of providing benefits to retirees on a pay-as-you-go basis. For the year ended December 31, 2008, the City contributed \$9,608,214 and retirees contributed \$61,811.

In July 2007, the City established an OPEB irrevocable trust and began prefunding a portion of the OPEB liability. Contributions of \$4,100,000 were made to the irrevocable trust in 2008.

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The City's annual 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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for 2008, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$ 23,742,663
Interest on net OPEB obligation	94,690
Adjustment to ARC	<u>(116,839)</u>
Annual OPEB Cost	23,720,514
Claims paid on behalf of retirees	(9,071,329)
Contributions to irrevocable trust	<u>(4,100,000)</u>
Increase in net OPEB obligation	10,549,185
Net OPEB, January 1	1,661,236
Net OPEB, December 31	<u>\$ 12,210,421</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2007 and 2008 were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Employer</u> <u>Contribution</u>	Percentage of Annual <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
December 31, 2007	23,742,663	22,081,427	93.00%	1,661,236
December 31, 2008	23,720,514	13,171,329	55.53%	12,210,421

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

14. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)
FUNDING STATUS AND FUNDING PROGRESS

As of June 1, 2007, the most recent actuarial valuation date, the plan was 5.12% funded. The actuarial accrued liability for benefits was \$267,381,748, and the actuarial value of assets was \$13,700,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$253,681,748. The covered payroll (annual payroll of active employees covered by the plan) was \$44,748,212. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 566.91%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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 and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 1, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. Market value was the method used to determine the actuarial value of plan assets. The actuarial assumptions included a 5.70% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments. The annual healthcare cost trend rate is 10% initially, reduced incrementally to an ultimate rate of 5% after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years.

TRUST FUND

The City of Duluth has established an OPEB irrevocable trust to prefund a portion of the OPEB liability.

The financial statements are prepared using the accrual basis of accounting. Contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. The fair value of investments are determined by the Minnesota State Board of Investment.

DEFINED CONTRIBUTION OPEB PLAN

In accordance with union bargaining agreements and effective January 1, 2008 the City of Duluth provided a defined contribution post employment benefit in the form of a minimum 1% contribution of each full-time, permanent, active employee's salary into a post employment health care savings account known as the Minnesota Health Care Savings Plan administered by the Minnesota State Retirement System. An additional lump sum deposit of up to \$6,000 per employee will be made depending on the union contract and the date of hire.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

15. SEGMENT INFORMATION

The City issued revenue bonds for each of the following non-major enterprise funds: the Stormwater Utility, which operates the stormwater sewer collection system; and the Golf Fund, which operates the city's two municipal 27-hole golf courses. Summary financial information for each of these funds for fiscal year ending December 31, 2008 is presented below.

	<u>Stormwater</u>	<u>Golf</u>
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	\$ 2,942,006	\$ 305,450
Due from other funds	19,108	-
Capital assets	11,286,517	2,272,639
Noncurrent assets	<u>30,834</u>	<u>22,916</u>
Total assets	<u>14,278,465</u>	<u>2,601,005</u>
Liabilities		
Current liabilities	514,860	1,080,318
Due to other funds	964,314	475
Noncurrent liabilities	<u>2,574,856</u>	<u>517,651</u>
Total liabilities	<u>4,054,030</u>	<u>1,598,444</u>
Net assets		
Invested in capital assets, net of related debt	8,664,207	1,530,971
Restricted for special accounts		105,113
Unrestricted	<u>1,560,228</u>	<u>(633,523)</u>
Total net assets	<u>\$ 10,224,435</u>	<u>\$ 1,002,561</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Operating revenues (expenses)		
Charges (pledged against bonds)	\$ 4,514,755	\$ 1,879,530
Depreciation expense	(322,824)	(147,121)
Other operating expenses	<u>(2,559,032)</u>	<u>(1,707,326)</u>
Operating income	1,632,899	25,083
Nonoperating revenues (expenses)		
Investment earnings	62,128	3,368
Intergovernmental	48,743	-
Gain (Loss) on sale or disposition of capital assets	160	-
Interest expense	(107,034)	(32,427)
Capital contributions	-	-
Transfers in	9,000	-
Transfers out	<u>(537,008)</u>	<u>-</u>
Change in net assets	1,108,888	(3,976)
Beginning net assets	<u>9,115,547</u>	<u>1,006,537</u>
Ending net assets	<u>\$ 10,224,435</u>	<u>\$ 1,002,561</u>

CONDENSED STATEMENT OF CASH FLOWS

Net Cash provided (used) by		
Operating activities	\$ 1,987,500	\$ 186,630
Noncapital financing activities	(1,108,999)	68,732
Capital and related financing activities	(606,472)	(255,362)
Investing activities	<u>62,128</u>	<u>-</u>
Net increase (decrease)	334,157	-
Beginning cash and cash equivalents	<u>1,751,390</u>	<u>-</u>
Ending cash and cash equivalents	<u>\$ 2,085,547</u>	<u>\$ -</u>

16. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES
LAKE SUPERIOR CENTER

The City and Duluth Economic Development Authority (DEDA) entered into agreements with Lake Superior Center Authority (LSCA) to provide a portion of the funding for the design and construction of the Great Lakes Aquarium at the Lake Superior Center Project. The funding provided by the City and DEDA includes grants and loans which were financed internally and by the issuance of debt to be repaid from tourism taxes. LSCA is a public corporation created by the Minnesota Legislature. The project was financed by State, City, DEDA, and private contributions. The project is owned by LSCA and is operated by Lake Superior Center Inc.(LSCI), a private nonprofit corporation. The Great Lakes Aquarium opened July 29, 2000.

In order to obtain State funding, the City guaranteed that any operating deficits will be funded from non-state sources, and DEDA guaranteed that it would provide sufficient funds necessary to complete construction of the project. In 2004, the City approved the creation of a revolving \$250,000 cash management fund. Amounts drawn from the fund are to be repaid annually by October 1st.

LITIGATION

The City of Duluth has completed negotiations with the Environmental Protection Agency (EPA) and has signed a consent decree to settle an administrative enforcement action brought by the EPA for sewage overflows over the past many years that have violated the Clean Water Act. The agreement effectively ends the litigation brought against the City by the EPA.

The consent decree includes a civil penalty levied against the City in the amount of \$188,000. The penalty is reported as a liability in the Self Insurance Internal Service Fund.

The consent decree also requires the City to make certain improvements to prevent future sewage overflows. The City has consented to these improvements which will be made over a number of years and must be completed by the end of 2016. The improvements are estimated to cost \$84 million and are expected to be financed by federal grants, state grants, and local sources.

TAX INCREMENT DISTRICTS

Tax increment districts are subject to review by the Minnesota Office of the State Auditor. Unallowable use of tax increments could result in a liability of the City. Management is not aware of any instances of noncompliance with tax increment regulations which would have a material effect on the financial statements.

FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS

The City has received significant financial assistance from numerous federal governmental agencies in the form of grants and entitlements. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material effect on the City's financial position at December 31, 2008.

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2008**

16. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)
 JOINT VENTURE

The Duluth Area Family Services Collaborative was established in 1995 pursuant to Minnesota Statutes Section 124D.23. The Collaborative includes St. Louis County, Independent School District No. 709, Arrowhead Regional Corrections, and the City. The purpose of the Collaborative is to improve the lives of families and children through efforts focused on prevention and early intervention. The Collaborative seeks to empower parents and families to solve their own problems through support, information, skill building, and advocacy.

Control of the collaborative is vested in a Board of Directors. The City has four members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. St. Louis County is the fiscal agent for this organization through its Duluth Area Family Services Collaborative Agency Fund. Separate financial information can be obtained from the St. Louis County Auditor's Office. A summary of the financial information of the Collaborative for the fiscal year ended December 31, 2008, is:

Total Assets	\$	58,834
Total Liabilities		-
Total Fund Equity	\$	58,834
Total Revenues		-
Total Expenditures/Expenses		-
Increase (decrease) in Fund Balance	\$	-

RELATED ORGANIZATION

The Duluth Housing and Redevelopment Authority is a legally separate organization from the City of Duluth with its own rights and powers. Although the Mayor of the City of Duluth appoints all Authority Board members, there is no financial accountability necessary for including this organization as a component unit of the City of Duluth. Related party transactions are limited to payments by the City on various contracts for services entered into with the Authority. The City made payments on various contracts totaling \$1,630,613 to the Duluth Housing and Redevelopment Authority in 2008.

PASSENGER RAIL SERVICE FEASIBILITY STUDY

The City of Duluth entered into an agreement with several organizations to perform a feasibility of passenger rail service between the City of Duluth and the City of Minneapolis. Upon completion of the study, the City of Duluth, together with other participating counties and cities, elected to continue working to restore passenger rail service and entered into a joint powers agreement forming Northern Lights Express Joint Powers Association (JPA). Funding for this board is derived by a cost sharing funding formula adopted by the board and approved annually by each party's governing body.

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2008**

16. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)
TAX INCREMENT ASSISTANCE

The Duluth Economic Development Authority is committed to provide tax increment assistance pursuant to development agreements for housing projects. The assistance is provided in the form of an annual tax rebate to developers. The annual tax rebate is contingent upon payment of annual property taxes by the developer. The assistance for each project is limited in amount based on both the scope of the project and the life of the tax increment district. The tax increment assistance does not result in debt proceeds and does not meet the definition of debt. A summary of the maximum tax increment assistance to be provided as of December 31, 2008, follows:

- Augusta Building - \$268,321
- Fifth Street Redevelopment - \$466,122
- Garfield Business Park LLC - \$611,069
- Ramsey Townhouses - \$282,150
- Sherman Associates Hotel/Condominium - \$5,000,000
- Spirit Bay - \$123,202
- Accessible Space, Inc. - annual payment not to exceed 100% of captured tax increment. The maximum tax increment financing available is \$149,999.

CONDUIT DEBT OBLIGATIONS

The City and Duluth Economic Development Authority have issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed through a series of loan agreements and are payable solely from the revenues of the entities. Neither the City, the Authority, nor the State are obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. Bonds issued and outstanding as of December 31, 2008, are as follows:

<u>Entity</u>	<u>Series</u>	<u>Issued</u>	<u>Principal</u>
ECUMEN	1998	\$ 11,750,000	\$ 4,100,000
Afterno Home	2006	2,620,000	2,540,186
Residential Services	2000B	576,421	316,343
	2000C	330,919	181,679
Center for Alcohol & Drug Treatment	2000A	2,600,000	1,971,711
St. Luke's Hospital	2002	55,000,000	50,675,000
Merritt School LLC	2004	660,000	581,912
St. Francis Health Services	1996	801,540	276,555

17. SUBSEQUENT EVENTS

STEAM DISTRICT #2 SALE

The City has reached a tentative agreement with Minnesota Power to purchase the City's assets that comprise Steam District #2 for \$2.5 million. The sale is pending approval by the Minnesota Public Utilities Commission.

GENERAL OBLIGATION REVENUE BONDS

Pursuant to Minnesota Statutes, Chapter 475, the City sold \$1,640,000 of General Obligation Utilities Revenue Bonds dated February 19, 2009. The bonds finance various utility system improvements and will be retired from utility operating revenues.

Required Supplementary Information

CITY OF DULUTH, MINNESOTA
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 OTHER POST-EMPLOYMENT BENEFITS PLAN TRUST
 FOR THE YEARS ENDED DECEMBER 31, 2008 and 2007

Year Ended December 31	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2007	\$13,700,000	\$23,742,663	57.7%
2008	\$4,100,000	\$23,720,514	17.3%

Employer contributions to the trust do not include retiree medical claims of \$8,381,427 and \$9,071,329, for the years ended December 31, 2007 and 2008, respectively, paid directly by the City.

The City implemented GASB Statement No. 43 for the fiscal year ended December 31, 2007. Information for prior years is not available.

CITY OF DULUTH
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFITS PLAN
 DECEMBER 31, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 1, 2007	\$13,700,000	\$267,381,748	\$253,681,748	5.12%	\$44,748,212	566.91%

The City implemented GASB Statement No. 45 for the fiscal year ended December 31, 2007.
 Information for prior years is not available.

Combining and Individual Fund Information

Governmental Funds

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the specific financial resources (other than special assessments, expendable trusts, or other major capital projects) that are restricted to expenditures for specified purposes.

Lake Superior Zoo – to account for revenues earned from the operations of the Lake Superior Zoo which are to be used to offset operating costs incurred by the Arrowhead Zoological Society in managing Zoo operations.

HOME Investment Partnership Program - to account for grant monies received from the U.S. Department of Housing and Urban Development for the furtherance of a single-family housing rehabilitation program and various other housing-related projects.

Community Development – to account for grant monies and Section 108 loan funds received from the U.S. Department of Housing and Urban Development. These monies are to be expended on projects considered necessary for the renewal and revitalization of the City.

Workforce Development - to account for monies received through the Minnesota Department of Economic Security and Saint Louis County to provide job training and employment opportunities for economically disadvantaged, unemployed and underemployed persons.

Senior Employment - to account for monies received from the Minnesota Department of Economic Security and the National Council of Senior Citizens under Title V of the Older Americans Act to provide useful part-time employment for low-income elderly and to improve community services.

Senior Nutrition - to account for monies received from the Arrowhead Regional Development Commission under the Older Americans Act of 1965 for providing hot meals and other services to people 60 or over.

Special Projects - to account for monies received as fees, donations, or small grants, which are to be expended for a specific purpose or project.

Police Grant Programs – to account for grant monies received from the U.S. Department of Justice and Minnesota Department of Public Safety for various police programs.

Housing Investment – to account for monies transferred from the community investment fund to be used for city-wide housing improvements.

GMHF Revolving Fund – to account for a revolving maintenance fund, financed by a Greater Minnesota Housing Fund loan, established for attaining compliance with housing and safety codes.

Recovery Loan Program - to account for grant monies received from the Minnesota Department of Trade and Economic Development (DTED) for the establishment of an economic development loan program.

Bayfront Festival Park - to account for fees earned from the operations of the Festival Park, which are to be used for capital maintenance and improvements to the Park.

Library Special Accounts - to account for all special gifts, donations, and trusts designated for the purchase of books, equipment, or projects for the library.

Capital Equipment - to account for bond proceeds and other revenues used for purchase of equipment.

Economic Development - to account for various grants and loans to be used for the development and revitalization of the City's economy.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (continued)

Energy Management - to account for excess home energy funds, utility rebates, grants, and a portion of energy savings used for managing energy in city facilities and the Cities for Climate Protection Program.

Tourism Tax - to account for the collection of food and beverage and hotel-motel excise taxes, and disbursement of funds for tourism-related activities as dictated by state statutes and City ordinances.

Public Facility and Programs - to account for the collection, administration, and disbursement of 5% of the net profits derived from lawful gambling, with such funds to be administered by a Lawful Gambling Commission.

DECC Revenue – to account for food and beverage tax revenues and DECC pledged revenues dedicated towards repayment of bonds issued to finance the expansion of the DECC.

DEDA Operating - is the general operating fund for DEDA. It accounts for all financial transactions not accounted for in another DEDA fund.

DEDA NWA Maintenance Facility - to account for monies, including franchise fee monies received from the City of Duluth, relating to the financing of an aircraft maintenance facility at Duluth International Airport.

DEDA Loan Programs - to account for loan programs established to revitalize buildings within the City.

DEBT SERVICE FUNDS

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

General Obligation - to account for accumulation of resources for, and payment of, general obligation bonds, notes and certificates.

Street Improvement Debt Service – To account for accumulation of resources for, and the payment of, general obligation bonds issued for financing the City's Street Improvement Program.

Transit Bond - to account for accumulation of resources for, and payment of, general obligation bonds issued for the benefit of the Duluth Transit Authority.

CAPITAL PROJECTS FUNDS

Capital Projects Funds account for financial resources to be used for the acquisition, construction or improvement of capital facilities other than those financed by enterprise funds.

Special Assessment - to account for improvements which are financed by special assessments.

Permanent Improvement – to account for improvements which will not sustain a special assessment.

Street Improvement Program - to account for improvements to be made as part of the City's 25-year Street Improvement Program.

Capital Improvements - to account for bond proceeds, transfers from other funds, and other revenues received for capital improvement projects.

Medical District Expansion - to account for the public development costs associated with the St. Mary's/Duluth Clinic Health Systems Digestive Disease/Cancer Center Project.

DEDA Capital Projects - to account for improvements that are financed by tax increment collections.

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008**

Special Revenue Funds

	Lake Superior Zoo	Home Investment Partnership Program	Community Development	Workforce Development	Senior Employment
ASSETS					
Cash and cash equivalents	\$ 111,575	\$ 8,006	\$ 775,998	\$ 387,413	\$ -
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	-	723	25,811	-	-
Assessments	-	-	-	-	-
Loans	-	205,561	2,622,738	-	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	-	172,456	13,649	87
Due from component units	-	-	-	-	-
Interfund loan receivable	-	-	-	-	-
Due from other governments	-	281,344	751,641	233,471	76,673
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	\$ 111,575	\$ 495,634	\$ 4,348,644	\$ 634,533	\$ 76,760
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 873	\$ 1,251	\$ 518
Contracts payable	-	207,134	485,401	1,600	-
Due to other funds	-	28,081	12,985	73,026	16,032
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	52,116
Loans payable	-	-	-	-	-
Due to other governments	-	-	5,254	31,799	-
Accrued salaries payable	-	-	12,408	35,566	8,094
Deferred revenue	-	260,419	2,831,839	-	-
Total liabilities	-	495,634	3,348,760	143,242	76,760
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	475,885	-	-
Special accounts	-	-	-	465,849	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	111,575	-	523,999	25,442	-
Capital project funds	-	-	-	-	-
Total fund balances	111,575	-	999,884	491,291	-
Total liabilities and fund balances	\$ 111,575	\$ 495,634	\$ 4,348,644	\$ 634,533	\$ 76,760

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008**

Special Revenue Funds

	Senior Nutrition	Special Projects	Police Grant Programs	Housing Investment	GMHF Revolving Fund
ASSETS					
Cash and cash equivalents	\$ 6,553	\$ 58,640	\$ -	\$ 600,000	\$ 200,000
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	12,331	26,998	-	-	-
Assessments	-	-	-	-	-
Loans	-	-	-	823,242	-
Grants	-	-	272,113	-	-
Deposits	-	-	-	-	-
Due from other funds	49,413	65,042	9,279	-	-
Due from component units	-	-	-	-	-
Interfund loan receivable	-	-	-	-	-
Due from other governments	40,095	374,401	-	-	-
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	\$ 108,392	\$ 525,081	\$ 281,392	\$ 1,423,242	\$ 200,000
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,028	\$ 33,572	\$ 61,450	\$ -	\$ -
Contracts payable	51,119	67,186	93,637	-	-
Due to other funds	-	5,974	75,696	-	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	42,757	-	-
Loans payable	-	-	-	-	-
Due to other governments	2	-	82	-	-
Accrued salaries payable	4,597	-	-	-	-
Deferred revenue	-	280,202	875	823,242	-
Total liabilities	56,746	386,934	274,497	823,242	-
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	-	-	-
Special accounts	51,646	-	6,895	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	138,147	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	-	-	600,000	200,000
Capital project funds	-	-	-	-	-
Total fund balances	51,646	138,147	6,895	600,000	200,000
Total liabilities and fund balances	\$ 108,392	\$ 525,081	\$ 281,392	\$ 1,423,242	\$ 200,000

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008**

Special Revenue Funds

	Recovery Loan Program	Bayfront Festival Park	Library Special Accounts	Capital Equipment	Economic Development
ASSETS					
Cash and cash equivalents	\$ 213,668	\$ 95,257	\$ 639,281	\$ 1,701,937	\$ -
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	-	-	-	-	538
Assessments	-	-	-	-	-
Loans	523,431	-	-	-	48,306
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	622,000	-	-	-	222,175
Due from component units	-	-	-	-	-
Interfund loan receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	\$ 1,359,099	\$ 95,257	\$ 639,281	\$ 1,701,937	\$ 271,019
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 2,000	\$ 1,548	\$ 240,073	\$ -
Contracts payable	-	-	-	-	12,215
Due to other funds	-	-	-	-	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	146,348
Loans payable	-	-	-	-	-
Due to other governments	375,622	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	147,809	-	-	-	48,306
Total liabilities	523,431	2,000	1,548	240,073	206,869
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	63,994	-
Debt service	-	-	-	-	-
Special accounts	-	-	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	835,668	93,257	637,733	1,397,870	64,150
Capital project funds	-	-	-	-	-
Total fund balances	835,668	93,257	637,733	1,461,864	64,150
Total liabilities and fund balances	\$ 1,359,099	\$ 95,257	\$ 639,281	\$ 1,701,937	\$ 271,019

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008**

Special Revenue Funds

	Energy Management	Tourism Tax	Public Facility and Programs	DECC Revenue	DEDA Operating
ASSETS					
Cash and cash equivalents	\$ 264,799	\$ 1,097,977	\$ 4,587	\$ 491,373	\$ 538,848
Receivables, net:					
Taxes	-	514,106	745	-	-
Accounts	-	-	-	-	12,102
Assessments	-	-	-	-	-
Loans	-	-	-	-	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	-	-	205,301	350,000
Due from component units	-	-	-	-	-
Interfund loan receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Land held for resale	-	-	-	-	192,500
Prepays	-	-	-	-	-
Total assets	\$ 264,799	\$ 1,612,083	\$ 5,332	\$ 696,674	\$ 1,093,450
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 26,968
Contracts payable	-	-	-	-	11,206
Due to other funds	-	207,968	-	-	766,375
Due to component units	-	110,950	-	-	-
Interfund loan payable	-	-	-	-	-
Loans payable	-	-	-	-	439,302
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	-	-	-	-	2,447
Total liabilities	-	318,918	-	-	1,246,298
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	393,921
Debt service	-	1,076,544	-	696,674	-
Special accounts	-	122,841	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	264,799	93,780	5,332	-	(546,769)
Capital project funds	-	-	-	-	-
Total fund balances	264,799	1,293,165	5,332	696,674	(152,848)
Total liabilities and fund balances	\$ 264,799	\$ 1,612,083	\$ 5,332	\$ 696,674	\$ 1,093,450

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	Special Revenue Funds		Debt Service Funds		
	DEDA NWA Maint. Facility	DEDA Loan Programs	General Obligation	Street Improvement Debt Service	Transit Bond
ASSETS					
Cash and cash equivalents	\$ 650,143	\$ 4,274,318	\$ 5,658,580	\$ 1,977,771	\$ 225,610
Receivables, net:					
Taxes	-	-	279,723	-	6,977
Accounts	-	-	30,705	-	-
Assessments	-	-	-	3,747,908	-
Loans	-	2,264,618	-	-	-
Grants	-	-	320,000	-	-
Deposits	-	250,000	-	-	-
Due from other funds	-	380	-	4,708,771	-
Due from component units	-	-	-	-	-
Interfund loan receivable	-	-	-	2,822,758	-
Due from other governments	-	-	-	-	-
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	<u>\$ 650,143</u>	<u>\$ 6,789,316</u>	<u>\$ 6,289,008</u>	<u>\$ 13,257,208</u>	<u>\$ 232,587</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 8,193	\$ 45	\$ -	\$ 18,190	\$ -
Contracts payable	4,167	-	-	-	-
Due to other funds	91,000	54,125	853,696	1,175	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	-
Loans payable	-	-	-	-	-
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	-	-	520,436	3,743,732	5,393
Total liabilities	<u>103,360</u>	<u>54,170</u>	<u>1,374,132</u>	<u>3,763,097</u>	<u>5,393</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	4,646,234	-	79,593
Special accounts	-	2,263,067	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	1,149,701	-	-	-
Debt service funds	-	-	268,642	9,494,111	147,601
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	546,783	3,322,378	-	-	-
Capital project funds	-	-	-	-	-
Total fund balances	<u>546,783</u>	<u>6,735,146</u>	<u>4,914,876</u>	<u>9,494,111</u>	<u>227,194</u>
Total liabilities and fund balances	<u>\$ 650,143</u>	<u>\$ 6,789,316</u>	<u>\$ 6,289,008</u>	<u>\$ 13,257,208</u>	<u>\$ 232,587</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008**

Capital Project Funds

	Special Assessment	Permanent Improvement	Street Improvement Program	Capital Improvements	Medical District Expansion
ASSETS					
Cash and cash equivalents	\$ 764,102	\$ -	\$ -	\$ 2,826,242	\$ 497,970
Receivables, net:					
Taxes	-	26,348	-	-	-
Accounts	-	-	-	-	-
Assessments	-	-	-	-	-
Loans	-	-	-	-	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	2,479,089	2,287,761	-	-
Due from component units	-	178,951	-	-	-
Interfund loan receivable	-	-	-	-	-
Due from other governments	-	3,900,528	-	-	-
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	\$ 764,102	\$ 6,584,916	\$ 2,287,761	\$ 2,826,242	\$ 497,970
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 216	\$ -	\$ 16,096	\$ 48,155
Contracts payable	15,639	776,822	198,359	132,910	-
Due to other funds	455,861	525,983	260,098	62,286	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	1,133,359	2,588,651	-	-
Loans payable	-	-	-	-	-
Due to other governments	-	3,780	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	-	1,779,409	-	-	-
Total liabilities	471,500	4,219,569	3,047,108	211,292	48,155
Fund balances:					
Reserved for:					
Encumbrances	17,441	1,516,701	122,488	477,658	-
Debt service	-	-	-	-	-
Special accounts	-	-	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	-	-	-	-
Capital project funds	275,161	848,646	(881,835)	2,137,292	449,815
Total fund balances	292,602	2,365,347	(759,347)	2,614,950	449,815
Total liabilities and fund balances	\$ 764,102	\$ 6,584,916	\$ 2,287,761	\$ 2,826,242	\$ 497,970

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2008**

	<u>Capital Project Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>DEDA Capital Projects</u>	
ASSETS		
Cash and cash equivalents	\$ 5,039,380	\$ 29,110,028
Receivables, net:		
Taxes	-	827,899
Accounts	4,720	113,928
Assessments	-	3,747,908
Loans	1,850,678	8,338,574
Grants	-	592,113
Deposits	-	250,000
Due from other funds	3,665,922	14,851,325
Due from component units	-	178,951
Interfund loan receivable	-	2,822,758
Due from other governments	84,512	5,742,665
Land held for resale	-	192,500
Prepays	528,529	528,529
	<u>\$ 11,173,741</u>	<u>\$ 67,297,178</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 5,000	\$ 465,176
Contracts payable	159,696	2,217,091
Due to other funds	481,175	3,971,536
Due to component units	-	110,950
Interfund loan payable	-	3,963,231
Loans payable	-	439,302
Due to other governments	-	416,539
Accrued salaries payable	-	60,665
Deferred revenue	1,880,229	12,324,338
	<u>2,526,100</u>	<u>23,968,828</u>
Fund balances:		
Reserved for:		
Encumbrances	431,694	3,023,897
Debt service	-	6,974,930
Special accounts	577,259	3,487,557
Unreserved:		
Designated for, reported in:		
Special revenue funds	-	1,287,848
Debt service funds	-	9,910,354
Capital project funds	7,013,131	7,013,131
Undesignated, reported in:		
Special revenue funds	-	8,175,997
Capital project funds	625,557	3,454,636
	<u>8,647,641</u>	<u>43,328,350</u>
Total liabilities and fund balances	<u>\$ 11,173,741</u>	<u>\$ 67,297,178</u>

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

	Special Revenue Funds				
	Lake Superior Zoo	Home Investment Partnership Program	Community Development	Workforce Development	Senior Employment
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	943,058	3,229,640	1,944,088	372,302
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	-	-	6,254	-	-
Miscellaneous revenues	111,575	-	582,269	1,092	-
Total revenues	111,575	943,058	3,818,163	1,945,180	372,302
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	943,058	3,286,473	1,947,793	372,302
Debt service:					
Principal retirement	-	-	55,000	-	-
Interest and fiscal fees	-	-	176,339	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	-	943,058	3,517,812	1,947,793	372,302
Excess (deficiency) of revenues over expenditures	111,575	-	300,351	(2,613)	-
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	-	104,831	-	-
Transfers out	-	-	(8,310)	-	-
Total other financing sources (uses)	-	-	96,521	-	-
Net change in fund balance	111,575	-	396,872	(2,613)	-
Fund balance - January 1, 2008	-	-	603,012	493,904	-
Fund balance - December 31, 2008	\$ 111,575	\$ -	\$ 999,884	\$ 491,291	\$ -

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

Special Revenue Funds

	Senior Nutrition	Special Projects	Police Grant Programs	Housing Investment	GMHF Revolving Fund
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	256,514	347,148	995,646	-	-
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	334	-	162	-	-
Miscellaneous revenues	222,132	242,582	109,894	-	-
Total revenues	478,980	589,730	1,105,702	-	-
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	531,835	490,082	-	-
Public works	-	-	-	-	-
Culture and recreation	-	151,386	-	-	-
Urban and economic development	552,880	96,550	-	20,000	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	242,507	-	-
Total expenditures	552,880	779,771	732,589	20,000	-
Excess (deficiency) of revenues over expenditures	(73,900)	(190,041)	373,113	(20,000)	-
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	49,413	-	25	600,000	-
Transfers out	-	(29,321)	(295,052)	(376,758)	-
Total other financing sources (uses)	49,413	(29,321)	(295,027)	223,242	-
Net change in fund balance	(24,487)	(219,362)	78,086	203,242	-
Fund balance - January 1, 2008	76,133	357,509	(71,191)	396,758	200,000
Fund balance - December 31, 2008	\$ 51,646	\$ 138,147	\$ 6,895	\$ 600,000	\$ 200,000

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

Special Revenue Funds

	Recovery Loan Program	Bayfront Festival Park	Library Special Accounts	Capital Equipment	Economic Development
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	2,641,982
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	-	262	2,713	2,320	-
Miscellaneous revenues	45,379	42,886	70,349	17,221	6,239
Total revenues	45,379	43,148	73,062	19,541	2,648,221
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	41,735	-	-
Urban and economic development	5,171	-	-	-	2,259,405
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	9,592	-
Bond issuance costs	-	-	-	38,928	-
Capital outlay	-	-	500,622	1,759,159	-
Total expenditures	5,171	-	542,357	1,807,679	2,259,405
Excess (deficiency) of revenues over expenditures	40,208	43,148	(469,295)	(1,788,138)	388,816
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	2,515,000	-
Premium on issuance of bonds	-	-	-	70,359	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	-	-	-	12,975
Transfers out	-	-	-	-	(392,713)
Total other financing sources (uses)	-	-	-	2,585,359	(379,738)
Net change in fund balance	40,208	43,148	(469,295)	797,221	9,078
Fund balance - January 1, 2008	795,460	50,109	1,107,028	664,643	55,072
Fund balance - December 31, 2008	\$ 835,668	\$ 93,257	\$ 637,733	\$ 1,461,864	\$ 64,150

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

Special Revenue Funds

	Energy Management	Tourism Tax	Public Facility and Programs	DECC Revenue	DEDA Operating
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	6,799,359	-	-	-
Other taxes	-	-	10,355	-	-
Intergovernmental revenues	-	-	-	-	7,978
Charges for services	-	-	-	-	240,567
Special assessments	-	-	-	-	-
Investment income	-	62,989	192	160	3,091
Miscellaneous revenues	10,515	30,239	-	-	1,080,746
	<u>10,515</u>	<u>6,892,587</u>	<u>10,547</u>	<u>160</u>	<u>1,332,382</u>
Total revenues	10,515	6,892,587	10,547	160	1,332,382
EXPENDITURES					
Current:					
General government	59,238	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	3,289,450	-	-	1,866,216
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	-	-	-
	<u>59,238</u>	<u>3,289,450</u>	<u>-</u>	<u>-</u>	<u>1,866,216</u>
Total expenditures	59,238	3,289,450	-	-	1,866,216
Excess (deficiency) of revenues over expenditures	(48,723)	3,603,137	10,547	160	(533,834)
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	75,000	-	-	696,514	760,164
Transfers out	-	(3,593,272)	(116,273)	-	(9,100)
	<u>75,000</u>	<u>(3,593,272)</u>	<u>(116,273)</u>	<u>696,514</u>	<u>751,064</u>
Total other financing sources (uses)	75,000	(3,593,272)	(116,273)	696,514	751,064
Net change in fund balance	26,277	9,865	(105,726)	696,674	217,230
Fund balance - January 1, 2008	238,522	1,283,300	111,058	-	(370,078)
Fund balance - December 31, 2008	<u>\$ 264,799</u>	<u>\$ 1,293,165</u>	<u>\$ 5,332</u>	<u>\$ 696,674</u>	<u>\$ (152,848)</u>

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Special Revenue Funds		Debt Service Funds		
	DEDA NWA Maint. Facility	DEDA Loan Programs	General Obligation	Street Improvement Debt Service	Transit Bond
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ 4,484,729	\$ -	\$ 81,654
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	-	381,325	-	6,798
Charges for services	-	-	-	-	-
Special assessments	-	-	-	984,653	-
Investment income	2,480	101,261	80,151	159,888	-
Miscellaneous revenues	328,000	70,306	590,031	-	-
Total revenues	<u>330,480</u>	<u>171,567</u>	<u>5,536,236</u>	<u>1,144,541</u>	<u>88,452</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	158,842	12,585	-	-	-
Debt service:					
Principal retirement	-	-	3,355,000	3,981,100	135,000
Interest and fiscal fees	-	-	1,259,896	1,563,332	12,600
Bond issuance costs	-	-	25,260	46,549	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>158,842</u>	<u>12,585</u>	<u>4,640,156</u>	<u>5,590,981</u>	<u>147,600</u>
Excess (deficiency) of revenues over expenditures	<u>171,638</u>	<u>158,982</u>	<u>896,080</u>	<u>(4,446,440)</u>	<u>(59,148)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	3,055,000	-
Premium on issuance of bonds	-	-	237,540	46,968	-
Payment to refunded bond escrow agent	-	-	-	(3,570,023)	-
Transfers in	-	-	1,652,802	4,717,470	-
Transfers out	(91,000)	(137,189)	(1,700,862)	(137,146)	-
Total other financing sources (uses)	<u>(91,000)</u>	<u>(137,189)</u>	<u>189,480</u>	<u>4,112,269</u>	<u>-</u>
Net change in fund balance	80,638	21,793	1,085,560	(334,171)	(59,148)
Fund balance - January 1, 2008	<u>466,145</u>	<u>6,713,353</u>	<u>3,829,316</u>	<u>9,828,282</u>	<u>286,342</u>
Fund balance - December 31, 2008	<u>\$ 546,783</u>	<u>\$ 6,735,146</u>	<u>\$ 4,914,876</u>	<u>\$ 9,494,111</u>	<u>\$ 227,194</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

	Capital Project Funds				
	Special Assessment	Permanent Improvement	Street Improvement Program	Capital Improvements	Medical District Expansion
REVENUES					
Taxes:					
Property taxes	\$ -	\$ 384,264	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	5,270,652	-	378,027	500,000
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	2,359	-	9	51,226	43,523
Miscellaneous revenues	-	-	-	207,759	180,888
Total revenues	2,359	5,654,916	9	637,012	724,411
EXPENDITURES					
Current:					
General government	-	-	-	30,460	-
Public safety	-	-	-	25,324	-
Public works	-	1,610,068	-	-	-
Culture and recreation	-	-	-	1,645,897	-
Urban and economic development	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	761	-
Bond issuance costs	-	17,235	59,681	40,181	-
Capital outlay	13,905	4,364,669	2,723,412	1,503,251	323,250
Total expenditures	13,905	5,991,972	2,783,093	3,245,874	323,250
Excess (deficiency) of revenues over expenditures	(11,546)	(337,056)	(2,783,084)	(2,608,862)	401,161
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	1,475,000	2,320,000	1,600,000	-
Premium on issuance of bonds	-	-	23,154	5,570	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	4,235	95,353	2,328	1,559,167	-
Transfers out	(642,510)	(33,551)	(4,573)	(51,226)	(43,523)
Total other financing sources (uses)	(638,275)	1,536,802	2,340,909	3,113,511	(43,523)
Net change in fund balance	(649,821)	1,199,746	(442,175)	504,649	357,638
Fund balance - January 1, 2008	942,423	1,165,601	(317,172)	2,110,301	92,177
Fund balance - December 31, 2008	\$ 292,602	\$ 2,365,347	\$ (759,347)	\$ 2,614,950	\$ 449,815

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Capital Project Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>DEDA Capital Projects</u>	
REVENUES		
Taxes:		
Property taxes	\$ -	\$ 4,950,647
Sales taxes	-	6,799,359
Other taxes	-	10,355
Intergovernmental revenues	-	17,275,158
Charges for services	-	240,567
Special assessments	-	984,653
Investment income	37,586	556,960
Miscellaneous revenues	292,343	4,242,445
	<u>329,929</u>	<u>35,060,144</u>
EXPENDITURES		
Current:		
General government	-	89,698
Public safety	-	1,047,241
Public works	-	1,610,068
Culture and recreation	-	1,839,018
Urban and economic development	603,918	15,414,643
Debt service:		
Principal retirement	-	7,526,100
Interest and fiscal fees	-	3,022,520
Bond issuance costs	-	227,834
Capital outlay	1,032,543	12,463,318
	<u>1,636,461</u>	<u>43,240,440</u>
Total expenditures		
Excess (deficiency) of revenues over expenditures	<u>(1,306,532)</u>	<u>(8,180,296)</u>
OTHER FINANCING SOURCES (USES)		
Issuance of bonds	-	10,965,000
Premium on issuance of bonds	-	383,591
Payment to refunded bond escrow agent	-	(3,570,023)
Transfers in	3,613,515	13,943,792
Transfers out	(295,100)	(7,957,479)
	<u>3,318,415</u>	<u>13,764,881</u>
Total other financing sources (uses)		
Net change in fund balance	2,011,883	5,584,585
Fund balance - January 1, 2008	<u>6,635,758</u>	<u>37,743,765</u>
Fund balance - December 31, 2008	<u>\$ 8,647,641</u>	<u>\$ 43,328,350</u>

**CITY OF DULUTH MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Taxes:				
General property -				
Current	\$ 7,611,500	\$ 7,611,500	\$ 6,904,018	\$ (707,482)
Delinquent	150,000	150,000	137,862	(12,138)
Mobile home	30,000	30,000	32,779	2,779
Forfeited tax sale apportionment	100,000	100,000	125,446	25,446
Franchise	1,800,100	1,800,100	1,851,406	51,306
Sales taxes	11,878,000	11,878,000	11,563,693	(314,307)
Charitable gambling	75,000	75,000	59,515	(15,485)
Other	-	-	3,126	3,126
	<u>21,644,600</u>	<u>21,644,600</u>	<u>20,677,845</u>	<u>(966,755)</u>
Total Taxes				
Licenses and Permits:				
Liquor and non-intoxicating liquor	375,000	375,000	408,231	33,231
Health	20,500	20,500	21,449	949
Police protective	21,700	21,700	26,410	4,710
Amusement	20,000	20,000	22,491	2,491
Manufacturing and merchandising	36,100	36,100	35,155	(945)
Other	641,000	641,000	471,770	(169,230)
	<u>1,114,300</u>	<u>1,114,300</u>	<u>985,506</u>	<u>(128,794)</u>
Total Licenses and Permits				
Intergovernmental revenues:				
Shared revenues -				
Local government aid	29,061,700	29,061,700	27,324,960	(1,736,740)
PERA aid	125,000	125,000	124,428	(572)
Amortization aid	3,824,200	3,824,200	1,323,773	(2,500,427)
Insurance premium	1,974,100	1,974,100	1,538,754	(435,346)
State grants -				
Snowmobile trail	20,000	20,000	20,277	277
Lake Superior Zoo	135,000	135,000	135,000	-
Police training reimbursement	54,000	54,000	54,473	473
HAZMAT regional response team	-	45,900	40,312	(5,588)
Market value credit aid	-	-	596,862	596,862
MSA maintenance allotment	1,128,000	1,128,000	974,403	(153,597)
Federal grants -				
Fair housing enforcement	-	120,000	128,500	8,500
Bulletproof vest partnership program	-	4,884	6,092	1,208
Highway safety - operation nite cap	-	-	6,951	6,951
Organized Crime Drug Enforcement Task Force	-	-	22,954	22,954
Drunk driving prevention - safe and sober	-	-	1,988	1,988
Other grants -				
St. Louis County	131,000	131,000	131,017	17
Payments in lieu of taxes -				
Housing and Redevelopment Authority	32,500	32,500	32,479	(21)
Independent School District #709	457,200	457,200	479,510	22,310
WLSSD	30,000	30,000	28,151	(1,849)
Great Lakes City Conference	-	2,500	-	(2,500)
	<u>36,972,700</u>	<u>37,145,984</u>	<u>32,970,884</u>	<u>(4,175,100)</u>
Total Intergovernmental Revenues				

(continued)

**CITY OF DULUTH MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Charges for Services:				
Departmental fees and services -				
Fire	4,200	4,200	4,200	-
Police	134,500	134,500	88,891	(45,609)
Parks and recreation	481,000	481,000	500,113	19,113
Engineering	500,000	500,000	252,375	(247,625)
Building inspection services	2,349,200	2,349,200	1,750,161	(599,039)
MIS services	5,000	5,000	2,135	(2,865)
Grant administration services	45,000	45,000	71,029	26,029
Hydrant maintenance services	30,000	30,000	30,000	-
Assessment fees	120,400	120,400	69,981	(50,419)
Other services	1,100	1,100	41,126	40,026
Departmental sales -				
Copier and microfilm prints	20,800	20,800	17,592	(3,208)
Print and plan sales	20,600	20,600	9,784	(10,816)
Book sales	200	200	184	(16)
Miscellaneous sales and services	75,900	75,900	95,522	19,622
Share of general expenses -				
Duluth Airport Authority	30,900	30,900	45,200	14,300
Water and Gas	1,323,100	1,323,100	900,700	(422,400)
Sewer	396,900	396,900	321,100	(75,800)
Stormwater	117,500	117,500	165,100	47,600
Steam District #1	32,200	32,200	48,100	15,900
Duluth Entertainment & Convention Center	19,500	19,500	24,300	4,800
Duluth Transit Authority	23,800	23,800	10,000	(13,800)
Golf	64,900	64,900	64,900	-
Duluth Economic Development Authority	342,700	342,700	446,700	104,000
Fleet Services	105,100	105,100	105,100	-
Group Health	200,100	200,100	163,200	(36,900)
Self Insurance	258,700	258,700	275,000	16,300
Spirit Mountain Recreation Area Authority	40,200	40,200	36,600	(3,600)
Parking	64,900	64,900	22,600	(42,300)
Total Charges for Services	<u>6,808,400</u>	<u>6,808,400</u>	<u>5,561,693</u>	<u>(1,246,707)</u>
Fines and Forfeits:				
Library fines	100,000	100,000	79,634	(20,366)
Parking fines	550,000	550,000	550,328	328
Court fees	470,000	470,000	395,772	(74,228)
License penalties	8,600	8,600	11,719	3,119
Felony forfeitures	-	18,804	18,805	1
Other fines	-	-	525	525
Total Fines and Forfeits	<u>1,128,600</u>	<u>1,147,404</u>	<u>1,056,783</u>	<u>(90,621)</u>
Special Assessments	<u>407,900</u>	<u>407,900</u>	<u>406,876</u>	<u>(1,024)</u>
Investment Income	<u>2,650,000</u>	<u>2,663,535</u>	<u>211,706</u>	<u>(2,451,829)</u>

(continued)

**CITY OF DULUTH MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Miscellaneous Revenues:				
Commission and concessions	5,000	5,000	20,214	15,214
Payments in lieu of taxes	16,000	16,000	16,086	86
Police auction proceeds	-	2,149	41,985	39,836
Rent and lease	84,700	84,700	99,301	14,601
Damage claims	1,000	5,619	49,551	43,932
Sale of equipment	80,000	80,000	123,343	43,343
Sale of land	80,000	88,617	1,562,150	1,473,533
Sale of scrap	1,600	1,600	23,205	21,605
Surcharge retainage	1,500	1,500	1,287	(213)
Refunds and reimbursements	381,900	302,312	348,690	46,378
Gifts and donations	3,000	47,351	60,616	13,265
Total Miscellaneous Revenues	<u>654,700</u>	<u>634,848</u>	<u>2,346,428</u>	<u>1,711,580</u>
Total Revenues	<u>71,381,200</u>	<u>71,566,971</u>	<u>64,217,721</u>	<u>(7,349,250)</u>
Other Financing Sources:				
Operating transfers in:				
Special Projects	-	-	29,296	29,296
Duluth Police Grant Programs	80,000	80,000	295,052	215,052
Community Investment Trust	2,870,000	2,870,000	1,978,025	(891,975)
Tourism Taxes	1,078,300	1,078,300	1,243,956	165,656
Housing Investment	-	-	376,758	376,758
G O Debt Service	-	-	80,151	80,151
Street Improvement Debt Service	-	-	137,146	137,146
Permanent Improvement	60,000	60,000	29,316	(30,684)
Medical District Expansion	-	-	43,523	43,523
Capital Improvements	20,000	20,000	51,226	31,226
Parking	1,268,200	1,268,200	1,298,941	30,741
Water	280,000	280,000	442,779	162,779
Gas	3,395,600	3,395,600	3,494,494	98,894
Sewer	50,000	50,000	145,990	95,990
Stormwater	410,000	410,000	535,163	125,163
Steam	100,000	100,000	108,000	8,000
Self Insurance	-	-	27,477	27,477
Group Health	-	-	192,759	192,759
Employee Vacation Compensation	-	-	94,712	94,712
Fleet Services	-	-	240,000	240,000
DEDA Debt Service	-	-	157,571	157,571
DEDA Capital Projects	-	-	32,225	32,225
DEDA Building Renovation Loans	-	-	83,444	83,444
Total Other Financing Sources	<u>9,612,100</u>	<u>9,612,100</u>	<u>11,118,004</u>	<u>1,505,904</u>
Total Revenues and Other Financing Sources	<u>\$ 80,993,300</u>	<u>\$ 81,179,071</u>	<u>\$ 75,335,725</u>	<u>\$ (5,843,346)</u>
Reconciliation:				
Original budget as approved by Duluth City Council		\$ 80,993,300		
Adjustments made in accordance with budget ordinance provisions:				
Grants, gifts, and donations		142,337		
Ordinance allowable		43,434		
Total adjustments		<u>185,771</u>		
Modified budget as reported above		<u>\$ 81,179,071</u>		

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
GENERAL GOVERNMENT:							
Legislative and Executive							
City Council							
Personal services - salaries	\$ 90,000	\$ 93,800		\$ 93,796	\$ -	\$ 93,796	\$ 4
Personal services - benefits	12,700	8,900		7,972	-	7,972	928
Other expenditures	47,000	47,000		36,691	-	36,691	10,309
Total City Council	149,700	149,700		138,459	-	138,459	11,241
Mayor's Office							
Personal services - salaries	198,800	187,300		170,668	-	170,668	16,632
Personal services - benefits	63,000	48,000		45,864	-	45,864	2,136
Other expenditures	12,000	15,366		12,104	-	12,104	3,262
Total Mayor's Office	273,800	250,666	1,3	228,636	-	228,636	22,030
Administrative Assistant							
Personal services - salaries	791,400	834,200		823,313	-	823,313	10,887
Personal services - benefits	209,600	217,000		216,333	-	216,333	667
Other expenditures	41,100	44,100		43,368	-	43,368	732
Total Administrative Assistant	1,042,100	1,095,300	1	1,083,014	-	1,083,014	12,286
City Attorney							
Personal services - salaries	1,066,800	1,178,000		1,139,379	-	1,139,379	38,621
Personal services - benefits	278,600	310,200		306,841	-	306,841	3,359
Other expenditures	26,000	40,500		40,129	-	40,129	371
Capital outlay	8,000	3,500		2,265	-	2,265	1,235
Total City Attorney	1,379,400	1,532,200	1	1,488,614	-	1,488,614	43,586
Human Rights Office							
Personal services - salaries	121,500	121,500		101,162	-	101,162	20,338
Personal services - benefits	32,300	30,300		16,838	-	16,838	13,462
Other expenditures	60,100	11,100		6,331	-	6,331	4,769
Total Human Rights Office	213,900	162,900	1	124,331	-	124,331	38,569
Total Legislative and Executive	3,058,900	3,190,766		3,063,054	-	3,063,054	127,712
Administrative Services							
City Clerk							
Personal services - salaries	393,900	406,900		405,958	-	405,958	942
Personal services - benefits	133,200	119,200		118,742	-	118,742	458
Other expenditures	51,000	51,000		20,080	-	20,080	30,920
Total City Clerk	578,100	577,100	1	544,780	-	544,780	32,320
Management Information Systems							
Personal services - salaries	1,018,400	972,400		958,383	-	958,383	14,017
Personal services - benefits	303,800	290,800		281,078	-	281,078	9,722
Other expenditures	226,300	230,300		219,556	-	219,556	10,744
Total Management Information Systems	1,548,500	1,493,500	1	1,459,017	-	1,459,017	34,483

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
GENERAL GOVERNMENT: (continued)							
Administrative Services (continued)							
Facilities Management							
Personal services - salaries	1,146,300	1,146,300		1,107,470	-	1,107,470	38,830
Personal services - benefits	326,300	324,100		319,830	-	319,830	4,270
Other expenditures	2,080,300	2,080,300		1,992,741	3,282	1,996,023	84,277
Total Facilities Management	3,552,900	3,550,700	1	3,420,041	3,282	3,423,323	127,377
Architect's Office							
Personal services - salaries	94,600	94,600		94,459	-	94,459	141
Personal services - benefits	21,300	24,500		24,313	-	24,313	187
Other expenditures	8,400	8,400		6,251	-	6,251	2,149
Total Architect's Office	124,300	127,500	1	125,023	-	125,023	2,477
Total Administrative Services	5,803,800	5,748,800		5,548,861	3,282	5,552,143	196,657
Department of Finance							
Finance Administration							
Personal services - salaries	261,300	287,300		287,017	-	287,017	283
Personal services - benefits	66,900	76,800		76,575	-	76,575	225
Other expenditures	8,400	8,400		7,909	-	7,909	491
Total Finance Administration	336,600	372,500	1	371,501	-	371,501	999
City Assessor's Office							
Personal services - salaries	592,400	571,400		571,367	-	571,367	33
Personal services - benefits	186,200	170,900		170,889	-	170,889	11
Other expenditures	25,900	25,900		22,453	-	22,453	3,447
Total City Assessor's Office	804,500	768,200	1	764,709	-	764,709	3,491
City Auditor's Office							
Personal services - salaries	861,000	850,000		821,218	-	821,218	28,782
Personal services - benefits	241,100	239,100		225,396	-	225,396	13,704
Other expenditures	186,100	193,100		192,435	-	192,435	665
Total City Auditor's Office	1,288,200	1,282,200	1	1,239,049	-	1,239,049	43,151
Purchasing Office							
Personal services - salaries	163,800	124,437		115,407	-	115,407	9,030
Personal services - benefits	52,400	48,900		42,959	-	42,959	5,941
Other expenditures	9,200	9,200		7,748	-	7,748	1,452
Capital outlay	-	4,363		4,363	-	4,363	-
Total Purchasing Office	225,400	186,900	1	170,477	-	170,477	16,423
City Treasurer's Office							
Personal services - salaries	266,000	239,095		238,865	-	238,865	230
Personal services - benefits	68,100	68,100		66,099	-	66,099	2,001
Other expenditures	10,500	15,500		23,891	-	23,891	(8,391)
Capital outlay	-	3,905		3,905	-	3,905	-
Total City Treasurer's Office	344,600	326,600	1	332,760	-	332,760	(6,160)
Total Department of Finance	2,999,300	2,936,400		2,878,496	-	2,878,496	57,904
TOTAL GENERAL GOVERNMENT	11,862,000	11,875,966		11,490,411	3,282	11,493,693	382,273

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
PUBLIC SAFETY:							
Fire Department							
Fire Administration							
Personal services - salaries	296,700	227,700		226,961	-	226,961	739
Personal services - benefits	123,300	113,300		112,417	-	112,417	883
Other expenditures	42,700	46,700		42,801	-	42,801	3,899
Total Fire Administration	462,700	387,700	1	382,179	-	382,179	5,521
Firefighting Operations							
Personal services - salaries	8,309,000	8,545,024		8,514,502	-	8,514,502	30,522
Personal services - benefits	5,454,600	5,557,100		5,553,670	-	5,553,670	3,430
Other expenditures	480,900	520,400		517,012	-	517,012	3,388
Total Firefighting Operations	14,244,500	14,622,524	1	14,585,184	-	14,585,184	37,340
Fire Prevention and Training							
Personal services - salaries	239,500	239,500		225,532	-	225,532	13,968
Personal services - benefits	145,700	145,700		141,580	-	141,580	4,120
Other expenditures	24,100	22,277		17,543	-	17,543	4,734
Total Fire Prevention and Training	409,300	407,477	1,2,3	384,655	-	384,655	22,822
Building Inspection							
Personal services - salaries	1,320,300	1,404,300		1,402,721	-	1,402,721	1,579
Personal services - benefits	419,000	432,600		430,853	-	430,853	1,747
Other expenditures	155,800	170,604		138,757	8,900	147,657	22,947
Total Building Inspection	1,895,100	2,007,504	1,3,4	1,972,331	8,900	1,981,231	26,273
Hazardous Materials (HAZMAT)							
Other expenditures	-	15,494		8,317	-	8,317	7,177
Total Hazardous Materials (HAZMAT)	-	15,494	1,2,3	8,317	-	8,317	7,177
Total Fire Department	17,011,600	17,440,699		17,332,666	8,900	17,341,566	99,133
Police Department							
Police Administration							
Personal services - salaries	3,841,800	4,501,200		4,406,708	-	4,406,708	94,492
Personal services - benefits	1,346,300	1,512,600		1,507,860	-	1,507,860	4,740
Other expenditures	1,229,100	1,213,600		1,158,155	-	1,158,155	55,445
Total Police Administration	6,417,200	7,227,400	1	7,072,723	-	7,072,723	154,677
Police Patrol							
Personal services - salaries	7,809,600	7,338,300		7,334,839	-	7,334,839	3,461
Personal services - benefits	3,015,900	2,714,600		2,712,985	-	2,712,985	1,615
Other expenditures	77,200	117,584		106,261	-	106,261	11,323
Total Police Patrol	10,902,700	10,170,484	1,3	10,154,085	-	10,154,085	16,399
Police Special Accounts							
Other expenditures	-	63,570		40,813	-	40,813	22,757
Total Police Special Accounts	-	63,570	2,4	40,813	-	40,813	22,757
Total Police Department	17,319,900	17,461,454		17,267,621	-	17,267,621	193,833
TOTAL PUBLIC SAFETY	34,331,500	34,902,153		34,600,287	8,900	34,609,187	292,966

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
PUBLIC WORKS:							
Public Works and Utilities							
Public Works Director's Office							
Personal services - salaries	32,900	37,800		35,980	-	35,980	1,820
Personal services - benefits	7,800	9,900		9,526	-	9,526	374
Other expenditures	1,000	1,000		228	-	228	772
Total Public Works Director's Office	41,700	48,700	1	45,734	-	45,734	2,966
Maintenance Operations							
Personal services - salaries	3,104,900	3,027,400		3,000,321	-	3,000,321	27,079
Personal services - benefits	959,600	888,800		887,300	-	887,300	1,500
Other expenditures	3,243,500	3,698,500		3,610,109	-	3,610,109	88,391
Total Maintenance Operations	7,308,000	7,614,700	1	7,497,730	-	7,497,730	116,970
Engineering							
Personal services - salaries	1,722,900	1,642,900		1,582,930	-	1,582,930	59,970
Personal services - benefits	538,000	538,000		484,789	-	484,789	53,211
Other expenditures	841,400	841,400		819,744	-	819,744	21,656
Total Engineering	3,102,300	3,022,300	1	2,887,463	-	2,887,463	134,837
Total Public Works and Utilities	10,452,000	10,685,700		10,430,927	-	10,430,927	254,773
TOTAL PUBLIC WORKS	10,452,000	10,685,700		10,430,927	-	10,430,927	254,773
CULTURE AND RECREATION:							
Library Department							
Library Services							
Personal services - salaries	2,652,600	2,290,927		2,223,609	-	2,223,609	67,318
Personal services - benefits	814,200	714,200		651,594	-	651,594	62,606
Other expenditures	280,900	282,900		273,802	-	273,802	9,098
Capital outlay	315,000	356,044		356,044	-	356,044	-
Total Library Services	4,062,700	3,644,071	1,3,4	3,505,049	-	3,505,049	139,022
Library Buildings and Equipment							
Personal services - salaries	170,700	170,700		129,315	-	129,315	41,385
Personal services - benefits	66,500	66,500		44,619	-	44,619	21,881
Other expenditures	25,000	25,000		21,620	-	21,620	3,380
Total Library Buildings and Equipment	262,200	262,200		195,554	-	195,554	66,646
Total Library Department	4,324,900	3,906,271		3,700,603	-	3,700,603	205,668
Parks and Recreation Department							
Recreation and Senior Services							
Personal services - salaries	1,057,300	966,300		901,794	-	901,794	64,506
Personal services - benefits	275,200	254,200		225,691	-	225,691	28,509
Other expenditures	181,000	151,000		115,718	5,516	121,234	29,766
Total Recreation and Senior Services	1,513,500	1,371,500	1	1,243,203	5,516	1,248,719	122,781
Lake Superior Zoo							
Personal services - salaries	548,600	548,600		545,608	-	545,608	2,992
Personal services - benefits	180,200	180,200		173,705	-	173,705	6,495
Other expenditures	335,700	431,700		419,999	-	419,999	11,701
Total Lake Superior Zoo	1,064,500	1,160,500	1	1,139,312	-	1,139,312	21,188
Total Parks and Recreation Department	2,578,000	2,532,000		2,382,515	5,516	2,388,031	143,969
TOTAL CULTURE AND RECREATION	6,902,900	6,438,271		6,083,118	5,516	6,088,634	349,637

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2008

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
URBAN AND ECONOMIC DEVELOPMENT:							
Planning and Development							
Personal services - salaries	406,500	361,500		272,554	-	272,554	88,946
Personal services - benefits	110,100	95,100		73,894	-	73,894	21,206
Other expenditures	132,600	132,600		57,966	-	57,966	74,634
Total Planning and Development	649,200	589,200	1	404,414	-	404,414	184,786
TOTAL URBAN AND ECONOMIC DEVELOPMENT	649,200	589,200		404,414	-	404,414	184,786
TRANSFERS AND OTHER FUNCTIONS:							
Business improvement district	500,000	500,000		484,210	-	484,210	15,790
Capital improvements/lease purchase	175,000	177,000	1	177,000	-	177,000	-
Capital maintenance/lease purchase	760,000	1,042,540	1,2,3	658,502	6,000	664,502	378,038
Civil defense	12,000	12,000		9,062	-	9,062	2,938
Federal programs	50,000	50,000		49,413	-	49,413	587
Flexible benefits	13,000	14,000	1	13,954	-	13,954	46
Parking fine administration	-	32,100	1	9,718	-	9,718	22,382
Parking improvement debt	32,100	-	1	-	-	-	-
Public access television	169,000	169,000		169,000	-	169,000	-
Retiree insurance	8,000,000	7,895,000	1	7,853,628	-	7,853,628	41,372
Self insurance	1,300,000	1,300,000		900,000	-	900,000	400,000
State sales tax administration	250,000	250,000		205,585	-	205,585	44,415
Street improvement program	4,952,600	4,950,600	1	4,013,585	-	4,013,585	937,015
Transfers and accruals	125,000	-	1	-	-	-	-
Other functions	457,000	585,944	1,2,3	416,532	75,000	491,532	94,412
TOTAL TRANSFERS AND OTHER FUNCTIONS	16,795,700	16,978,184		14,960,189	81,000	15,041,189	1,936,995
TOTAL EXPENDITURES AND ENCUMBRANCES	\$ 80,993,300	\$ 81,469,474		\$ 77,969,346	\$ 98,698	\$ 78,068,044	\$ 3,401,430
RECONCILIATION:							
Original budget as approved by Duluth City Council		\$ 80,993,300					
Adjustments made in accordance with Budget Ordinance							
Note 1		-		Departmental transfers made in accordance with budget ordinance			
Note 2		290,403		Encumbrance, contract, reserve, or designation carryovers from prior year			
Note 3		142,337		Grants, gifts, and donations in accordance with budget ordinance			
Note 4		43,434		Other allowable additions made in accordance with budget ordinance			
Total adjustments		476,174					
Modified budget as reported above		\$ 81,469,474					

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
YEAR ENDING DECEMBER 31, 2008

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
GENERAL GOVERNMENT:						
Legislative and Executive						
City Council	\$ 93,796	\$ 7,972	\$ 36,691	\$ -	\$ -	\$ 138,459
Mayor	170,668	45,864	12,104	-	-	228,636
Administrative Assistant	823,313	216,333	43,368	-	-	1,083,014
City Attorney	1,139,379	306,841	40,129	2,265	-	1,488,614
Human Rights	101,162	16,838	6,331	-	-	124,331
Total Legislative and Executive	2,328,318	593,848	138,623	2,265	-	3,063,054
Department of Administrative Services						
City Clerk	405,958	118,742	20,080	-	-	544,780
Management Information Systems	958,383	281,078	229,292	54,231	-	1,522,984
Facilities Management	1,107,470	319,830	1,992,741	90,737	-	3,510,778
Architect	94,459	24,313	6,251	-	-	125,023
Other functions	-	689,102	1,565,084	6,000	-	2,260,186
Total Administrative Services	2,566,270	1,433,065	3,813,448	150,968	-	7,963,751
Department of Finance						
Finance Administration	287,017	76,575	7,909	-	-	371,501
Assessor	571,367	170,889	22,453	-	-	764,709
Auditor	821,218	225,396	192,435	-	-	1,239,049
Purchasing	115,407	42,959	7,748	4,363	-	170,477
Treasurer	238,865	66,099	23,891	3,905	-	332,760
Total Department of Finance	2,033,874	581,918	254,436	8,268	-	2,878,496
Benefits						
Flexible Benefits	-	13,954	-	-	-	13,954
Retiree Insurance	-	7,853,628	-	-	-	7,853,628
Total Benefits	-	7,867,582	-	-	-	7,867,582
TOTAL GENERAL GOVERNMENT	6,928,462	10,476,413	4,206,507	161,501	-	21,772,883
PUBLIC SAFETY:						
Fire Department						
Fire Administration	226,961	112,417	42,801	-	-	382,179
Firefighting Operations	8,514,502	5,553,670	517,012	-	-	14,585,184
Fire Prevention	225,532	141,580	17,543	-	-	384,655
Building Inspection	1,402,721	430,853	138,757	-	-	1,972,331
HAZMAT	-	-	8,317	-	-	8,317
Total Fire	10,369,716	6,238,520	724,430	-	-	17,332,666
Police Department						
Administration	4,406,708	1,507,860	1,163,155	-	-	7,077,723
Police Patrol	7,334,839	2,712,985	106,261	-	-	10,154,085
Special Accounts	-	-	40,813	-	-	40,813
Total Police	11,741,547	4,220,845	1,310,229	-	-	17,272,621
Civil Defense	-	-	9,062	-	-	9,062
TOTAL PUBLIC SAFETY	22,111,263	10,459,365	2,043,721	-	-	34,614,349

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
YEAR ENDING DECEMBER 31, 2008

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
PUBLIC WORKS:						
Public Works Department						
Director's Office	35,980	9,526	228	-	-	45,734
Maintenance Division	3,000,321	887,300	3,675,211	-	-	7,562,832
Engineering	1,582,930	484,789	819,744	-	-	2,887,463
Total Public Works Department	4,619,231	1,381,615	4,495,183	-	-	10,496,029
TOTAL PUBLIC WORKS	4,619,231	1,381,615	4,495,183	-	-	10,496,029
CULTURE AND RECREATION:						
Library Department						
Library Services	2,223,609	651,594	280,101	356,044	-	3,511,348
Buildings and Equipment	129,315	44,619	21,620	-	-	195,554
Total Library Department	2,352,924	696,213	301,721	356,044	-	3,706,902
Parks and Recreation Department						
Recreation and Senior Services	901,794	225,691	119,125	105,955	-	1,352,565
Lake Superior Zoo	545,608	173,705	419,999	-	-	1,139,312
Total Parks and Recreation	1,447,402	399,396	539,124	105,955	-	2,491,877
TOTAL CULTURE AND RECREATION	3,800,326	1,095,609	840,845	461,999	-	6,198,779
URBAN AND ECONOMIC DEVELOPMENT						
Planning and Development						
Urban Development	272,554	73,894	57,966	-	-	404,414
Total Planning and Development	272,554	73,894	57,966	-	-	404,414
TOTAL URBAN AND ECONOMIC DEVELOPMENT	272,554	73,894	57,966	-	-	404,414
TRANSFERS:						
Senior Nutrition	-	-	-	-	49,413	49,413
Street Improvement Debt Service	-	-	-	-	4,013,585	4,013,585
Capital Improvements	-	-	-	-	242,894	242,894
TOTAL TRANSFERS	-	-	-	-	4,305,892	4,305,892
DEBT SERVICE:						
Capital Lease Obligation - Principal	-	-	-	125,000	-	125,000
Capital Lease Obligation - Interest	-	-	-	52,000	-	52,000
TOTAL DEBT SERVICE	-	-	-	177,000	-	177,000
TOTAL EXPENDITURES/TRANSFERS OUT	\$ 37,731,836	\$ 23,486,896	\$ 11,644,222	\$ 800,500	\$ 4,305,892	\$ 77,969,346

Proprietary Funds

NON-MAJOR PROPRIETARY FUNDS

ENTERPRISE FUNDS

Enterprise Funds account for operations that are financed and managed in a manner similar to private business enterprises--where the intent of the governing body is that the costs (including depreciation expense) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges.

Street Lighting - to account for the operation, maintenance and improvement of the City's street lighting and traffic signal systems.

Steam District #2 - to account for the generation and distribution of steam to New Page Corporation – Duluth Paper Mill and other industrial customers.

Stormwater Utility - to account for the operation and maintenance of the stormwater sewer collection system.

Golf - to account for the operations of Enger Park and Lester Park, the City's two municipal 27-hole golf courses.

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods or services provided by one department to other departments or authorities of the City, or to other governmental units, on a cost reimbursement basis.

Self-Insurance - to account for the payment of sundry insurance premiums and loss control activities, as well as the settlement of various claims, judgments and lawsuits against the City.

Group Health - to account for the collection of premiums and the payment of dental and health care costs for employees of the City and various outside agencies.

Fleet Services - to account for the costs associated with the maintenance and operation of the City's fleet of vehicles and equipment, including fuel usage, and to charge such costs back to the various City departments which own and use these assets.

Employee Vacation Compensation - to account for the funding and liability for governmental funds compensated absences and associated benefits.

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2008**

	<u>Street Lighting</u>	<u>Steam District #2</u>	<u>Stormwater</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 44,985	\$ 189,842	\$ 2,085,547	\$ -	\$ 2,320,374
Restricted assets held by trustee	-	-	-	106,733	106,733
Receivables, net:					
Accounts receivable	43,939	1,191,648	-	-	1,235,587
Assessments	-	-	13,475	-	13,475
Due from other funds	-	-	19,108	-	19,108
Interfund loan receivable	-	-	613,300	-	613,300
Due from other governments	-	-	167,983	-	167,983
Inventories	-	-	-	65,267	65,267
Prepays	-	67,502	61,701	133,450	262,653
Total current assets	<u>88,924</u>	<u>1,448,992</u>	<u>2,961,114</u>	<u>305,450</u>	<u>4,804,480</u>
Noncurrent assets:					
Issuance costs	-	-	30,834	22,916	53,750
Capital assets, net	<u>2,535,503</u>	<u>8,074,018</u>	<u>11,286,517</u>	<u>2,272,639</u>	<u>24,168,677</u>
Total noncurrent assets	<u>2,535,503</u>	<u>8,074,018</u>	<u>11,317,351</u>	<u>2,295,555</u>	<u>24,222,427</u>
Total assets	<u>2,624,427</u>	<u>9,523,010</u>	<u>14,278,465</u>	<u>2,601,005</u>	<u>29,026,907</u>
LIABILITIES					
Current liabilities:					
Accounts payable	51,615	1,265,759	34,466	2,765	1,354,605
Contracts payable	-	-	56,886	23,343	80,229
Leases payable	-	-	-	94,017	94,017
Due to other funds	38,663	-	964,314	475	1,003,452
Interfund loan payable	-	-	-	802,362	802,362
Due to other governments	-	-	16,141	-	16,141
Accrued interest payable	-	-	43,886	3,513	47,399
Accrued salaries payable	9,685	-	35,162	-	44,847
Unearned revenue	-	-	158,319	24,318	182,637
Revenue bonds payable	-	-	170,000	130,000	300,000
Total current liabilities	<u>99,963</u>	<u>1,265,759</u>	<u>1,479,174</u>	<u>1,080,793</u>	<u>3,925,689</u>
Noncurrent liabilities:					
Compensated absences	-	-	91,712	-	91,712
Leases payable	-	-	-	97,651	97,651
Revenue bonds payable	-	-	2,487,000	420,000	2,907,000
Less unamortized bond discount	-	-	(3,856)	-	(3,856)
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>2,574,856</u>	<u>517,651</u>	<u>3,092,507</u>
Total liabilities	<u>99,963</u>	<u>1,265,759</u>	<u>4,054,030</u>	<u>1,598,444</u>	<u>7,018,196</u>
NET ASSETS					
Invested in capital assets, net of related debt	2,535,503	8,074,018	8,664,207	1,530,971	20,804,699
Restricted for special accounts	-	150,000	-	105,113	255,113
Unrestricted	<u>(11,039)</u>	<u>33,233</u>	<u>1,560,228</u>	<u>(633,523)</u>	<u>948,899</u>
Total net assets	<u>\$ 2,524,464</u>	<u>\$ 8,257,251</u>	<u>\$ 10,224,435</u>	<u>\$ 1,002,561</u>	<u>\$ 22,008,711</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Street Lighting</u>	<u>Steam Dist. #2</u>	<u>Stormwater</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
OPERATING REVENUES					
Sales	\$ -	\$ -	\$ -	\$ 495,633	\$ 495,633
Charges for services	88,924	9,049,941	4,503,162	1,383,497	15,025,524
Miscellaneous revenues	-	-	11,593	400	11,993
Total operating revenues	<u>88,924</u>	<u>9,049,941</u>	<u>4,514,755</u>	<u>1,879,530</u>	<u>15,533,150</u>
OPERATING EXPENSES					
Cost of sales and services	-	-	-	282,834	282,834
Personal services	38,385	-	1,574,612	3,233	1,616,230
Supplies	6,270	1,499,495	262,868	66,529	1,835,162
Utilities	-	1,365,954	21,841	42,607	1,430,402
Other services and charges	55,308	6,184,237	682,354	1,306,272	8,228,171
Amortization	-	-	17,357	5,851	23,208
Depreciation	209,957	1,190,754	322,824	147,121	1,870,656
Total operating expenses	<u>309,920</u>	<u>10,240,440</u>	<u>2,881,856</u>	<u>1,854,447</u>	<u>15,286,663</u>
Operating income	<u>(220,996)</u>	<u>(1,190,499)</u>	<u>1,632,899</u>	<u>25,083</u>	<u>246,487</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	-	453	62,128	3,368	65,949
Intergovernmental revenue	-	-	48,743	-	48,743
Gain (Loss) on sale or disposition of capital assets	-	-	160	-	160
Interest expense	-	-	(107,034)	(32,427)	(139,461)
Total non-operating revenue (expenses)	<u>-</u>	<u>453</u>	<u>3,997</u>	<u>(29,059)</u>	<u>(24,609)</u>
Income before transfers	(220,996)	(1,190,046)	1,636,896	(3,976)	221,878
Capital contributions	2,745,460	1,174,076	-	-	3,919,536
Transfers in	-	-	9,000	-	9,000
Transfers out	-	-	(537,008)	-	(537,008)
Change in net assets	2,524,464	(15,970)	1,108,888	(3,976)	3,613,406
Total net assets - January 1, 2008	<u>-</u>	<u>8,273,221</u>	<u>9,115,547</u>	<u>1,006,537</u>	<u>18,395,305</u>
Total net assets - December 31, 2008	<u>\$ 2,524,464</u>	<u>\$ 8,257,251</u>	<u>\$ 10,224,435</u>	<u>\$ 1,002,561</u>	<u>\$ 22,008,711</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Street Lighting</u>	<u>Steam District #2</u>	<u>Stormwater</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 44,985	\$ 9,197,835	\$ 4,539,119	\$ 1,907,666	\$ 15,689,605
Cash paid to suppliers	-	(9,400,725)	(926,954)	(1,717,803)	(12,045,482)
Cash paid to employees	-	-	(1,624,665)	(3,233)	(1,627,898)
Net cash provided (used) by operating activities	<u>44,985</u>	<u>(202,890)</u>	<u>1,987,500</u>	<u>186,630</u>	<u>2,016,225</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	-	-	(535,305)	-	(535,305)
Operating grants	-	-	39,606	-	39,606
Interfund financing	-	-	(613,300)	68,732	(544,568)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>(1,108,999)</u>	<u>68,732</u>	<u>(1,040,267)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants and contributions	-	1,174,076	-	-	1,174,076
Interest received on capital	-	453	-	-	453
Principal paid on bonds, notes and capitalized leases	-	-	(168,000)	(90,402)	(258,402)
Interest paid on bonds, notes and capitalized leases	-	-	(109,298)	(10,446)	(119,744)
Transfer to trustee debt service account	-	-	-	(141,201)	(141,201)
Special assessments received	-	-	4,812	-	4,812
Sale of capital assets	-	-	160	-	160
Acquisition or construction of capital assets	-	(1,174,076)	(334,146)	(13,313)	(1,521,535)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>453</u>	<u>(606,472)</u>	<u>(255,362)</u>	<u>(861,381)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment interest	-	-	62,128	-	62,128
Net increase (decrease) in cash and cash equivalents	44,985	(202,437)	334,157	-	176,705
Cash and cash equivalents - January 1, 2008	-	392,279	1,751,390	-	2,143,669
Cash and cash equivalents - December 31, 2008	<u>\$ 44,985</u>	<u>\$ 189,842</u>	<u>\$ 2,085,547</u>	<u>\$ -</u>	<u>\$ 2,320,374</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	\$ (220,996)	\$ (1,190,499)	\$ 1,632,899	\$ 25,083	\$ 246,487
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	209,957	1,190,754	340,181	152,972	1,893,864
Change in assets and liabilities:					
Decrease (increase) in receivables	(43,939)	147,894	(56,092)	31,922	79,785
Decrease (increase) in inventory	-	-	-	2,036	2,036
Decrease (increase) in prepaid items	-	3,378	-	(49,026)	(45,648)
Increase (decrease) in payables	99,963	(354,417)	39,922	23,643	(190,889)
Increase (decrease) in deferred revenues	-	-	30,590	-	30,590
Total adjustments	<u>265,981</u>	<u>987,609</u>	<u>354,601</u>	<u>161,547</u>	<u>1,769,738</u>
Net cash provided (used) by operating activities	<u>\$ 44,985</u>	<u>\$ (202,890)</u>	<u>\$ 1,987,500</u>	<u>\$ 186,630</u>	<u>\$ 2,016,225</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Golf

The trustee debt service account paid \$125,000 and \$23,185 for principal and interest payments, respectively, and earned \$3,368 in interest.

Street Lighting

Contributions of capital assets net of debt from government, \$2,745,460.

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
DECEMBER 31, 2008

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,709,840	\$ 9,774,206	\$ 291,125	\$ 3,004,480	\$ 14,779,651
Accounts receivable, net	800	60,329	-	-	61,129
Due from other funds	-	132,250	266,557	66,768	465,575
Due from component units	287,164	27,806	-	-	314,970
Inventories	-	-	218,666	-	218,666
	<u>1,997,804</u>	<u>9,994,591</u>	<u>776,348</u>	<u>3,071,248</u>	<u>15,839,991</u>
Total current assets					
Capital assets, net	-	-	469,258	-	469,258
Total assets	<u>1,997,804</u>	<u>9,994,591</u>	<u>1,245,606</u>	<u>3,071,248</u>	<u>16,309,249</u>
LIABILITIES					
Current liabilities:					
Accounts payable	338	-	147,766	-	148,104
Contracts payable	2,935	-	-	-	2,935
Claims payable	226,082	1,317,510	-	-	1,543,592
Leases payable	-	-	41,710	-	41,710
Due to other funds	35,245	-	300,000	29,742	364,987
Due to other governments	16,186	-	402	-	16,588
Accrued interest payable	26,583	-	1,295	-	27,878
Accrued salaries payable	2,280	-	28,482	-	30,762
Unearned revenue	-	11,088	-	-	11,088
	<u>309,649</u>	<u>1,328,598</u>	<u>519,655</u>	<u>29,742</u>	<u>2,187,644</u>
Total current liabilities					
Noncurrent liabilities:					
Claims payable	1,320,540	-	-	-	1,320,540
Compensated absences	-	-	106,165	3,041,506	3,147,671
Leases payable	-	-	113,749	-	113,749
	<u>1,320,540</u>	<u>-</u>	<u>219,914</u>	<u>3,041,506</u>	<u>4,581,960</u>
Total noncurrent liabilities					
Total liabilities	<u>1,630,189</u>	<u>1,328,598</u>	<u>739,569</u>	<u>3,071,248</u>	<u>6,769,604</u>
NET ASSETS					
Invested in capital assets, net of related debt	-	-	313,799	-	313,799
Unrestricted	367,615	8,665,993	192,238	-	9,225,846
Total net assets	<u>\$ 367,615</u>	<u>\$ 8,665,993</u>	<u>\$ 506,037</u>	<u>\$ -</u>	<u>\$ 9,539,645</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Self Insurance</u>	<u>Group Health</u>	<u>Fleet Services</u>	<u>Employee Vacation Compensation</u>	<u>Total Governmental Activities- Internal Service Funds</u>
OPERATING REVENUES					
Sales	\$ -	\$ -	\$ 2,138,375	\$ -	\$ 2,138,375
Charges for services	2,035,699	19,713,907	1,548,393	3,041,506	26,339,505
Miscellaneous revenues	75,627	847,983	1,371	-	924,981
Total operating revenues	<u>2,111,326</u>	<u>20,561,890</u>	<u>3,688,139</u>	<u>3,041,506</u>	<u>29,402,861</u>
OPERATING EXPENSES					
Cost of sales and services	-	-	1,872,811	-	1,872,811
Personal services	342,032	-	1,288,181	3,041,506	4,671,719
Supplies	-	-	70,029	-	70,029
Other services and charges	680,548	1,447,085	314,038	-	2,441,671
Depreciation	-	-	50,841	-	50,841
Medical and insurance	912,434	16,140,215	-	-	17,052,649
Total operating expenses	<u>1,935,014</u>	<u>17,587,300</u>	<u>3,595,900</u>	<u>3,041,506</u>	<u>26,159,720</u>
Operating income	<u>176,312</u>	<u>2,974,590</u>	<u>92,239</u>	<u>-</u>	<u>3,243,141</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	27,477	222,821	-	94,712	345,010
Intergovernmental revenue	-	-	5,836	-	5,836
Interest expense	-	-	(12,667)	-	(12,667)
Total non-operating revenue (expenses)	<u>27,477</u>	<u>222,821</u>	<u>(6,831)</u>	<u>94,712</u>	<u>338,179</u>
Income before transfers	203,789	3,197,411	85,408	94,712	3,581,320
Transfers out	<u>(27,477)</u>	<u>(192,759)</u>	<u>(300,000)</u>	<u>(94,712)</u>	<u>(614,948)</u>
Change in net assets	176,312	3,004,652	(214,592)	-	2,966,372
Total net assets - January 1, 2008	<u>191,303</u>	<u>5,661,341</u>	<u>720,629</u>	<u>-</u>	<u>6,573,273</u>
Total net assets - December 31, 2008	<u>\$ 367,615</u>	<u>\$ 8,665,993</u>	<u>\$ 506,037</u>	<u>\$ -</u>	<u>\$ 9,539,645</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Self Insurance</u>	<u>Group Health</u>	<u>Fleet Services</u>	<u>Employee Vacation Compensation</u>	<u>Total Governmental Activities- Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 1,972,785	\$ 20,373,830	\$ 3,796,575	\$ 2,610,594	\$ 28,753,784
Cash paid to suppliers	(1,741,031)	(17,591,537)	(2,342,533)	-	(21,675,101)
Cash paid to employees	-	-	(1,317,469)	(3,004,480)	(4,321,949)
Other operating revenues	-	-	1,371	-	1,371
Net cash provided (used) by operating activities	<u>231,754</u>	<u>2,782,293</u>	<u>137,944</u>	<u>(393,886)</u>	<u>2,758,105</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(27,477)	(192,759)	-	-	(220,236)
Operating grants	-	-	5,836	-	5,836
Interfund financing	-	-	-	(94,712)	(94,712)
Net cash provided (used) by noncapital	<u>(27,477)</u>	<u>(192,759)</u>	<u>5,836</u>	<u>(94,712)</u>	<u>(309,112)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on bonds, notes and capitalized leases	-	-	(37,540)	-	(37,540)
Interest paid on bonds, notes and capitalized leases	-	-	(13,785)	-	(13,785)
Acquisition or construction of capital assets	-	-	(34,942)	-	(34,942)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(86,267)</u>	<u>-</u>	<u>(86,267)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment interest	<u>27,477</u>	<u>222,821</u>	<u>-</u>	<u>94,712</u>	<u>345,010</u>
Net increase (decrease) in cash and cash equivalents	231,754	2,812,355	57,513	(393,886)	2,707,736
Cash and cash equivalents - January 1, 2008	<u>1,478,086</u>	<u>6,961,851</u>	<u>233,612</u>	<u>3,398,366</u>	<u>12,071,915</u>
Cash and cash equivalents - December 31, 2008	<u>\$ 1,709,840</u>	<u>\$ 9,774,206</u>	<u>\$ 291,125</u>	<u>\$ 3,004,480</u>	<u>\$ 14,779,651</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	<u>\$ 176,312</u>	<u>\$ 2,974,590</u>	<u>\$ 92,239</u>	<u>\$ -</u>	<u>\$ 3,243,141</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	-	-	50,841	-	50,841
Change in assets and liabilities:					
Decrease (increase) in receivables	(138,541)	(172,258)	157,645	(61,560)	(214,714)
Decrease (increase) in inventory	-	-	(10,736)	-	(10,736)
Increase (decrease) in payables	193,983	(4,237)	(152,045)	(332,326)	(294,625)
Increase (decrease) in deferred revenues	-	(15,802)	-	-	(15,802)
Total adjustments	<u>55,442</u>	<u>(192,297)</u>	<u>45,705</u>	<u>(393,886)</u>	<u>(485,036)</u>
Net cash provided (used) by operating activities	<u>\$ 231,754</u>	<u>\$ 2,782,293</u>	<u>\$ 137,944</u>	<u>\$ (393,886)</u>	<u>\$ 2,758,105</u>

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Fiduciary Funds

FIDUCIARY FUNDS

AGENCY FUNDS

Agency Funds account for assets held by the City as an agent for private organizations and another governmental unit.

Duluth 1200 Loan - to account for monies received from various sources for the establishment of a venture capital fund managed by an independent non-profit corporation.

Duluth Public Arts - to account for the proceeds of various fund-raising activities sponsored by the Duluth Public Arts Commission, to be used for art in public places and art projects.

Seaway Port Authority - to account for property tax revenues used for the operation of the Duluth port terminal.

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance 01/01/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/08</u>
<u>DULUTH 1200 FUND</u>				
ASSETS				
Cash and cash equivalents	\$ 1,813,037	\$ 474,760	\$ 196,267	\$ 2,091,530
Loans receivable	1,723,890	64	258,027	1,465,927
Other assets	349,232	1,999	1,711	349,520
Total assets	<u>\$ 3,886,159</u>	<u>\$ 476,823</u>	<u>\$ 456,005</u>	<u>\$ 3,906,977</u>
LIABILITIES				
Accounts payable	\$ 970	\$ 13,178	\$ 14,068	\$ 80
Due to agency	3,885,189	58,778	37,070	3,906,897
Total liabilities	<u>\$ 3,886,159</u>	<u>\$ 71,956</u>	<u>\$ 51,138</u>	<u>\$ 3,906,977</u>
<u>DULUTH PUBLIC ARTS</u>				
ASSETS				
Cash and cash equivalents	\$ 15,241	\$ 54,341	\$ 42,270	\$ 27,312
Accounts receivable	2,310	-	2,310	-
Total assets	<u>\$ 17,551</u>	<u>\$ 54,341</u>	<u>\$ 44,580</u>	<u>\$ 27,312</u>
LIABILITIES				
Accounts payable	\$ 2	\$ 49,109	\$ 49,111	\$ -
Due to agency	17,549	52,031	42,268	27,312
Total liabilities	<u>\$ 17,551</u>	<u>\$ 101,140</u>	<u>\$ 91,379</u>	<u>\$ 27,312</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Balance 01/01/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/08</u>
<u>SEAWAY PORT AUTHORITY</u>				
ASSETS				
Cash and cash equivalents	\$ 43,275	\$ 437,542	\$ 441,744	\$ 39,073
Taxes receivable	9,279	373	9,647	5
Total assets	<u>\$ 52,554</u>	<u>\$ 437,915</u>	<u>\$ 451,391</u>	<u>\$ 39,078</u>
LIABILITIES				
Due to other governments	<u>\$ 52,554</u>	<u>\$ 909,181</u>	<u>\$ 922,657</u>	<u>\$ 39,078</u>
 <u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 1,871,553	\$ 966,643	\$ 680,281	\$ 2,157,915
Accounts receivable	2,310	-	2,310	-
Taxes receivable	9,279	373	9,647	5
Loans receivable	1,723,890	64	258,027	1,465,927
Other assets	349,232	1,999	1,711	349,520
Total assets	<u>\$ 3,956,264</u>	<u>\$ 969,079</u>	<u>\$ 951,976</u>	<u>\$ 3,973,367</u>
LIABILITIES				
Accounts payable	\$ 972	\$ 62,287	\$ 63,179	\$ 80
Due to other governments	52,554	909,181	922,657	39,078
Due to agency	3,902,738	110,809	79,338	3,934,209
Total liabilities	<u>\$ 3,956,264</u>	<u>\$ 1,082,277</u>	<u>\$ 1,065,174</u>	<u>\$ 3,973,367</u>

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Supplementary Information

**CITY OF DULUTH, MINNESOTA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY SOURCE*
 DECEMBER 31, 2008**

Governmental funds capital assets:

Land	\$ 22,145,743
Buildings and structures	75,467,857
Equipment	22,638,734
Infrastructure	244,638,963
Construction in Progress	<u>19,405,054</u>

Total governmental funds capital assets **\$ 384,296,351**

Investments in governmental funds capital assets by source:

General fund	\$ 14,016,894
Special revenue fund	21,883,640
Capital projects fund	346,528,427
Donations	<u>1,867,390</u>

Total governmental funds capital assets **\$ 384,296,351**

** This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.*

**CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY*
DECEMBER 31, 2008**

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings and Structures</u>	<u>Equipment</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
General Government						
Legislative and Executive	\$ -	\$ -	\$ 22,960	\$ -	\$ -	\$ 22,960
Planning and Development	3,069,011	27,164,440	2,540,180	-	1,035,596	33,809,227
Finance	-	-	274,842	-	-	274,842
Administrative Services	-	-	1,333,272	-	-	1,333,272
Facilities Management	1,636,325	11,563,983	593,559	9,504,427	5,385	23,303,679
Total General Government	<u>4,705,336</u>	<u>38,728,423</u>	<u>4,764,813</u>	<u>9,504,427</u>	<u>1,040,981</u>	<u>58,743,980</u>
Public Safety						
Police	2,000	2,045,142	3,520,475	-	468,907	6,036,524
Fire	83,006	2,559,291	5,129,190	-	-	7,771,487
Total Public Safety	<u>85,006</u>	<u>4,604,433</u>	<u>8,649,665</u>	<u>-</u>	<u>468,907</u>	<u>13,808,011</u>
Public Works						
Street and Park Maintenance	5,200,050	2,779,707	7,167,952	233,823,616	16,022,834	264,994,159
Engineering	-	-	1,076,913	-	-	1,076,913
Total Public Works	<u>5,200,050</u>	<u>2,779,707</u>	<u>8,244,865</u>	<u>233,823,616</u>	<u>16,022,834</u>	<u>266,071,072</u>
Culture and Recreation						
Libraries	51,585	7,545,987	385,247	-	-	7,982,819
Parks and Recreation	12,103,767	21,809,306	594,144	1,310,920	1,872,332	37,690,469
Total Culture and Recreation	<u>12,155,352</u>	<u>29,355,293</u>	<u>979,391</u>	<u>1,310,920</u>	<u>1,872,332</u>	<u>45,673,288</u>
Total Governmental Funds Capital Assets	<u>\$ 22,145,743</u>	<u>\$ 75,467,857</u>	<u>\$ 22,638,734</u>	<u>\$ 244,638,963</u>	<u>\$ 19,405,054</u>	<u>\$ 384,296,351</u>

* This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF DULUTH, MINNESOTA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY*
 YEAR ENDED DECEMBER 31, 2008

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets 01/01/08</u>	<u>Transfers</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental Funds Capital Assets 12/31/08</u>
General Government					
Legislative and Executive	\$ 22,960	\$ -	-	-	\$ 22,960
Planning and Development	32,929,336	20,940	1,035,596	176,645	33,809,227
Finance	274,842	-	-	-	274,842
Administrative Services	1,333,272	-	-	-	1,333,272
Facilities Management	23,594,554	-	39,349	330,224	23,303,679
Total General Government	<u>58,154,964</u>	<u>20,940</u>	<u>1,074,945</u>	<u>506,869</u>	<u>58,743,980</u>
Public Safety					
Police	5,373,801	(40,810)	2,569,963	1,866,430	6,036,524
Fire	7,790,962	-	-	19,475	7,771,487
Total Public Safety	<u>13,164,763</u>	<u>(40,810)</u>	<u>2,569,963</u>	<u>1,885,905</u>	<u>13,808,011</u>
Public Works					
Street and Park Maintenance	260,518,495	(30,753)	23,288,942	18,782,524	264,994,159
Engineering	1,141,634	25,425	100,289	190,435	1,076,913
Total Public Works	<u>261,660,129</u>	<u>(5,328)</u>	<u>23,389,231</u>	<u>18,972,959</u>	<u>266,071,072</u>
Culture and Recreation					
Libraries	7,978,799	-	24,119	20,099	7,982,819
Parks and Recreation	36,648,554	(10,282)	1,489,758	437,561	37,690,469
Total Culture and Recreation	<u>44,627,353</u>	<u>(10,282)</u>	<u>1,513,877</u>	<u>457,660</u>	<u>45,673,288</u>
Total Governmental Funds Capital Assets	<u>\$ 377,607,209</u>	<u>\$ (35,480)</u>	<u>28,548,016</u>	<u>\$ 21,823,393</u>	<u>\$ 384,296,351</u>

* This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2008

	Issue Amount	Issue Date	Final Maturity	Jan 1 Balance
Governmental Activities:				
General Obligation Bonds Payable -				
General Obligation				
Duluth Transit Authority	\$ 525,000	9/1/1997	2/1/2008	\$ 65,000
Street Overlay (60%) Refunding	639,000	5/1/1998	2/1/2008	75,000
West Michigan Street Improvements	1,745,000	12/1/1998	2/1/2014	960,000
Great Lakes Aquarium	2,475,000	12/1/1999	2/1/2010	925,000
Bayfront Festival Park	3,135,000	4/1/2001	2/1/2011	1,620,000
Duluth Transit Authority	615,000	9/1/2001	2/1/2011	300,000
Airport Improvement	3,400,000	2/1/2002	2/1/2017	2,700,000
Leif Erickson Park Tax Increment (80%) Refunding	508,000	9/1/2002	2/1/2008	92,000
Duluth Entertainment and Convention Center Authority Refunding	2,405,000	3/1/2003	2/1/2010	1,085,000
Bayfront Festival Park Improvement	425,000	12/1/2003	2/1/2012	280,000
Improvement	800,000	3/1/2004	2/1/2014	640,000
Airpark Improvement	945,000	9/1/2004	2/1/2020	850,000
Capital Improvement	1,255,000	6/1/2005	2/1/2015	1,135,000
Lake Superior Center Refunding	1,765,000	12/19/2005	2/1/2017	1,640,000
Zoo Refunding Issue	1,485,000	12/19/2005	2/1/2012	1,240,000
Capital Improvement	895,000	9/7/2006	2/1/2016	895,000
Capital Improvement	1,240,000	12/13/2007	2/1/2017	1,240,000
Duluth Entertainment and Convention Center Authority Refunding	3,760,000	12/13/2007	2/1/2014	3,760,000
Aerial Lift Bridge Improvement	1,475,000	8/7/2008	2/1/2019	-
Duluth Entertainment and Convention Center Improvement	40,635,000	8/7/2008	2/1/2034	-
Capital Improvement	1,600,000	12/9/2008	2/1/2018	-
Total General Obligation				<u>\$ 19,502,000</u>
General Obligation - Tax Increment				
Leif Erickson Park Tax Increment (20%) Refunding	\$ 127,000	9/1/2002	2/1/2008	\$ 23,000
General Obligation - Tax Abatement				
Lake Walk Homes Tax Abatement Bonds	\$ 310,000	10/1/2005	2/1/2021	\$ 310,000
Total General Obligation Bonds Payable				<u>\$ 19,835,000</u>
Revenue Bonds Payable -				
Tax Increment Revenue Bonds Payable -				
Cirrus Tax Increment Revenue	\$ 645,000	3/1/1994	2/1/2012	\$ 215,000
Tax Increment Revenue Refunding	4,149,906	4/15/1998	8/1/2008	311,192
Tax Increment Revenue Refunding	8,001,533	5/4/1999	8/1/2008	713,810
Total Tax Increment Revenue Bonds Payable				<u>\$ 1,240,002</u>
Lease Revenue Bonds Payable -				
Artspace Community Center Refunding	\$ 1,380,000	2/7/2007	8/1/2014	\$ 1,250,000
Total Revenue Bonds Payable				<u>\$ 2,490,002</u>
Special Assessment Debt with Government Commitment -				
Street Overlay (40%) Refunding	\$ 426,000	5/1/1998	2/1/2008	\$ 50,000
General Obligation Improvement	1,005,000	12/1/1998	2/1/2015	610,000
Street Improvement	6,675,000	6/1/1999	2/1/2015	3,900,000
General Obligation Improvement	1,220,000	12/1/1999	2/1/2015	765,000
General Obligation Improvement	1,405,000	4/1/2001	2/1/2016	940,000
Street Improvement	4,800,000	9/1/2001	2/1/2016	3,380,000
Street Improvement	3,860,000	9/1/2002	2/1/2018	2,960,000
General Obligation Improvement Refunding	1,080,000	9/1/2002	2/1/2008	170,000
General Obligation Improvement	2,220,000	12/1/2002	2/1/2018	1,755,000
Street Improvement Refunding	3,118,400	3/1/2003	2/1/2010	1,369,500
Street Improvement Refunding	818,000	3/1/2003	2/1/2010	359,300
General Obligation Improvement Refunding	583,600	3/1/2003	2/1/2010	256,200
Street Improvement	5,035,000	9/1/2003	2/1/2019	4,205,000
General Obligation Improvement	2,010,000	12/1/2003	2/1/2019	1,695,000
Street Improvement	4,785,000	9/1/2004	2/1/2020	4,265,000
General Obligation Improvement	2,275,000	6/1/2005	2/1/2020	2,150,000
Street Improvement	4,260,000	10/1/2005	2/1/2021	4,060,000
General Obligation Improvement Refunding	200,000	12/19/2005	2/1/2008	105,000
Street Improvement Refunding	2,820,000	12/19/2005	2/1/2012	2,410,000
General Obligation Improvement	1,985,000	9/7/2006	2/1/2021	1,985,000
Street Improvement	3,355,000	9/7/2006	2/1/2022	3,355,000
Street Improvement Refunding	2,395,000	12/19/2006	2/1/2012	2,395,000
Street Improvement Refunding	3,445,000	12/19/2006	2/1/2014	3,445,000
Street Improvement Refunding	3,190,000	12/19/2006	2/1/2016	3,190,000
Street Improvement	2,285,000	12/13/2007	2/1/2023	2,285,000
Street Improvement	2,320,000	8/7/2008	2/1/2024	-
Street Improvement Refunding	3,055,000	12/9/2008	2/1/2015	-
Total Special Assessment Debt with Government Commitment				<u>\$ 52,060,000</u>
General Obligation Certificates Payable -				
Equipment	\$ 1,200,000	12/19/2003	12/19/2008	\$ 250,000
Equipment	1,355,000	12/20/2004	12/20/2009	560,000
Equipment	1,110,000	12/19/2005	12/19/2010	690,000
Equipment	1,785,000	12/19/2006	2/1/2012	1,785,000
Equipment	1,985,000	12/13/2007	2/1/2013	1,985,000
Equipment	2,515,000	12/9/2008	2/1/2014	-
Total General Obligation Certificates Payable				<u>\$ 5,270,000</u>
Total Governmental Activities Bonds and Certificates Payable				<u>\$ 79,655,002</u>

(Continued)

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2008

	Issued	Retired	Dec 31 Balance	Principal Due in 2009	Interest Due in 2009
Governmental Activities:					
General Obligation Bonds Payable -					
General Obligation					
Duluth Transit Authority	\$ -	\$ 65,000	\$ -	\$ -	\$ -
Street Overlay (60%) Refunding	-	75,000	-	-	-
West Michigan Street Improvements	-	120,000	840,000	125,000	34,865
Great Lakes Aquarium	-	295,000	630,000	305,000	23,240
Bayfront Festival Park	-	350,000	1,270,000	445,000	43,506
Duluth Transit Authority	-	70,000	230,000	75,000	7,733
Airport Improvement	-	200,000	2,500,000	215,000	144,415
Leif Erickson Park Tax Increment (80%) Refunding	-	92,000	-	-	-
Duluth Entertainment and Convention Center Authority Refunding	-	355,000	730,000	360,000	16,870
Bayfront Festival Park Improvement	-	50,000	230,000	55,000	6,730
Improvement	-	85,000	555,000	85,000	15,130
Airpark Improvement	-	50,000	800,000	50,000	29,403
Capital Improvement	-	125,000	1,010,000	130,000	32,093
Lake Superior Center Refunding	-	135,000	1,505,000	145,000	54,491
Zoo Refunding Issue	-	245,000	995,000	245,000	31,263
Capital Improvement	-	85,000	810,000	85,000	30,700
Capital Improvement	-	-	1,240,000	115,000	47,300
Duluth Entertainment and Convention Center Authority Refunding	-	-	3,760,000	545,000	139,500
Aerial Lift Bridge Improvement	1,475,000	-	1,475,000	-	55,268
Duluth Entertainment and Convention Center Improvement	40,635,000	-	40,635,000	-	1,903,475
Capital Improvement	1,600,000	-	1,600,000	-	37,136
Total General Obligation	\$ 43,710,000	\$ 2,397,000	\$ 60,815,000	\$ 2,980,000	\$ 2,653,118
General Obligation - Tax Increment					
Leif Erickson Park Tax Increment (20%) Refunding	\$ -	\$ 23,000	\$ -	\$ -	\$ -
General Obligation - Tax Abatement					
Lake Walk Homes Tax Abatement Bonds	\$ -	\$ -	\$ 310,000	\$ -	\$ 12,230
Total General Obligation Bonds Payable	\$ 43,710,000	\$ 2,420,000	\$ 61,125,000	\$ 2,980,000	\$ 2,665,348
Revenue Bonds Payable -					
Tax Increment Revenue Bonds Payable -					
Cirrus Tax Increment Revenue	\$ -	\$ 40,000	\$ 175,000	\$ 40,000	\$ 12,400
Tax Increment Revenue Refunding	-	311,192	-	-	-
Tax Increment Revenue Refunding	-	713,810	-	-	-
Total Tax Increment Revenue Bonds Payable	\$ -	\$ 1,065,002	\$ 175,000	\$ 40,000	\$ 12,400
Lease Revenue Bonds Payable -					
Artspace Community Center Refunding	\$ -	\$ 125,000	\$ 1,125,000	\$ 130,000	\$ 45,000
Total Revenue Bonds Payable	\$ -	\$ 1,190,002	\$ 1,300,000	\$ 170,000	\$ 57,400
Special Assessment Debt with Government Commitment -					
Street Overlay (40%) Refunding	\$ -	\$ 50,000	\$ -	\$ -	\$ -
General Obligation Improvement	-	70,000	540,000	70,000	22,825
Street Improvement	-	3,900,000	-	-	-
General Obligation Improvement	-	80,000	685,000	85,000	32,813
General Obligation Improvement	-	85,000	855,000	90,000	36,695
Street Improvement	-	285,000	3,095,000	295,000	128,128
Street Improvement	-	215,000	2,745,000	220,000	105,664
General Obligation Improvement Refunding	-	170,000	-	-	-
General Obligation Improvement	-	130,000	1,625,000	135,000	65,784
Street Improvement Refunding	-	448,500	921,000	455,300	21,266
Street Improvement Refunding	-	117,600	241,700	119,500	5,581
General Obligation Improvement Refunding	-	83,900	172,300	85,200	3,978
Street Improvement	-	280,000	3,925,000	290,000	150,986
General Obligation Improvement	-	115,000	1,580,000	115,000	57,790
Street Improvement	-	250,000	4,015,000	260,000	151,336
General Obligation Improvement	-	130,000	2,020,000	130,000	74,938
Street Improvement	-	225,000	3,835,000	230,000	147,514
General Obligation Improvement Refunding	-	105,000	-	-	-
Street Improvement Refunding	-	445,000	1,965,000	465,000	69,300
General Obligation Improvement	-	105,000	1,880,000	110,000	73,000
Street Improvement	-	150,000	3,205,000	170,000	124,800
Street Improvement Refunding	-	430,000	1,965,000	460,000	69,400
Street Improvement Refunding	-	420,000	3,025,000	455,000	110,144
Street Improvement Refunding	-	300,000	2,890,000	320,000	109,200
Street Improvement	-	-	2,285,000	105,000	87,669
Street Improvement	2,320,000	-	2,320,000	-	96,940
Street Improvement Refunding	3,055,000	-	3,055,000	-	71,557
Total Special Assessment Debt with Government Commitment	\$ 5,375,000	\$ 8,590,000	\$ 48,845,000	\$ 4,665,000	\$ 1,817,308
General Obligation Certificates Payable -					
Equipment	\$ -	\$ 250,000	\$ -	\$ -	\$ -
Equipment	-	275,000	285,000	285,000	9,263
Equipment	-	220,000	470,000	230,000	18,800
Equipment	-	325,000	1,460,000	345,000	46,672
Equipment	-	-	1,985,000	360,000	81,963
Equipment	2,515,000	-	2,515,000	-	66,555
Total General Obligation Certificates Payable	\$ 2,515,000	\$ 1,070,000	\$ 6,715,000	\$ 1,220,000	\$ 223,253
Total Governmental Activities Bonds and Certificates Payable	\$ 51,600,000	\$ 13,270,002	\$117,985,000	\$ 9,035,000	\$ 4,763,309

(Continued)

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2008

	Issue Amount	Issue Date	Final Maturity	Jan 1 Balance
Business-type Activities:				
Revenue Bonds Payable -				
Golf Fund -				
Revenue Recreation Facility Refunding	\$ 1,040,000	12/14/2004	12/1/2012	\$ 675,000
Revenue and General Obligation Bonds Payable-				
Parking Fund -				
Parking Improvement Tax Increment	\$ 310,000	6/1/1999	2/1/2015	\$ 190,000
Technology Village Parking Ramp Tax Increment	3,590,000	6/1/1999	2/1/2015	2,320,000
Medical District	12,785,000	12/16/2005	2/1/2026	12,785,000
Techonology Village & Parking Improvement	1,965,000	12/9/2008	2/1/2015	-
Total Parking Fund				\$ 15,295,000
Water Fund -				
Water Utility Revenue and General Obligation Refunding	\$ 2,455,000	9/1/1997	2/1/2008	\$ 295,000
Water Utility Revenue and General Obligation	1,690,000	9/1/2002	2/1/2018	1,330,000
Water Utility Revenue and General Obligation	1,385,000	12/1/2002	2/1/2018	1,085,000
Water Utility Revenue and General Obligation Refunding	625,000	3/1/2003	2/1/2010	280,000
Water Utility Revenue and General Obligation	1,120,000	12/19/2006	2/1/2022	1,120,000
Water Utility Revenue and General Obligation Refunding	950,000	12/13/2007	2/1/2016	950,000
Total Water Fund				\$ 5,060,000
Gas Fund -				
Gas Utility Revenue and General Obligation	\$ 5,300,000	12/1/2001	2/1/2017	\$ 3,885,000
Gas Utility Revenue and General Obligation	2,132,000	9/1/2002	2/1/2018	1,676,000
Gas Utility Revenue and General Obligation	1,425,000	12/1/2002	2/1/2018	1,125,000
Gas Utility Revenue and General Obligation	6,090,000	12/1/2003	2/1/2019	5,145,000
Gas Utility Revenue and General Obligation	1,190,000	12/19/2006	2/1/2022	1,190,000
Total Gas Fund				\$ 13,021,000
Steam District #1 Fund -				
Steam Utility Revenue and General Obligation	\$ 310,000	12/1/1998	2/1/2009	\$ 70,000
Steam Utility Revenue and General Obligation	325,000	12/1/2000	2/1/2011	150,000
Steam Utility Revenue and General Obligation	345,000	12/1/2002	2/1/2012	195,000
Steam Utility Revenue and General Obligation	2,250,000	9/1/2003	2/1/2023	2,025,000
Steam Utility Revenue and General Obligation	1,250,000	6/1/2005	2/1/2020	1,180,000
Steam Utility Revenue and General Obligation	4,525,000	12/19/2006	2/1/2022	4,525,000
Total Steam District # 1 Fund				\$ 8,145,000
Sewer Fund -				
Sewer Utility Revenue and General Obligation Refunding	\$ 530,000	5/1/1998	2/1/2008	\$ 75,000
Sewer Utility Revenue and General Obligation	1,080,000	12/1/1998	2/1/2009	255,000
Sewer Utility Revenue and General Obligation	1,330,000	12/1/2001	2/1/2017	970,000
Sewer Utility Revenue and General Obligation	2,003,000	9/1/2002	2/1/2018	1,574,000
Sewer Utility Revenue and General Obligation	1,825,000	12/1/2002	2/1/2018	1,435,000
Sewer Utility Revenue and General Obligation Refunding	1,240,000	3/1/2003	2/1/2010	565,000
Sewer Utility Revenue and General Obligation	4,045,000	12/1/2004	2/1/2020	3,630,000
Sewer Utility Revenue and General Obligation	3,515,000	12/19/2005	2/1/2021	3,355,000
Sewer Utility Revenue and General Obligation	945,000	12/19/2006	2/1/2022	945,000
Sewer Utility Revenue and General Obligation	2,120,000	12/13/2007	2/1/2023	2,120,000
Sewer Utility Revenue and General Obligation Refunding	1,325,000	12/13/2007	2/1/2016	1,325,000
Total Sewer Fund				\$ 16,249,000
Stormwater Fund:				
Stormwater Utility Revenue	\$ 1,425,000	9/1/2002	2/1/2018	\$ 1,120,000
Stormwater Utility Revenue	1,705,000	9/7/2006	2/1/2022	1,705,000
Total Stormwater Fund				\$ 2,825,000
Total Revenue and General Obligation Bonds Payable				\$ 60,595,000
Total Business-type Activities Bonds Payable				\$ 61,270,000
Component Units:				
Spirit Mountain Recreation Area				
Revenue Bonds Payable				
Spirit Mountain Recreation Area	\$ 1,646,750	3/31/2003	12/1/2012	\$ 1,167,820
Duluth Entertainment and Convention Center Authority				
General Obligation Bonds Payable -				
Duluth Entertainment and Convention Center Refunding	\$ 6,970,000	4/1/2001	12/1/2011	\$ 2,910,000
Total Component Units Bonds Payable				\$ 4,077,820

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2008

	Issued	Retired	Dec 31 Balance	Principal Due in 2009	Interest Due in 2009
Business-type Activities:					
Revenue Bonds Payable -					
Golf Fund -					
Revenue Recreation Facility Refunding	\$ -	\$ 125,000	\$ 550,000	\$ 130,000	\$ 19,435
Revenue and General Obligation Bonds Payable-					
Parking Fund -					
Parking Improvement Tax Increment	\$ -	\$ 190,000	\$ -	\$ -	\$ -
Technology Village Parking Ramp Tax Increment	-	2,320,000	-	-	-
Medical District	-	410,000	12,375,000	430,000	648,875
Technology Village & Parking Improvement	1,965,000	-	1,965,000	-	46,014
Total Parking Fund	\$ 1,965,000	\$ 2,920,000	\$ 14,340,000	\$ 430,000	\$ 694,889
Water Fund -					
Water Utility Revenue and General Obligation Refunding	\$ -	\$ 295,000	\$ -	\$ -	
Water Utility Revenue and General Obligation	-	98,000	1,232,000	101,000	47,606
Water Utility Revenue and General Obligation	-	80,000	1,005,000	85,000	39,643
Water Utility Revenue and General Obligation Refunding	-	90,000	190,000	95,000	4,513
Water Utility Revenue and General Obligation	-	50,000	1,070,000	60,000	39,921
Water Utility Revenue and General Obligation Refunding	-	-	950,000	105,000	35,900
Total Water Fund	\$ -	\$ 613,000	\$ 4,447,000	\$ 446,000	\$ 167,583
Gas Fund -					
Gas Utility Revenue and General Obligation	\$ -	\$ 325,000	\$ 3,560,000	\$ 335,000	\$ 154,791
Gas Utility Revenue and General Obligation	-	123,000	1,553,000	129,000	59,965
Gas Utility Revenue and General Obligation	-	85,000	1,040,000	85,000	41,103
Gas Utility Revenue and General Obligation	-	345,000	4,800,000	355,000	175,518
Gas Utility Revenue and General Obligation	-	55,000	1,135,000	60,000	42,430
Total Gas Fund	\$ -	\$ 933,000	\$ 12,088,000	\$ 964,000	\$ 473,807
Steam District #1 Fund -					
Steam Utility Revenue and General Obligation	\$ -	\$ 35,000	\$ 35,000	\$ 35,000	\$ 753
Steam Utility Revenue and General Obligation	-	35,000	115,000	35,000	5,363
Steam Utility Revenue and General Obligation	-	35,000	160,000	35,000	6,258
Steam Utility Revenue and General Obligation	-	90,000	1,935,000	95,000	79,513
Steam Utility Revenue and General Obligation	-	70,000	1,110,000	75,000	39,705
Steam Utility Revenue and General Obligation	-	210,000	4,315,000	235,000	168,394
Total Steam District # 1 Fund	\$ -	\$ 475,000	\$ 7,670,000	\$ 510,000	\$ 299,986
Sewer Fund -					
Sewer Utility Revenue and General Obligation Refunding	\$ -	\$ 75,000	\$ -	\$ -	\$ -
Sewer Utility Revenue and General Obligation	-	125,000	130,000	130,000	2,795
Sewer Utility Revenue and General Obligation	-	80,000	890,000	85,000	38,669
Sewer Utility Revenue and General Obligation	-	116,000	1,458,000	120,000	56,317
Sewer Utility Revenue and General Obligation	-	105,000	1,330,000	110,000	52,510
Sewer Utility Revenue and General Obligation Refunding	-	180,000	385,000	190,000	9,188
Sewer Utility Revenue and General Obligation	-	225,000	3,405,000	230,000	128,623
Sewer Utility Revenue and General Obligation	-	185,000	3,170,000	190,000	122,055
Sewer Utility Revenue and General Obligation	-	45,000	900,000	50,000	33,591
Sewer Utility Revenue and General Obligation	-	-	2,120,000	100,000	81,280
Sewer Utility Revenue and General Obligation Refunding	-	-	1,325,000	160,000	49,800
Total Sewer Fund	\$ -	\$ 1,136,000	\$ 15,113,000	\$ 1,365,000	\$ 574,828
Stormwater Fund:					
Stormwater Utility Revenue	\$ -	\$ 83,000	\$ 1,037,000	\$ 85,000	\$ 40,069
Stormwater Utility Revenue	-	85,000	1,620,000	85,000	63,100
Total Stormwater Fund	\$ -	\$ 168,000	\$ 2,657,000	\$ 170,000	\$ 103,169
Total Revenue and General Obligation Bonds Payable	\$ 1,965,000	\$ 6,245,000	\$ 56,315,000	\$ 3,885,000	\$ 2,314,262
Total Business-type Activities Bonds Payable	\$ 1,965,000	\$ 6,370,000	\$ 56,865,000	\$ 4,015,000	\$ 2,333,697
Component Units:					
Spirit Mountain Recreation Area					
Revenue Bonds Payable					
Spirit Mountain Recreation Area	\$ -	\$ 174,388	\$ 993,432	\$ 182,324	\$ 42,676
Duluth Entertainment and Convention Center Authority					
General Obligation Bonds Payable -					
Duluth Entertainment and Convention Center Refunding	\$ -	\$ 685,000	\$ 2,225,000	\$ 710,000	\$ 91,475
Total Component Units Bonds Payable	\$ -	\$ 859,388	\$ 3,218,432	\$ 892,324	\$ 134,151

CITY OF DULUTH
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2008

	<u>Issue Amount</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan. 1 Balance</u>
Governmental Activities:				
General Obligation				
Public Facilities Authority Note	\$ 364,195	08/08/02	08/20/18	\$ 277,000
Greater Minnesota Housing Fund Note	200,000	11/06/06	11/06/16	<u>200,000</u>
Total General Obligation				<u>\$ 477,000</u>
Revenue Note				
U.S. Dept. of Housing and Urban Development	\$ 7,876,000	08/01/05	08/01/25	<u>\$ 3,136,000</u>
Tax Increment Revenue				
Canal Park Tax Increment	\$ 325,000	12/01/91	02/01/08	\$ 75,000
Fremont Tax Increment Limited Revenue	650,000	07/01/97	02/01/12	<u>255,000</u>
Total Tax Increment Revenue				<u>\$ 330,000</u>
Total Governmental Activities				<u>\$ 3,943,000</u>
Business-type Activities:				
General Obligation				
Water Fund -				
Public Facilities Authority Note	\$ 870,000	08/25/03	08/20/18	\$ 682,546
Public Facilities Authority Note	1,971,532	07/23/04	08/20/18	<u>1,538,000</u>
Total Water Fund				<u>\$ 2,220,546</u>
Sewer Fund -				
Public Facilities Authority Note	\$ 100,000	08/25/03	08/20/18	\$ 78,454
Public Facilities Authority Note	1,179,115	12/12/03	08/20/18	960,000
Public Facilities Authority Note (Note 1)	2,042,350	07/12/07	08/20/22	<u>1,686,940</u>
Total Sewer Fund				<u>\$ 2,725,394</u>
Total Business-type Activities				<u>\$ 4,945,940</u>
Component Units:				
Duluth Airport Authority				
Revenue Note	\$ 497,379	11/01/05	06/01/19	<u>\$ 497,379</u>

Note 1: Only \$ 1,897,670 has been drawn on the Public Facilities Authority Note dated 7/12/07.

**CITY OF DULUTH
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2008**

	<u>Issued</u>	<u>Retired</u>	<u>Principal Outstanding 12/31/2008</u>	<u>Principal Due in 2009</u>	<u>Interest Due in 2009</u>
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	\$ -	\$ 24,000	\$ 253,000	\$ 24,000	\$ 2,530
Greater Minnesota Housing Fund Note	-	-	200,000	-	-
Total General Obligation	\$ -	\$ 24,000	\$ 453,000	\$ 24,000	\$ 2,530
Revenue Note					
U.S. Dept. of Housing and Urban Development	\$ -	\$ 55,000	\$ 3,081,000	\$ 55,000	\$ 173,583
Tax Increment Revenue					
Canal Park Tax Increment	\$ -	\$ 75,000	\$ -	\$ -	\$ -
Fremont Tax Increment Limited Revenue	-	45,000	210,000	50,000	10,545
Total Tax Increment Revenue	\$ -	\$ 120,000	\$ 210,000	\$ 50,000	\$ 10,545
Total Governmental Activities	\$ -	\$ 199,000	\$ 3,744,000	\$ 129,000	\$ 186,658
Business-type Activities:					
General Obligation					
Water Fund -					
Public Facilities Authority Note	\$ -	\$ 53,814	\$ 628,732	\$ 55,608	\$ 17,724
Public Facilities Authority Note	-	123,000	1,415,000	126,000	35,800
Total Water Fund	\$ -	\$ 176,814	\$ 2,043,732	\$ 181,608	\$ 53,524
Sewer Fund -					
Public Facilities Authority Note	\$ -	\$ 6,186	\$ 72,268	\$ 6,392	\$ 2,037
Public Facilities Authority Note	-	82,000	878,000	83,000	11,765
Public Facilities Authority Note	210,730	-	1,897,670	70,350	38,684
Total Sewer Fund	\$ 210,730	\$ 88,186	\$ 2,847,938	\$ 159,742	\$ 52,486
Total Business-type Activities	\$ 210,730	\$ 265,000	\$ 4,891,670	\$ 341,350	\$ 106,010
Component Units:					
Duluth Airport Authority					
Revenue Note	\$ -	\$ -	\$ 497,379	\$ 22,170	\$ 52,830

CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUES
Year Ended December 31, 2008

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary & Internal Service Funds</u>	<u>Totals</u>
SHARED REVENUE:						
State of Minnesota						
Local Government Aid	\$ 27,324,960	\$ -	\$ -	\$ -	\$ -	\$ 27,324,960
PERA Aid	124,428	-	-	-	54,402	178,830
Amortization Aid	1,323,773	-	-	-	-	1,323,773
Insurance Premium	1,538,754	-	-	-	-	1,538,754
TOTAL SHARED REVENUE	30,311,915	-	-	-	54,402	30,366,317
STATE GRANTS:						
State of Minnesota, Department of						
Employment and Economic Development						
Contamination Cleanup and Investigation	-	400,691	-	-	-	400,691
Redevelopment Grant	-	2,249,269	-	2,331	-	2,251,600
Youth Program	-	128,222	-	-	-	128,222
Dislocated Workers	-	122,618	-	-	-	122,618
Employment and Economic Development Total	-	2,900,799	-	2,331	-	2,903,130
Human Services						
Senior Nutrition	-	58,719	-	-	-	58,719
Natural Resources						
Snowmobile Trail	20,277	-	-	-	-	20,277
Lake Superior Zoo	135,000	-	-	-	-	135,000
Lakewalk East Extension	-	-	-	175,000	-	175,000
Natural Resources Total	155,277	-	-	175,000	-	330,277
Peace Officers Board						
Post Training Reimbursement	54,473	-	-	-	-	54,473
Public Safety						
Crime Victims Emergency Fund	-	340	-	-	-	340
DECA In-car Camera System	-	50,000	-	-	-	50,000
Narcotic/Gang Strike Force	-	335,000	-	-	-	335,000
Community Crime Prevention	-	64,935	-	-	-	64,935
HAZMAT Regional Response Team	40,312	-	-	-	-	40,312
Financial Crimes Task Force	-	61,322	-	-	-	61,322
Public Safety Total	40,312	511,597	-	-	-	551,909
Pollution Control Agency						
Surface Water Reduction Program	-	-	-	-	28,099	28,099
Stormwater Reduction Program	-	-	-	-	5,475	5,475
Pollution Control Agency Total	-	-	-	-	33,574	33,574
Revenue						
Market Value Credit	596,862	-	457,160	32,460	-	1,086,482
Transportation						
MSA Street Maintenance Allotment	974,403	-	-	-	-	974,403
MSA Street Construction Allotment	-	-	-	1,896,612	-	1,896,612
Municipal Turnback	-	-	-	196,320	-	196,320
MN Air Guard	-	-	-	145,445	-	145,445
Bridge Bonding	-	-	-	1,189,760	-	1,189,760
Transportation Total	974,403	-	-	3,428,137	-	4,402,540
TOTAL STATE GRANTS	1,821,327	3,471,115	457,160	3,637,928	33,574	9,421,104
OTHER GRANTS:						
St. Louis County						
Job Training Services	-	1,131,430	-	-	-	1,131,430
Other	131,017	-	-	-	-	131,017
St. Louis County Total	131,017	1,131,430	-	-	-	1,262,447
Housing and Redevelopment Authority						
Seaway Port Authority - Helberg Drive	32,479	-	-	-	-	32,479
Lake Superior College	-	-	-	515,497	-	515,497
Independent School District #709	479,510	-	-	-	215,592	215,592
Other	28,151	-	-	500,000	-	479,510
TOTAL OTHER GRANTS	\$ 671,157	\$ 1,131,430	\$ -	\$ 1,015,497	\$ 215,592	\$ 3,033,676

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUES
Year Ended December 31, 2008

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary & Internal Service Funds	Totals
FEDERAL GRANTS:						
Federal, Department of						
Commerce						
Coastal Zone Management Administration	\$ -	\$ 69,500	\$ -	\$ -	\$ -	\$ 69,500
Morgan Park Wastewater	-	-	-	-	1,680	1,680
Commerce Total	-	69,500	-	-	1,680	71,180
Environmental Protection Agency						
Brownfield Assessment and Cleanup	-	56,347	-	-	-	56,347
Nonpoint Source Implementation Grants	-	-	-	-	15,169	15,169
	-	56,347	-	-	15,169	71,516
Health and Human Services						
Senior Nutrition Program	-	197,795	-	-	-	197,795
Election Assistance for Individuals with Disabilities	-	-	-	-	-	-
Health and Human Services Total	-	197,795	-	-	-	197,795
Homeland Security						
Homeland Security Grant Program	-	28,968	-	-	-	28,968
Assistance to Firefighters	-	191,993	-	-	-	191,993
State Domestic Preparedness Equipment	-	235,212	-	-	-	235,212
Homeland Security Total	-	456,173	-	-	-	456,173
Housing and Urban Development						
Community Development Block Grant	-	3,094,391	-	-	-	3,094,391
HOME Investment Partnership	-	943,058	-	-	-	943,058
Emergency Shelter	-	135,249	-	-	-	135,249
Fair Housing Enforcement	128,500	-	-	-	-	128,500
Housing and Urban Development Total	128,500	4,172,698	-	-	-	4,301,198
Justice						
Grants to Encourage Arrest Policies	-	146,186	-	-	-	146,186
Project Safe (Anti-Gang)	-	8,300	-	-	-	8,300
Bulletproof Vest Partnership Program	6,092	-	-	-	-	6,092
Organized Crime Drug Enforcement Task Force	22,954	-	-	-	-	22,954
Edward Byrne Memorial Formula Grant	-	70,803	-	-	-	70,803
Justice Total	29,046	225,289	-	-	-	254,335
Labor						
Senior Community Service Employment	-	372,302	-	-	-	372,302
Career Youth	-	5,217	-	-	-	5,217
Dislocated Workers	-	103,727	-	-	-	103,727
Workforce Investment Act	-	452,875	-	-	-	452,875
Labor Total	-	934,121	-	-	-	934,121
Transportation						
Enforcing Underage Drinking Laws Program	6,951	-	-	-	-	6,951
Alcohol Traffic Safety & Drunken Driving	1,988	23,888	-	-	-	25,876
Highway Planning and Construction	-	-	-	1,495,254	-	1,495,254
Transportation Total	8,939	23,888	-	1,495,254	-	1,528,081
TOTAL FEDERAL GRANTS	166,485	6,135,811	-	1,495,254	16,849	7,814,398
TOTAL INTERGOVERNMENTAL REVENUE	\$ 32,970,884	\$ 10,738,356	\$ 457,160	\$ 6,148,679	\$ 320,417	\$ 50,635,496

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	Special Revenue Funds			
	Operating	Building Renovation Loan	Old Downtown Loan	District Storefront Loan
ASSETS				
Cash and cash equivalents	538,848	\$ 3,382,587	\$ 256,210	\$ 635,521
Taxes receivable, net	-	-	-	-
Accounts receivable, net	12,102	-	-	-
Loans receivable, net	-	1,926,664	23,522	314,432
Deposits receivable	-	250,000	-	-
Due from other funds	350,000	-	-	380
Due from other governments	-	-	-	-
Prepays	-	-	-	-
Capital assets held for resale	192,500	-	-	-
Total Assets	\$ 1,093,450	\$ 5,559,251	\$ 279,732	\$ 950,333
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 26,968	\$ 45	\$ -	\$ -
Contracts payable	11,206	-	-	-
Loans payable	439,302	-	-	-
Due to other funds	766,375	380	-	53,745
Due to other governments	-	-	-	-
Deferred revenues	2,447	-	-	-
Total Liabilities	1,246,298	425	-	53,745
FUND BALANCES:				
Reserved for:				
Encumbrances	393,921	-	-	-
Debt service	-	-	-	-
Noncurrent loans receivable	-	1,731,028	16,936	265,103
Prepaid items	-	-	-	-
Deposits	-	250,000	-	-
Unreserved - designated for capital projects	-	-	-	-
Unreserved - designated for loans	-	399,701	-	-
Unreserved - designated for new loan fund	-	750,000	-	-
Unreserved - undesignated, reported in:				
Special revenue funds	(546,769)	2,428,097	262,796	631,485
Capital project funds	-	-	-	-
Total Fund Balances	(152,848)	5,558,826	279,732	896,588
Total Liabilities and Fund Balances	\$ 1,093,450	\$ 5,559,251	\$ 279,732	\$ 950,333

(continued)

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

	Special Revenue Fund			Total
	Northwest Maintenance Facility	Debt Service	Capital Projects	
ASSETS				
Cash and cash equivalents	\$ 650,143	\$ 4,277,377	\$ 5,039,380	\$ 14,780,066
Taxes receivable, net	-	462,850	-	462,850
Accounts receivable, net	-	17,416	4,720	34,238
Loans receivable, net	-	16,941	1,850,678	4,132,237
Deposits receivable	-	-	-	250,000
Due from other funds	-	94,272	3,665,922	4,110,574
Due from other governments	-	-	84,512	84,512
Prepays	-	-	528,529	528,529
Capital assets held for resale	-	-	-	192,500
Total Assets	\$ 650,143	\$ 4,868,856	\$ 11,173,741	\$ 24,575,506
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 8,193	\$ -	\$ 5,000	\$ 40,206
Contracts payable	4,167	-	159,696	175,069
Loans payable	-	-	-	439,302
Due to other funds	91,000	3,617,523	481,175	5,010,198
Due to other governments	-	693,991	-	693,991
Deferred revenues	-	444,175	1,880,229	2,326,851
Total Liabilities	103,360	4,755,689	2,526,100	8,685,617
FUND BALANCES:				
Reserved for:				
Encumbrances	-	-	431,694	825,615
Debt service	-	113,167	-	113,167
Noncurrent loans receivable	-	-	48,730	2,061,797
Prepaid items	-	-	528,529	528,529
Deposits	-	-	-	250,000
Unreserved - designated for capital projects	-	-	7,013,131	7,013,131
Unreserved - designated for loans	-	-	-	399,701
Unreserved - designated for new loan fund	-	-	-	750,000
Unreserved - undesignated, reported in:				
Special revenue funds	546,783	-	-	3,322,392
Capital project funds	-	-	625,557	625,557
Total Fund Balances	546,783	113,167	8,647,641	15,889,889
Total Liabilities and Fund Balances	\$ 650,143	\$ 4,868,856	\$ 11,173,741	\$ 24,575,506

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Special Revenue Funds</u>			
	<u>Operating</u>	<u>Building Renovation</u>	<u>Old Downtown</u>	<u>District Storefront</u>
REVENUES:				
Taxes				
Tax increments	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues				
Market value credit aid	-	-	-	-
State and federal grants	7,978	-	-	-
Charges for services				
Parking meters	237,318	-	-	-
Development fees	3,249	-	-	-
Miscellaneous revenues				
Earnings on investments	3,091	97,495	1,104	2,662
Interest	-	56,783	686	11,290
Bond fees	108,854	-	-	-
Land sales	907,729	-	-	-
Developer contributions	-	-	-	-
Other	64,163	1,547	-	-
Total Revenues	<u>1,332,382</u>	<u>155,825</u>	<u>1,790</u>	<u>13,952</u>
EXPENDITURES:				
Current				
Urban and economic development				
Other services and charges	625,578	-	-	-
Economic development projects	1,240,638	85	12,500	-
Capital Outlay				
Urban and economic development				
Buildings and structures	-	-	-	-
Improvements other than buildings	-	-	-	-
Debt Service				
Principal retirement	-	-	-	-
Interest and fiscal fees	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>1,866,216</u>	<u>85</u>	<u>12,500</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>(533,834)</u>	<u>155,740</u>	<u>(10,710)</u>	<u>13,952</u>
OTHER FINANCING SOURCES/USES:				
Operating transfer in				
DEDA Funds	357,736	-	-	-
Economic Development Fund	392,713	-	-	-
Debt Service Fund	9,715	-	-	-
Total Operating Transfer In	<u>760,164</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating transfers out				
DEDA Funds	-	-	-	(53,745)
General Fund	-	(83,444)	-	-
Economic Development Fund	(9,100)	-	-	-
Community Development Fund	-	-	-	-
Parking Enterprise Fund	-	-	-	-
Total Operating Transfers Out	<u>(9,100)</u>	<u>(83,444)</u>	<u>-</u>	<u>(53,745)</u>
Total Other Financing Sources (Uses)	<u>751,064</u>	<u>(83,444)</u>	<u>-</u>	<u>(53,745)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>217,230</u>	<u>72,296</u>	<u>(10,710)</u>	<u>(39,793)</u>
FUND BALANCES:				
Beginning of the year	(370,078)	5,486,530	290,442	936,381
End of the year	<u>\$ (152,848)</u>	<u>\$ 5,558,826</u>	<u>\$ 279,732</u>	<u>\$ 896,588</u>

(continued)

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Special Revenue Fund			Total
	Northwest Maintenance Facility	Debt Service	Capital Projects	
REVENUES:				
Taxes				
Tax increments	\$ -	\$ 5,750,929	\$ -	\$ 5,750,929
Intergovernmental revenues				
Market value credit aid	-	69,037	-	69,037
State and federal grants	-	-	-	7,978
Charges for services				
Parking meters	-	-	-	237,318
Development fees	-	-	-	3,249
Miscellaneous revenues				
Earnings on investments	2,480	180,978	37,586	325,396
Interest	-	-	4,263	73,022
Bond fees	-	-	-	108,854
Land sales	-	-	185,000	1,092,729
Developer contributions	-	17,416	-	17,416
Other	328,000	-	103,080	496,790
Total Revenues	330,480	6,018,360	329,929	8,182,718
EXPENDITURES:				
Current				
Urban and economic development				
Other services and charges	-	696,388	219,016	1,540,982
Economic development projects	158,842	-	384,902	1,796,967
Capital Outlay				
Urban and economic development				
Buildings and structures	-	-	151,703	151,703
Improvements other than buildings	-	-	880,840	880,840
Debt Service				
Principal retirement	-	1,185,002	-	1,185,002
Interest and fiscal fees	-	644,850	-	644,850
Other	-	248,453	-	248,453
Total Expenditures	158,842	2,774,693	1,636,461	6,448,797
Excess of Revenues Over (Under) Expenditures	171,638	3,243,667	(1,306,532)	1,733,921
OTHER FINANCING SOURCES/USES:				
Operating transfer in				
DEDA Funds	-	94,272	3,613,515	4,065,523
Economic Development Fund	-	-	-	392,713
Debt Service Fund	-	-	-	9,715
Total Operating Transfer In	-	94,272	3,613,515	4,467,951
Operating transfers out				
DEDA Funds	(91,000)	(3,621,251)	(259,000)	(4,024,996)
General Fund	-	(157,571)	(32,225)	(273,240)
Economic Development Fund	-	-	(3,875)	(12,975)
Community Development Fund	-	(104,831)	-	(104,831)
Parking Enterprise Fund	-	(440,620)	-	(440,620)
Total Operating Transfers Out	(91,000)	(4,324,273)	(295,100)	(4,856,662)
Total Other Financing Sources (Uses)	(91,000)	(4,230,001)	3,318,415	(388,711)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	80,638	(986,334)	2,011,883	1,345,210
FUND BALANCES:				
Beginning of the year	466,145	1,099,501	6,635,758	14,544,679
End of the year	\$ 546,783	\$ 113,167	\$ 8,647,641	\$ 15,889,889

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STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Duluth's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Guide to Statistical Section

Financial Trends – Pages 148-155

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity – Pages 156-158

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity – Pages 158-162

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information – Pages 163-164

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information – Pages 165-169

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**City of Duluth, Minnesota
Net Assets by Component
Last Seven Fiscal Years
(accrual basis of accounting)**

	<u>2002*</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 119,109,618	\$ 129,099,323	\$ 146,521,749	\$ 155,698,901
Restricted	24,429,416	24,886,042	30,712,294	28,531,432
Unrestricted	<u>1,097,094</u>	<u>12,154,111</u>	<u>48,153,658</u>	<u>55,324,852</u>
Total governmental activities net assets	<u>\$ 144,636,128</u>	<u>\$ 166,139,476</u>	<u>\$ 225,387,701</u>	<u>\$ 239,555,185</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 84,981,950	\$ 83,949,511	\$ 87,721,493	\$ 91,986,495
Restricted	150,000	150,529	2,181,329	2,182,045
Unrestricted	<u>25,484,429</u>	<u>29,289,746</u>	<u>26,228,252</u>	<u>25,641,077</u>
Total business-type activities net assets	<u>\$ 110,616,379</u>	<u>\$ 113,389,786</u>	<u>\$ 116,131,074</u>	<u>\$ 119,809,617</u>
Primary government				
Invested in capital assets, net of related debt	\$ 204,091,568	\$ 213,048,834	\$ 234,243,242	\$ 247,685,396
Restricted	24,579,416	25,036,571	32,893,623	30,713,477
Unrestricted	<u>26,581,523</u>	<u>41,443,857</u>	<u>74,381,910</u>	<u>80,965,929</u>
Total primary government net assets	<u>\$ 255,252,507</u>	<u>\$ 279,529,262</u>	<u>\$ 341,518,775</u>	<u>\$ 359,364,802</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>	
Governmental activities				
Invested in capital assets, net of related debt	\$ 171,675,354	\$ 183,581,640	\$ 188,129,975	
Restricted	29,935,162	23,911,854	24,241,591	
Unrestricted	<u>66,303,461</u>	<u>76,555,455</u>	<u>73,230,385</u>	
Total governmental activities net assets	<u>\$ 267,913,977</u>	<u>\$ 284,048,949</u>	<u>\$ 285,601,951</u>	
Business-type activities				
Invested in capital assets, net of related debt	\$ 95,017,361	\$ 112,994,409	\$ 119,657,883	
Restricted	2,201,848	2,222,671	2,204,022	
Unrestricted	<u>24,713,278</u>	<u>17,076,630</u>	<u>17,998,534</u>	
Total business-type activities net assets	<u>\$ 121,932,487</u>	<u>\$ 132,293,710</u>	<u>\$ 139,860,439</u>	
Primary government				
Invested in capital assets, net of related debt	\$ 266,692,715	\$ 296,576,049	307,787,858	
Restricted	32,137,010	26,134,525	26,445,613	
Unrestricted	<u>91,016,739</u>	<u>93,632,085</u>	<u>91,228,919</u>	
Total primary government net assets	<u>\$ 389,846,464</u>	<u>\$ 416,342,659</u>	<u>\$ 425,462,390</u>	

*This table was developed with the implementation of Governmental Accounting Standards Board Statement No. 34. Years prior to 2002 were not restated, and therefore are not available.

Source: Statement of Net Assets

City of Duluth, Minnesota
Changes in Net Assets
Last Seven Fiscal Years
(accrual basis of accounting)

	<u>2002*</u>	<u>2003</u>	<u>2004**</u>	<u>2005</u>
Expenses				
Governmental activities:				
General government	\$ 19,163,984	\$ 18,164,487	\$ 20,669,584	\$ 21,287,443
Public safety	26,045,849	25,163,652	25,285,634	28,069,291
Public works	16,485,742	14,061,511	12,580,602	13,720,883
Culture and recreation	8,541,853	7,493,744	6,385,653	7,400,480
Urban and economic development	13,939,868	11,081,790	14,173,566	23,676,985
Interest	<u>6,855,458</u>	<u>6,046,179</u>	<u>6,917,787</u>	<u>6,749,211</u>
Total governmental activities expenses	<u>91,032,754</u>	<u>82,011,363</u>	<u>86,012,826</u>	<u>100,904,293</u>
Business-type activities:				
Water	9,734,767	8,945,765	8,465,593	9,463,342
Gas	36,290,401	38,806,370	41,883,691	50,491,710
Sewer	15,355,339	15,240,922	14,610,838	13,454,790
Stormwater	2,227,108	2,354,872	2,470,513	2,508,496
Steam district #1	3,399,206	3,597,759	3,893,705	4,085,845
Steam district #2	7,917,186	8,497,270	8,677,762	8,919,977
Golf	1,756,201	1,754,734	1,762,485	1,908,334
Parking	-	-	-	-
Street Lighting	-	-	-	-
Total business-type activities expenses	<u>76,680,208</u>	<u>79,197,692</u>	<u>81,764,587</u>	<u>90,832,494</u>
Total primary government expenses	<u>\$ 167,712,962</u>	<u>\$ 161,209,055</u>	<u>\$ 167,777,413</u>	<u>\$ 191,736,787</u>
Program Revenues				
Governmental activities:				
Charges for services:				
General government	\$ 4,124,263	\$ 4,307,134	\$ 4,935,952	\$ 1,434,650
Public safety	1,956,737	2,040,761	2,555,502	2,394,256
Public works	957,365	670,756	364,600	724,710
Culture and recreation	578,927	737,820	679,580	856,974
Urban and economic development	10,919	68,323	1,914,397	7,300,488
Operating grants and contributions	14,328,781	11,580,360	11,944,143	9,884,061
Capital grants and contributions	<u>14,919,934</u>	<u>11,074,089</u>	<u>13,955,413</u>	<u>11,565,853</u>
Total governmental activities program revenues	<u>36,876,926</u>	<u>30,479,243</u>	<u>36,349,587</u>	<u>34,160,992</u>
Business-type activities:				
Charges for services:				
Water	9,598,099	9,732,863	9,884,976	10,315,543
Gas	38,088,753	42,245,487	45,110,428	55,339,940
Sewer	16,498,761	16,872,231	16,639,746	14,347,815
Stormwater	3,106,087	2,904,443	2,924,170	2,982,846
Steam district #1	3,548,873	3,683,243	4,016,386	4,416,123
Steam district #2	5,972,570	6,136,880	6,383,327	6,584,168
Golf	1,482,071	1,570,600	1,732,131	1,699,090
Parking	-	-	-	-
Street Lighting	-	-	-	-
Capital grants and contributions	<u>2,965,465</u>	<u>1,762,519</u>	<u>943,565</u>	<u>2,179,046</u>
Total business-type activities program revenues	<u>81,260,679</u>	<u>84,908,266</u>	<u>87,634,729</u>	<u>97,864,571</u>
Total primary government program revenues	<u>\$ 118,137,605</u>	<u>\$ 115,387,509</u>	<u>\$ 123,984,316</u>	<u>\$ 132,025,563</u>

(continued)

City of Duluth, Minnesota
Changes in Net Assets
Last Seven Fiscal Years
(accrual basis of accounting)

	<u>2002*</u>	<u>2003</u>	<u>2004**</u>	<u>2005</u>
Net (expense)/revenue				
Governmental activities	\$ (54,155,828)	\$ (51,532,120)	\$ (49,663,239)	\$ (66,743,301)
Business-type activities	<u>4,580,471</u>	<u>5,710,574</u>	<u>5,870,142</u>	<u>7,032,077</u>
Total primary government net expense	<u>\$ (49,575,357)</u>	<u>\$ (45,821,546)</u>	<u>\$ (43,793,097)</u>	<u>\$ (59,711,224)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Property taxes	\$ 9,856,199	\$ 9,510,074	\$ 15,478,942	\$ 16,489,656
Market value credit aid	-	1,254,477	1,196,015	1,260,395
Sales taxes	15,350,586	14,903,251	15,478,954	15,963,891
Other taxes	1,945,693	1,937,557	1,924,690	1,945,956
Casino shared revenues	5,521,705	5,440,225	5,653,523	5,608,777
Grants and shared revenues not restricted to specific programs	35,095,985	32,840,817	32,502,413	31,443,085
Investment income	3,406,336	1,168,695	2,243,381	2,858,882
Gain on sale or disposition of capital assets	55,325	335,352	-	-
Miscellaneous	751,895	570,108	641,584	4,900,055
Special Items	-	-	-	-
Transfers	<u>3,742,445</u>	<u>3,214,912</u>	<u>3,695,422</u>	<u>4,070,710</u>
Total governmental activities	<u>75,726,169</u>	<u>71,175,468</u>	<u>78,814,924</u>	<u>84,541,407</u>
Business-type activities:				
Investment income	718,578	244,231	485,428	715,342
Gain on sale or disposition of capital assets	20,519	33,514	81,140	1,834
Transfers	<u>(3,742,445)</u>	<u>(3,214,912)</u>	<u>(3,695,422)</u>	<u>(4,070,710)</u>
Total business-type activities	<u>(3,003,348)</u>	<u>(2,937,167)</u>	<u>(3,128,854)</u>	<u>(3,353,534)</u>
Total primary government	<u>\$ 72,722,821</u>	<u>\$ 68,238,301</u>	<u>\$ 75,686,070</u>	<u>\$ 81,187,873</u>
Change in Net Assets				
Governmental activities	\$ 21,570,341	\$ 19,643,348	\$ 29,151,685	\$ 17,798,106
Business-type activities	<u>1,577,123</u>	<u>2,773,407</u>	<u>2,741,288</u>	<u>3,678,543</u>
Total primary government	<u>\$ 23,147,464</u>	<u>\$ 22,416,755</u>	<u>\$ 31,892,973</u>	<u>\$ 21,476,649</u>

*This table was developed with the implementation of Governmental Accounting Standards Board Statement No. 34. Years prior to 2002 were not restated, and therefore are not available.

**Effective 2004, the Duluth City Council became the governing board of Duluth Economic Development Authority.

Source: Statement of Activities

(continued)

City of Duluth, Minnesota
Changes in Net Assets
Last Seven Fiscal Years
(accrual basis of accounting)

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Expenses			
Governmental activities:			
General government	\$ 20,902,934	\$ 35,023,700	\$ 25,028,329
Public safety	28,480,845	30,350,398	36,478,984
Public works	13,823,001	15,232,820	15,817,121
Culture and recreation	9,107,022	6,851,355	13,962,001
Urban and economic development	12,773,203	13,178,400	18,180,805
Interest	<u>7,427,045</u>	<u>7,762,355</u>	<u>4,749,041</u>
Total governmental activities expenses	<u>92,514,050</u>	<u>108,399,028</u>	<u>114,216,281</u>
Business-type activities:			
Water	9,827,419	10,865,334	11,325,128
Gas	45,278,118	47,107,309	54,336,765
Sewer	14,928,433	15,023,848	16,747,150
Stormwater	2,776,726	2,865,872	2,876,181
Steam district #1	4,628,019	5,367,034	5,851,628
Steam district #2	9,314,893	11,397,738	10,024,789
Golf	1,889,657	1,887,795	1,886,874
Parking	-	1,871,344	2,030,206
Street Lighting	<u>-</u>	<u>-</u>	<u>309,920</u>
Total business-type activities expenses	<u>88,643,265</u>	<u>96,386,274</u>	<u>105,388,641</u>
Total primary government expenses	<u>\$ 181,157,315</u>	<u>\$ 204,785,302</u>	<u>\$ 219,604,922</u>
Program Revenues			
Governmental activities:			
Charges for services:			
General government	\$ 1,804,560	\$ 4,008,714	\$ 3,846,472
Public safety	3,305,117	2,451,449	2,434,033
Public works	1,096,718	353,575	392,155
Culture and recreation	807,245	815,732	797,188
Urban and economic development	908,279	922,159	910,181
Operating grants and contributions	10,469,744	11,209,578	12,997,358
Capital grants and contributions	<u>12,445,080</u>	<u>13,674,386</u>	<u>8,200,343</u>
Total governmental activities program revenues	<u>30,836,743</u>	<u>33,435,593</u>	<u>29,577,730</u>
Business-type activities:			
Charges for services:			
Water	11,025,294	12,166,968	11,370,681
Gas	49,534,016	47,489,082	58,604,811
Sewer	15,507,006	15,771,516	17,224,701
Stormwater	3,098,403	3,916,525	4,563,498
Steam district #1	4,686,723	5,261,495	5,959,836
Steam district #2	6,959,000	8,985,844	8,834,290
Golf	1,893,564	1,887,737	1,879,530
Parking	-	2,138,316	4,136,535
Street Lighting	<u>-</u>	<u>-</u>	<u>88,924</u>
Capital grants and contributions	<u>2,960,981</u>	<u>4,468,083</u>	<u>1,970,497</u>
Total business-type activities program revenues	<u>95,664,987</u>	<u>102,085,566</u>	<u>114,633,303</u>
Total primary government program revenues	<u>\$ 126,501,730</u>	<u>\$ 135,521,159</u>	<u>\$ 144,211,033</u>

(continued)

City of Duluth, Minnesota
Changes in Net Assets
Last Seven Fiscal Years
(accrual basis of accounting)

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net (expense)/revenue			
Governmental activities	\$ (61,677,307)	\$ (74,963,435)	\$ (84,638,551)
Business-type activities	<u>7,021,722</u>	<u>5,699,292</u>	<u>9,244,662</u>
Total primary government net expense	<u>\$ (54,655,585)</u>	<u>\$ (69,264,143)</u>	<u>\$ (75,393,889)</u>
General Revenues and Other Changes in Net Assets			
Governmental activities:			
Taxes			
Property taxes	\$ 15,709,840	\$ 17,452,324	\$ 18,170,135
Market value credit aid	1,184,399	1,191,228	1,086,482
Sales taxes	16,860,351	17,509,877	18,363,052
Other taxes	2,006,659	2,051,173	2,049,848
Casino shared revenues	5,844,787	6,430,460	6,156,767
Grants and shared revenues not restricted to specific programs	32,249,900	31,725,087	30,311,915
Investment income	5,131,090	4,690,453	4,058,373
Gain on sale or disposition of capital assets	262,367	37,803	136,787
Miscellaneous	5,170,612	1,062,999	3,623,533
Special Items	-	12,708,044	-
Transfers	<u>5,616,094</u>	<u>(3,761,041)</u>	<u>2,234,661</u>
Total governmental activities	<u>90,036,099</u>	<u>91,098,407</u>	<u>86,191,553</u>
Business-type activities:			
Investment income	824,428	878,763	545,151
Gain on sale or disposition of capital assets	30,268	22,127	11,577
Transfers	<u>(5,616,094)</u>	<u>3,761,041</u>	<u>(2,234,661)</u>
Total business-type activities	<u>(4,761,398)</u>	<u>4,661,931</u>	<u>(1,677,933)</u>
Total primary government	<u>\$ 85,274,701</u>	<u>\$ 95,760,338</u>	<u>\$ 84,513,620</u>
Change in Net Assets			
Governmental activities	\$ 28,358,792	\$ 16,134,972	\$ 1,553,002
Business-type activities	<u>2,260,324</u>	<u>10,361,223</u>	<u>7,566,729</u>
Total primary government	<u>\$ 30,619,116</u>	<u>\$ 26,496,195</u>	<u>\$ 9,119,731</u>

Unaudited

City of Duluth, Minnesota
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
General fund					
Reserved	\$ 371,825	\$ 738,919	\$ 596,978	\$ 523,439	\$ 518,339
Unreserved	<u>6,483,798</u>	<u>7,327,952</u>	<u>4,918,653</u>	<u>5,531,067</u>	<u>4,487,573</u>
Total general fund	<u>\$ 6,855,623</u>	<u>\$ 8,066,871</u>	<u>\$ 5,515,631</u>	<u>\$ 6,054,506</u>	<u>\$ 5,005,912</u>
All other governmental funds					
Reserved	\$ 16,968,754	\$ 11,193,204	\$ 10,761,317	\$ 12,536,767	\$ 13,621,208
Unreserved, reported in:					
Special revenue funds	25,409,190	31,085,989	36,855,586	41,990,679	47,128,380
Debt service funds	9,722,211	9,925,436	11,776,691	13,471,340	13,892,475
Capital projects funds	<u>1,634,016</u>	<u>1,513,699</u>	<u>34,412</u>	<u>(3,757,026)</u>	<u>(4,241,951)</u>
Total all other governmental funds	<u>\$ 53,734,171</u>	<u>\$ 53,718,328</u>	<u>\$ 59,428,006</u>	<u>\$ 64,241,760</u>	<u>\$ 70,400,112</u>

	Fiscal Year				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General fund					
Reserved	\$ 575,992	\$ 650,718	\$ 816,458	\$ 190,911	\$ 325,430
Unreserved	<u>5,439,550</u>	<u>4,224,264</u>	<u>4,237,396</u>	<u>1,423,116</u>	<u>(1,345,024)</u>
Total general fund	<u>\$ 6,015,542</u>	<u>\$ 4,874,982</u>	<u>\$ 5,053,854</u>	<u>\$ 1,614,027</u>	<u>\$ (1,019,594)</u>
All other governmental funds					
Reserved	\$ 19,033,022	\$ 34,078,985	\$ 23,363,256	\$ 14,628,923	\$ 13,599,551
Unreserved, reported in:					
Special revenue funds	58,384,931	61,376,988	65,770,619	63,097,631	67,075,700
Debt service funds	13,165,779	9,480,448	8,968,752	11,125,923	11,201,667
Capital projects funds	<u>2,139,384</u>	<u>(4,653,373)</u>	<u>(2,523,300)</u>	<u>5,986,870</u>	<u>48,030,782</u>
Total all other governmental funds	<u>\$ 92,723,116</u>	<u>\$ 100,283,048</u>	<u>\$ 95,579,327</u>	<u>\$ 94,839,347</u>	<u>\$ 139,907,700</u>

Source: Balance Sheet & Combining Balance Sheet

Unaudited

City of Duluth, Minnesota
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002*</u>	<u>2003</u>
Revenues					
Taxes:					
Property Taxes	\$ 10,963,758	\$ 11,059,701	\$ 11,815,267	\$ 9,955,083	\$ 9,259,909
Sales Taxes	14,471,956	14,640,400	15,252,121	15,350,586	14,903,251
Other Taxes	1,438,462	1,652,556	1,737,308	1,945,693	1,937,557
Licenses and permits	506,255	513,534	624,432	609,550	658,314
Intergovernmental revenues	43,225,541	49,733,588	46,273,269	57,166,830	54,781,689
Charges for Services	5,987,971	5,510,166	5,190,480	5,831,871	6,091,850
Fines and forfeits	1,099,323	1,130,118	1,074,390	947,610	994,710
Special assessments	2,647,287	2,338,340	2,384,289	3,530,095	2,671,352
Investment income	-	-	-	3,102,648	1,089,073
Miscellaneous revenues	10,411,150	15,202,653	14,449,871	9,010,620	11,093,844
Total revenues	<u>90,751,703</u>	<u>101,781,056</u>	<u>98,801,427</u>	<u>107,450,586</u>	<u>103,481,549</u>
Expenditures					
General government	13,042,360	17,105,024	17,694,117	19,124,773	19,040,102
Public safety	22,051,960	25,772,933	28,683,145	29,423,941	28,861,649
Public works	12,910,980	9,198,817	9,860,405	9,833,899	9,618,124
Culture and recreation	6,384,545	6,338,207	7,392,309	7,395,397	6,919,311
Urban and economic development	9,098,115	8,997,600	9,976,323	12,565,206	12,005,724
Debt Service					
Principal retirement	8,701,607	9,283,026	10,753,925	10,247,366	11,107,478
Interest and fiscal fees	4,261,599	5,082,661	4,685,976	4,599,568	4,179,881
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	-	-	48,934	148,000
Capital Outlay	27,894,133	28,633,109	17,876,628	23,186,154	18,671,264
Total Expenditures	<u>104,345,299</u>	<u>110,411,377</u>	<u>106,922,828</u>	<u>116,425,238</u>	<u>110,551,533</u>
Excess of revenues over (under) expenditures	<u>(13,593,596)</u>	<u>(8,630,321)</u>	<u>(8,121,401)</u>	<u>(8,974,652)</u>	<u>(7,069,984)</u>
Other financing sources (uses)					
Issuance of bonds	23,435,000	7,395,000	11,030,000	12,975,000	8,670,000
Premium on issuance of bonds	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	6,925,000
Sale of capital asset	-	-	-	55,325	335,352
Loan proceeds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	(1,683,463)	(6,965,522)
Transfers in	22,853,210	18,135,168	16,479,062	16,410,573	12,769,347
Transfers out	(16,690,124)	(15,704,442)	(17,227,936)	(13,430,154)	(9,554,435)
Total other financing sources (uses)	<u>29,598,086</u>	<u>9,825,726</u>	<u>10,281,126</u>	<u>14,327,281</u>	<u>12,179,742</u>
Net change in fund balances	<u>\$ 16,004,490</u>	<u>\$ 1,195,405</u>	<u>\$ 2,159,725</u>	<u>\$ 5,352,629</u>	<u>\$ 5,109,758</u>
Debt service as a percentage of noncapital expenditures	17.0%	17.6%	17.3%	16.0%	16.9%

*Implementation of Governmental Accounting Standards Board Statement No. 34 in 2002.

General Governmental includes Capital Projects Fund.

**Effective 2004, the Duluth City Council became the governing board of Duluth Economic Development Authority.

Source: Statement of Revenues, Expenditures, and Changes in Fund Balances

(continued)

City of Duluth, Minnesota
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	<u>2004**</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues					
Taxes:					
Property Taxes	\$ 15,522,334	\$ 16,321,413	\$ 15,469,329	\$ 17,837,011	\$ 17,776,235
Sales Taxes	15,478,954	15,963,891	16,860,351	17,509,877	18,363,052
Other Taxes	1,924,690	1,945,956	2,006,659	2,051,173	2,049,848
Licenses and permits	680,953	853,927	987,464	1,111,727	985,506
Intergovernmental revenues	52,057,762	49,263,351	51,467,392	53,793,307	50,315,079
Charges for Services	6,549,128	7,969,577	8,718,615	5,995,079	5,802,260
Fines and forfeits	1,083,084	1,002,752	905,324	1,086,304	1,056,783
Special assessments	2,735,163	3,237,809	2,964,983	2,941,244	2,609,585
Investment income	2,044,335	2,574,786	4,576,550	3,908,135	3,364,141
Miscellaneous revenues	<u>12,536,138</u>	<u>12,091,312</u>	<u>14,978,054</u>	<u>10,641,263</u>	<u>12,202,008</u>
Total revenues	<u>110,612,541</u>	<u>111,224,774</u>	<u>118,934,721</u>	<u>116,875,120</u>	<u>114,524,497</u>
Expenditures					
General government	19,574,200	19,885,273	21,248,502	32,109,525	23,062,581
Public safety	29,082,948	31,519,654	33,176,998	33,319,542	35,661,590
Public works	9,947,392	9,979,171	10,358,429	11,080,239	12,106,097
Culture and recreation	6,945,317	6,713,232	6,978,630	6,716,210	8,037,797
Urban and economic development	15,511,249	19,828,474	12,694,861	14,531,149	16,515,445
Debt Service					
Principal retirement	13,610,613	16,956,649	15,175,505	11,454,452	9,984,002
Interest and fiscal fees	4,857,973	5,040,518	5,589,857	4,777,420	4,377,160
Revenue pledge	-	2,612,545	1,383,363	2,966,875	-
Bond issuance costs	180,618	407,773	269,189	205,336	544,187
Capital Outlay	<u>17,010,131</u>	<u>23,478,917</u>	<u>30,731,546</u>	<u>13,496,052</u>	<u>15,749,543</u>
Total Expenditures	<u>116,720,441</u>	<u>136,422,206</u>	<u>137,606,880</u>	<u>130,656,800</u>	<u>126,038,402</u>
Excess of revenues over (under) expenditures	<u>(6,107,900)</u>	<u>(25,197,432)</u>	<u>(18,672,159)</u>	<u>(13,781,680)</u>	<u>(11,513,905)</u>
Other financing sources (uses)					
Issuance of bonds	7,885,000	28,265,000	17,050,000	10,650,000	51,600,000
Premium on issuance of bonds	159,777	197,367	287,586	269,594	383,591
Issuance of refunding bonds	-	-	-	-	-
Sale of capital asset	24,000	-	-	-	-
Loan proceeds	-	6,594,000	1,482,000	-	-
Payment to refunded bond escrow agent	-	(7,690,417)	(10,626,155)	(5,827,735)	(3,570,023)
Transfers in	18,584,108	19,413,529	28,843,364	29,700,237	25,900,738
Transfers out	<u>(14,773,286)</u>	<u>(15,162,675)</u>	<u>(22,889,485)</u>	<u>(25,190,223)</u>	<u>(20,365,669)</u>
Total other financing sources (uses)	<u>11,879,599</u>	<u>31,616,804</u>	<u>14,147,310</u>	<u>9,601,873</u>	<u>53,948,637</u>
Net change in fund balances	<u>\$ 5,771,699</u>	<u>\$ 6,419,372</u>	<u>\$ (4,524,849)</u>	<u>\$ (4,179,807)</u>	<u>\$ 42,434,732</u>
Debt service as a percentage of noncapital expenditures	19.3%	21.7%	21.5%	16.5%	13.3%

Unaudited

City of Duluth, Minnesota
Assessed and Estimated Taxable Market Value of Property
Last Ten Fiscal Years

Fiscal Year Ended December 31	Real Estate			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
1999	1,854,134,700	22,129,138	481,904,800	15,128,928
2000	1,922,466,200	22,525,173	505,492,100	15,523,793
2001*	2,206,052,200	25,102,366	527,197,900	16,141,177
2002	2,477,595,400	23,719,895	583,024,800	10,453,000
2003	2,725,278,200	25,641,929	602,397,500	10,482,303
2004	3,351,249,500	29,833,979	642,098,600	12,109,770
2005	3,972,632,500	35,109,144	760,035,800	14,421,069
2006	4,114,469,300	39,255,023	822,511,200	15,028,434
2007	4,200,391,700	41,880,176	880,587,500	16,128,121
2008	4,448,319,580	44,910,418	909,880,320	16,677,463

Fiscal Year Ended December 31	Personal Property			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
1999	13,776,800	138,993	58,126,000	2,112,739
2000	14,917,500	150,364	60,479,600	2,127,017
2001*	15,782,000	159,627	61,189,500	2,152,839
2002	16,271,300	162,086	65,996,400	1,306,895
2003	16,922,200	168,654	64,502,300	1,278,679
2004	17,023,600	169,124	70,268,600	1,392,633
2005	17,840,900	176,231	73,834,400	1,462,013
2006	18,899,500	186,310	81,333,600	1,611,889
2007	20,534,000	204,985	96,120,400	1,862,143
2008	26,367,500	237,933	94,106,400	1,521,098

Fiscal Year Ended December 31	Total		Percentage of Total Tax Capacity to	
	Estimated Market Value	Tax Capacity	Total Estimated Market Value	Tax Rate
	1999	2,407,942,300	39,509,798	1.64%
2000	2,503,355,400	40,326,347	1.61%	0.26126
2001*	2,810,221,600	43,556,009	1.55%	0.26405
2002	3,142,887,900	35,641,876	1.13%	0.28976
2003	3,409,100,200	37,571,565	1.10%	0.29027
2004	4,080,640,300	43,505,506	1.07%	0.26866
2005	4,824,343,600	51,168,457	1.06%	0.24215
2006	5,037,213,600	56,081,656	1.11%	0.22183
2007	5,197,633,600	60,075,425	1.16%	0.22939
2008	5,478,673,800	63,346,912	1.16%	0.23259

* 2001 Tax Reform lowered the tax capacity rates on most classes of property.

Unaudited

**City of Duluth, Minnesota
Property Tax Rates*
Direct and Overlapping Governments
Last Ten Fiscal Years**

Fiscal Year	City	Overlapping Rates			Total Direct & Overlapping Rates
		Schools	County	Special	
1999	0.26063	0.50771	0.64718	0.01532	1.43084
2000	0.26126	0.48290	0.66028	0.01630	1.42074
2001	0.26405	0.46084	0.65924	0.01778	1.40191
2002	0.28976	0.18180	0.87363	0.04860	1.39379
2003	0.29027	0.14816	0.81464	0.05631	1.30938
2004	0.26866	0.11778	0.77282	0.06810	1.22736
2005	0.24215	0.11405	0.67545	0.06902	1.10067
2006	0.22183	0.10994	0.63330	0.06576	1.03083
2007	0.22939	0.10881	0.63013	0.06615	1.03447
2008	0.23259	0.20874	0.59190	0.06298	1.09621

* Tax Capacity Rate (per \$1 of Tax Capacity Value)

Source: St. Louis County web site

Unaudited

**City of Duluth, Minnesota
Principal Property Taxpayers
Current Year and Nine Years Ago**

Taxpayer	Type of Business	2008			1999		
		Estimated Market Value	Rank	Percentage of Total Estimated Market Value	Estimated Market Value	Rank	Percentage of Total Estimated Market Value
Minnesota Power	Electric utility	\$ 125,675,980	1	2.29%	\$ 67,814,600	1	2.82%
St. Mary's Med Center / Du	Healthcare / hospital	103,972,400	2	1.90%	21,719,400	4	0.90%
St. Lukes Hospital	Healthcare / hospital	43,085,400	3	0.79%	-	-	-
Simon Property, Inc.	Shopping mall	41,466,700	4	0.76%	24,446,300	3	1.02%
IRET Properties	Property management	23,237,700	5	0.42%	-	-	-
StoraEnso North America	Paper mill	22,419,100	6	0.41%	46,610,700	2	1.94%
ZMC Hotels	Hotels	14,155,500	7	0.26%	7,288,000	7	0.30%
Greysolon Apartments	Apartments	12,094,500	8	0.22%	-	-	-
US Bank	Bank/Office Building	11,556,500	9	0.21%	8,477,200	6	0.35%
Marshall School	School	11,377,300	10	0.21%	-	-	-
D M & I R Railroad	Railroad	-	-	-	16,110,000	5	0.67%
Burlington Northern	Railroad	-	-	-	6,661,100	8	0.28%
Sears Roebuck & Co	Retailer	-	-	-	6,660,400	9	0.28%
JMM Limited Partnership	Retail/Hotel	-	-	-	6,278,900	10	0.26%
		<u>\$ 409,041,080</u>		<u>7.47%</u>	<u>\$ 212,066,600</u>		<u>8.82%</u>

Unaudited

Source: City Assessor

**City of Duluth, Minnesota
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended December 31	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
1999	8,666,391	8,402,586	97.0%	346,412	8,748,998	101.0%
2000	8,795,700	8,560,631	97.3%	259,045	8,819,676	100.3%
2001	9,658,700	9,440,473	97.7%	224,849	9,665,322	100.1%
2002	9,038,100	8,889,198	98.4%	234,325	9,123,523	100.9%
2003	9,679,200	9,511,986	98.3%	172,940	9,684,926	100.1%
2004	10,153,500	9,872,757	97.2%	153,901	10,026,658	98.8%
2005	10,730,400	10,507,463	97.9%	145,275	10,652,738	99.3%
2006	11,102,100	10,839,881	97.6%	179,629	11,019,510	99.3%
2007	12,208,400	11,890,737	97.4%	167,778	12,058,515	98.8%
2008	13,543,600	13,088,415	96.6%	-	13,088,415	96.6%

Unaudited

**City of Duluth, Minnesota
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)**

Governmental Activities										
Fiscal Year	General Obligation Bonds	General Obligation Tax Increment Bonds	General Obligation Tax Abatement Bonds	Tax Increment Revenue Bonds	Lease Revenue Bonds	Special Assessment Debt with Government Commitment	General Obligation Certificates	Capital Leases		
1999	16,653	-	-	15,000	2,485	36,747	6,150	734		
2000	26,951	-	-	10,900	2,310	45,198	6,100	629		
2001	28,953	-	-	9,500	2,215	46,888	5,205	604		
2002	30,093	-	-	8,100	2,115	49,443	5,175	533		
2003	28,208	-	-	6,500	2,005	52,555	4,590	508		
2004	26,974	**	4,348	-	**	10,167	1,890	53,018	4,310	483
2005	33,813	7,282	310	3,919	1,770	53,919	3,915	458		
2006	32,439	6,381	310	2,543	1,640	53,600	4,395	433		
2007	19,502	23	310	1,240	1,250	52,060	5,270	408		
2008	60,815	-	310	175	1,125	48,845	6,715	383		

Business-Type Activities						
Fiscal Year	Revenue Bonds	Revenue and and General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income*	Per Capita*
1999	2,725	23,625	-	104,119	6.37%	1,229
2000	2,260	20,292	-	114,640	6.54%	1,319
2001	2,010	20,942	-	116,317	6.31%	1,351
2002	1,755	30,100	-	127,314	6.55%	1,480
2003	1,490	36,380	-	132,236	6.70%	1,536
2004	1,040	38,210	122	140,562	6.78%	1,639
2005	920	40,340	80	146,726	7.05%	1,708
2006	800	46,815	424	149,780	6.81%	1,759
2007	675	60,595	382	141,715	6.09%	1,659
2008	550	56,315	9,148	184,381	7.70%	2,158

*See the Schedule of Demographic and Economic Statistics for personal income and population data.

**In 2004, Duluth Economic Development Authority became a blended component unit.

Unaudited

City of Duluth, Minnesota
Ratios of Net General Obligation Bonded Debt
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>Tax Capacity</u>	<u>Gross Bonded Debt</u>	<u>Less Debt Service Funds</u>	<u>Net Bonded Debt</u>	<u>Percent of Net Bonded Debt to Tax Capacity</u>	<u>Net Bonded Debt per Capita</u>
1999	84,691	39,509,798	31,930,500	3,345,682	28,584,818	72.35%	337.52
2000	86,918	40,326,347	30,460,500	3,445,454	27,015,046	66.99%	310.81
2001	86,125	43,556,009	34,157,800	3,623,861	30,533,939	70.10%	354.53
2002	86,044	35,641,876	35,268,100	1,881,129	33,386,971	93.67%	388.02
2003	86,082	37,571,565	32,798,400	4,880,479	27,917,921	74.31%	324.32
2004*	85,782	43,505,506	35,632,400	5,903,348	29,729,052	68.33%	346.57
2005	85,889	51,168,457	45,320,700	6,287,564	39,033,136	76.28%	454.46
2006	85,170	56,081,656	43,525,000	6,162,546	37,362,454	66.62%	438.68
2007**	85,439	60,075,425	25,105,000	13,943,940	11,161,060	18.58%	130.63
2008	85,439	63,346,912	67,840,000	14,636,181	53,203,819	83.99%	622.71

Note: Gross bonded debt consists of general long-term debt bonds payable as reported on the Combined Balance Sheet. Specifically excluded are special assessment and enterprise bond issues for which the city is contingently liable. Tax increment revenue bonds are not included.

*In 2004, Duluth Economic Development Authority became a blended component unit. Their General Obligation debt is included beginning in 2004.

**In 2007 the Parking Fund was created. Its General Obligation Tax Increment Debt is no longer included in Gross Bonded Debt.

Unaudited

City of Duluth, Minnesota
Direct and Overlapping Governmental Activities Debt
As of December 31, 2008

<u>Governmental Unit</u>	<u>General Obligation Debt</u>	<u>Percent Chargeable to City</u>	<u>Amount Chargeable to City</u>
Independent School District 709	\$ 75,775,000	87.5%	\$ 66,312,137
Independent School District 704	11,025,000	6.6%	726,692
St. Louis County	53,500,000	35.6%	19,068,262
Subtotal, overlapping debt			86,107,091
City of Duluth direct debt			118,368,333
Total direct and overlapping debt			\$ 204,475,424

Unaudited

**City of Duluth, Minnesota
Legal Debt Margin Information
Last Ten Fiscal Years**

	Fiscal Year				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Taxable market value	\$ 2,407,942,300	\$ 2,503,355,400	\$ 2,810,221,600	\$ 3,142,887,900	\$ 3,409,100,200
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 48,158,846</u>	<u>\$ 50,067,108</u>	<u>\$ 56,204,432</u>	<u>\$ 62,857,758</u>	<u>\$ 68,182,004</u>
Debt applicable to limit:					
Total bonds payable	116,311,690	114,011,221	115,712,623	126,781,000	131,728,000
Less: Deductions allowable	<u>(84,381,190)</u>	<u>(83,550,721)</u>	<u>(87,249,823)</u>	<u>(100,307,900)</u>	<u>(107,309,600)</u>
Total net debt applicable to limit	<u>\$ 31,930,500</u>	<u>\$ 30,460,500</u>	<u>\$ 28,462,800</u>	<u>\$ 26,473,100</u>	<u>\$ 24,418,400</u>
Total net debt applicable to the limit as a percentage of debt limit	66.30%	60.84%	50.64%	42.12%	35.81%

	Fiscal Year				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Taxable market value	\$ 4,080,640,300	\$ 4,824,343,600	\$ 5,037,213,600	\$ 5,197,633,600	\$ 5,478,673,800
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 81,612,806</u>	<u>\$ 96,486,872</u>	<u>\$ 100,744,272</u>	<u>\$ 103,952,672</u>	<u>\$ 109,573,476</u>
Debt applicable to limit:					
Total bonds payable	139,957,491	146,189,413	148,923,488	140,925,002	174,850,000
Less: Deductions allowable	<u>(117,408,091)</u>	<u>(116,546,513)</u>	<u>(119,604,288)</u>	<u>(121,323,002)</u>	<u>(152,495,000)</u>
Total net debt applicable to limit	<u>\$ 22,549,400</u>	<u>\$ 29,642,900</u>	<u>\$ 29,319,200</u>	<u>\$ 19,602,000</u>	<u>\$ 22,355,000</u>
Total net debt applicable to the limit as a percentage of debt limit	27.63%	30.72%	29.10%	18.86%	20.40%

Unaudited

**CITY OF DULUTH, MINNESOTA
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	

WATER REVENUE BOND

1999	\$ 7,889,933	\$ 6,179,369	\$ 1,710,564	\$ 515,000	\$ 362,239	\$ 877,239	1.95
2000	7,863,335	6,373,536	1,489,799	* 2,450,000	326,440	2,776,440	0.54
2001	8,409,390	6,609,669	1,799,721	650,000	264,633	914,633	1.97
2002	9,787,215	6,601,830	3,185,385	685,000	328,420	1,013,420	3.14
2003	9,841,217	7,318,249	2,522,968	882,000	304,781	1,186,781	2.13
2004	10,041,273	7,165,410	2,875,863	918,000	269,155	1,187,155	2.42
2005	10,450,145	8,033,370	2,416,775	1,002,124	253,705	1,255,829	1.92
2006	11,104,194	8,399,508	2,704,686	989,000	218,199	1,207,199	2.24
2007	12,393,947	9,545,749	2,848,198	613,000	173,606	786,606	3.62
2008	11,460,937	9,930,687	1,530,250	446,000	167,583	613,583	2.49

* \$ 1,910,000 was provided from funds held in escrow.

GAS REVENUE BOND

2001	\$ 41,036,149	\$ 39,003,580	\$ 2,032,569	\$ -	\$ 155,865	\$ 155,865	13.04
2002	38,394,277	33,626,427	4,767,850	235,000	338,116	573,116	8.32
2003	42,313,867	37,357,082	4,956,785	455,000	493,552	948,552	5.23
2004	45,272,089	40,575,751	4,696,338	757,000	544,805	1,301,805	3.61
2005	55,642,735	48,960,275	6,682,460	825,000	519,365	1,344,365	4.97
2006	49,890,597	43,701,022	6,189,575	844,000	520,369	1,364,369	4.54
2007	47,701,819	45,655,468	2,046,351	933,000	507,486	1,440,486	1.42
2008	58,737,875	52,926,055	5,811,820	964,000	473,807	1,437,807	4.04

SEWER REVENUE BOND

1999	\$ 14,363,703	\$ 13,494,549	\$ 869,154	\$ 715,000	\$ 279,637	\$ 994,637	0.87
2000	14,898,053	13,425,754	1,472,299	875,000	291,510	1,166,510	1.26
2001	15,553,393	13,908,314	1,645,079	825,000	301,776	1,126,776	1.46
2002	16,560,152	13,815,859	2,744,293	925,000	396,905	1,321,905	2.08
2003	16,913,297	14,380,362	2,532,935	714,000	365,128	1,079,128	2.35
2004	16,407,422	13,705,780	2,701,642	750,000	441,383	1,191,383	2.27
2005	14,506,025	12,332,037	2,173,988	1,057,876	564,507	1,622,383	1.34
2006	15,700,498	13,679,753	2,020,745	1,192,000	584,732	1,776,732	1.14
2007	15,997,397	13,727,755	2,269,642	1,136,000	568,932	1,704,932	1.33
2008	17,368,159	15,398,048	1,970,111	1,365,000	574,828	1,939,828	1.02

(continued)

**CITY OF DULUTH, MINNESOTA
REVENUE BOND COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<u>STORMWATER REVENUE BOND</u>							
2002	\$ 2,774,284	\$ 1,869,425	\$ 904,859	\$ -	\$ 47,999	\$ 47,999	18.85
2003	2,861,113	2,147,125	713,988	74,000	51,437	125,437	5.69
2004	2,904,664	2,220,714	683,950	75,000	49,575	124,575	5.49
2005	3,012,171	2,232,765	779,406	76,000	47,592	123,592	6.31
2006	3,050,492	2,442,658	607,834	80,000	106,727	186,727	3.26
2007	3,991,834	2,501,932	1,489,902	168,000	109,299	277,299	5.37
2008	4,576,883	2,559,032	2,017,851	170,000	103,169	273,169	7.39
<u>STEAM DISTRICT #1 REVENUE BOND</u>							
1999	\$ 2,910,592	\$ 2,682,859	\$ 227,733	\$ 230,000	\$ 55,266	\$ 285,266	0.80
2000	3,118,008	2,737,336	380,672	235,000	54,422	289,422	1.32
2001	3,223,089	2,976,532	246,557	270,000	46,261	316,261	0.78
2002	3,548,873	3,008,319	540,554	300,000	45,309	345,309	1.57
2003	3,686,289	3,225,286	461,003	90,000	115,822	205,822	2.24
2004	4,021,712	3,373,137	648,575	135,000	118,620	253,620	2.56
2005	4,416,123	3,491,603	924,520	185,000	165,218	350,218	2.64
2006	4,687,255	3,994,525	692,730	265,000	262,113	527,113	1.31
2007	5,266,902	4,284,102	982,800	475,000	318,493	793,493	1.24
2008	5,959,836	4,576,313	1,383,523	510,000	299,986	809,986	1.71
<u>GOLF REVENUE BOND</u>							
1999	\$ 1,428,238	\$ 1,063,938	\$ 364,300	\$ 240,000	\$ 149,483	\$ 389,483	0.94
2000	1,634,898	1,220,726	414,172	250,000	135,323	385,323	1.07
2001	1,564,975	1,274,932	290,043	255,000	120,573	375,573	0.77
2002	1,487,619	1,392,197	95,422	265,000	105,528	370,528	0.26
2003	1,572,912	1,411,583	161,329	275,000	89,893	364,893	0.44
2004	1,735,653	1,441,402	294,251	120,000	31,595	151,595	1.94
2005	1,699,090	1,633,529	65,561	120,000	29,195	149,195	0.44
2006	1,901,413	1,672,256	229,157	125,000	26,435	151,435	1.51
2007	1,895,981	1,675,892	220,089	125,000	23,185	148,185	1.49
2008	1,882,898	1,707,326	175,572	130,000	19,435	149,435	1.17
<u>PARKING REVENUE BOND</u>							
2007	\$ 2,193,800	\$ 597,826	\$ 1,595,974	\$ 680,000	\$ 786,071	\$ 1,466,071	1.09
2008	4,200,392	816,515	3,383,877	430,000	694,889	1,124,889	3.01

Notes:

- (1) Includes operating revenue and interest earnings.
- (2) Includes operating expenses, excluding depreciation.

Unaudited

**City of Duluth, Minnesota
Demographic and Economic Statistics
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Population</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
1999	84,691	1,634,828,334	19,303	12,528	3.6%
2000	86,918	1,754,033,601	20,180	12,166	4.2%
2001	86,125	1,842,756,661	21,396	12,464	4.6%
2002	86,044	1,943,385,113	22,586	12,555	5.0%
2003	86,082	1,972,288,627	22,912	12,321	5.4%
2004	85,782	2,072,565,791	24,161	11,979	5.4%
2005	85,889	2,080,866,765	24,227	11,123	4.9%
2006	85,170	2,199,929,126	25,830	10,050	4.7%
2007	85,439	2,328,788,169	27,257	9,819	4.9%
2008 *	85,439 *	2,393,217,691 *	28,011	9,554	6.5%

Data sources:

The population figures are estimates of the State Demographer.
 Total personal income is from the Minnesota Department of Employment and Economic Development's website.
 The school enrollment figures were provided by the Duluth School District.
 The unemployment rates were provided by the Minnesota Department of Economic Security.
 *Estimates

Unaudited

**City of Duluth, Minnesota
Principal Employers
Current Year and Nine Years Ago**

<u>Employer</u>	<u>Type of Business</u>	<u>2008</u>			<u>1999</u>		
		<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
SMDC Health System	Healthcare / hospital	4,693	1	7.76%	4,757	1	8.28%
University of Minnesota - Duluth	Education	1,700	2	2.81%	1,450	5	2.52%
St. Luke's Hospital	Healthcare / hospital	1,657	3	2.74%	1,540	4	2.68%
St. Louis County	Government	1,640	4	2.71%	1,542	3	2.68%
Independent School District No. 709	Education	1,426	5	2.36%	2,600	2	4.53%
Allete (Minnesota Power)	Electric utility	1,400	6	2.32%	772	10	1.34%
Uniprise (United Health Care)	Claims processing	1,087	7	1.80%			
Duluth Air National Guard Base	Military	1,068	8	1.77%			
Cirrus Design	Aviation	905	9	1.50%			
City of Duluth	Government	850	10	1.41%	1,002	7	1.74%
State of Minnesota	Government				1,139	6	1.98%
U.S. Postal Service	Government / postal encoding center				900	8	1.57%
Miller Dwan Medical Center	Healthcare				885	9	1.54%
		<u>16,426</u>		<u>27.18%</u>	<u>16,587</u>		<u>28.86%</u>

Source: Northland Connection's website

Total city employment is from the Minnesota Department of Employment & Economic Development's website

Unaudited

City of Duluth, Minnesota
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function:	Full-time Equivalent Employees as of December 31				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
General government	160.0	156.0	154.8	155.8	152.8
Public safety					
Police	186.0	182.0	180.0	179.0	179.0
Fire	161.0	161.0	163.0	161.0	162.0
Public works	110.5	109.7	107.0	105.8	103.8
Culture and recreation					
Parks and recreation	20.2	22.2	23.2	23.2	23.2
Zoo	13.0	13.0	13.0	13.0	13.0
Library	68.6	68.6	65.6	65.6	65.6
Urban and economic development	53.0	53.0	49.0	47.0	47.0
Water & Gas	167.0	163.0	143.8	141.8	139.9
Sewer	34.0	33.1	35.8	34.7	33.6
Stormwater	18.5	18.2	16.7	19.9	17.9
Golf	10.0	10.0	8.0	8.0	8.0
Total	1,001.8	989.8	959.9	954.8	945.8

Function:	Full-time Equivalent Employees as of December 31				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General government	146.0	145.0	144.0	140.2	132.0
Public safety					
Police	171.0	169.0	173.0	174.0	179.0
Fire	159.0	154.0	159.0	158.0	157.0
Public works	92.4	90.4	90.4	83.4	83.4
Culture and recreation					
Parks and recreation	22.2	20.2	18.2	19.2	17.6
Zoo	12.0	11.0	11.0	12.0	11.0
Library	59.7	58.6	58.6	59.6	57.3
Urban and economic development	41.0	37.0	37.0	33.0	33.0
Water & Gas	135.5	135.2	131.9	124.9	122.5
Sewer	33.3	37.4	38.6	38.6	38.6
Stormwater	19.8	20.0	20.1	20.1	20.1
Golf	8.0	5.0	5.0	3.0	-
Total	899.9	882.8	886.8	866.0	851.5

Note: Steam Districts #1 and #2 have no city employees.

Source: City of Duluth Budget Office

Unaudited

**City of Duluth, Minnesota
Operating Indicators by Function
Last Ten Fiscal Years**

Function:	Fiscal Year				
	1999	2000	2001	2002	2003
Police					
Criminal offences*	8,763	12,467	17,839	17,928	17,610
Adult and juvenile arrests	6,912	9,387	4,755	6,805	4,503
Traffic violations	8,463	8,724	7,389	8,602	7,290
Parking violations	62,205	59,248	59,690	69,453	68,721
Fire					
Number of calls answered	6,164	6,257	6,759	6,944	7,015
Number of inspections conducted	3,400	3,450	3,000	3,140	3,500
Public works					
Construction permits:					
Permits issued	2,909	2,522	2,499	2,743	2,659
Estimated cost of construction during year	\$ 128,133,601	\$ 73,534,868	\$ 74,490,278	\$ 105,056,128	\$ 101,287,887
Culture and recreation					
Parks and recreation department**					
Participation in special events	-	44,160	94,400	57,752	43,825
Participation in recreation	-	285,887	261,301	306,168	287,127
Zoo regular customers	-	134,764	114,000	113,982	116,862
Library					
Registered borrowers	83,843	81,815	79,442	77,580	59,080
Cataloged items in collection	353,427	344,788	345,112	345,709	341,119
Items loaned	902,640	923,029	942,089	976,951	972,650
Reference/research questions answered	188,614	191,162	190,261	197,796	230,310
Water					
Meters in service	27,118	27,206	27,265	27,459	27,572
Average number of gallons treated per month	537,550,000	536,100,000	551,560,000	531,922,500	562,962,000
Daily average consumption in gallons	18,147,022	17,592,030	18,141,408	17,947,726	15,214,250
Gas					
Meters in service	24,119	24,242	24,413	24,613	24,857
MMBTU sold	4,893,775	5,087,104	4,805,908	5,124,065	5,289,874
Sewer					
Number of service connections	28,835	27,487	28,835	28,835	28,835
Daily average treatment in gallons	17,085,000	15,330,000	16,500,000	16,500,000	16,500,000
Maximum daily capacity of treatment plant in gallons	86,570,000	86,570,000	86,570,000	86,570,000	86,570,000
Stormwater***					
Cleaning storm sewer pipe (in feet)	-	50,784	28,845	24,052	19,734
Steam District #1					
Steam sold	317,372	331,980	333,314	333,657	363,175
Steam District #2					
Steam flow (1000's lbs.)	1,397,933	1,769,265	1,975,384	1,555,902	1,277,989
Golf**					
Season passes	-	1,338	1,256	1,195	1,231
Daily tickets	-	41,646	39,883	37,673	37,399
Carts	-	9,757	10,870	11,875	13,079
Rounds played	-	108,000	98,462	91,613	98,436

*Note: Prior to 2005, the police department's system tracked all calls to which the police responded--whether founded or unfounded.

The new system tracks only those calls which result in the police filing a report.

**Note: Parks and recreation data & golf data not available before 2000.

***Note: Stormwater data not available before 2000.

Sources: Various government departments.

(continued)

City of Duluth, Minnesota
Operating Indicators by Function
Last Ten Fiscal Years

Function:	Fiscal Year				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Police					
Criminal offences*	16,352	9,659	9,916	10,277	10,376
Adult and juvenile arrests	4,042	3,329	4,648	4,485	4,312
Traffic violations	5,978	3,752	6,184	3,344	2,951
Parking violations	69,906	66,555	76,095	62,556	49,498
Fire					
Number of calls answered	7,193	7,462	7,981	8,090	8,552
Number of inspections conducted	1,200	1,200	1,200	1,200	1,200
Public works					
Construction permits:					
Permits issued	2,456	2,400	2,080	3,117	2,757
Estimated cost of construction during year	\$ 175,360,742	\$ 121,160,329	\$ 194,794,123	\$ 93,080,667	\$ 115,091,545
Culture and recreation					
Parks and recreation department**					
Participation in special events	53,330	58,492	48,510	47,143	59,353
Participation in recreation	253,496	129,000	129,998	117,118	112,826
Zoo regular customers	107,227	93,870	102,865	117,269	92,218
Library					
Registered borrowers	63,851	49,011	48,884	49,660	49,233
Cataloged items in collection	341,034	354,480	355,668	359,805	344,302
Items loaned	970,342	969,186	969,972	969,756	901,128
Reference/research questions answered	237,517	226,222	231,445	194,604	250,756
Water					
Meters in service	27,696	27,809	27,948	28,087	28,016
Average number of gallons treated per month	537,703,000	514,360,000	518,865,000	527,489,906	514,647,500
Daily average consumption in gallons	17,630,000	16,910,466	17,058,575	17,342,134	16,919,918
Gas					
Meters in service	24,970	25,085	25,278	25,642	25,983
MMBTU sold	5,066,848	4,777,330	4,285,167	4,808,178	5,169,299
Sewer					
Number of service connections	28,835	28,840	28,845	28,845	28,845
Daily average treatment in gallons	16,500,000	14,580,000	14,780,000	13,150,675	15,249,900
Maximum daily capacity of treatment plant in gallons	86,570,000	86,570,000	86,570,000	86,570,000	86,570,000
Stormwater***					
Cleaning storm sewer pipe (in feet)	40,535	14,448	10,599	9,409	21,254
Steam District #1					
Steam sold	353,808	376,485	422,651	436,966	465,717
Steam District #2					
Steam flow (1000's lbs.)	2,141,686	2,321,074	2,413,617	2,173,992	2,285,877
Golf**					
Season passes	1,159	1,037	1,046	1,005	928
Daily tickets	35,826	35,524	41,467	34,274	35,230
Carts	12,652	13,509	14,323	13,255	12,811
Rounds played	91,909	84,382	89,287	84,185	83,390

Unaudited

City of Duluth, Minnesota
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function:	Fiscal Year				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Police					
Patrol units	80	80	76	78	81
Fire					
Fire stations	9	9	9	9	9
Public works					
Miles of streets and alleys:					
Miles of streets - paved	455.22	457.13	459.46	460.46	462.87
Miles of streets - unpaved	83.92	83.10	81.05	81.05	80.13
Miles of Sidewalk	379.90	380.60	380.60	380.60	380.77
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,184	3,184	3,291	3,241	3,241
Overhead street lamps	3,750	3,750	3,740	3,740	3,740
Culture and recreation					
Parks and recreation department					
Number of parks	105	129	131	129	129
Park acreage	11,482	11,862	11,493	11,862	11,862
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	36	31	31	31	30
Community clubs/field houses operated	29	2	27	27	27
Number of athletic fields	39	39	39	39	39
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	393.23	396.93	397.67	397.85	403.38
Number of hydrants	2,164	2,194	2,199	2,196	2,231
Maximum daily capacity of plant in gallons	32,000,000	32,000,000	32,000,000	32,000,000	32,000,000
Gas					
Miles of gas mains	444.30	451.40	458.30	465.30	478.50
Sewer					
Miles of sanitary sewers	387.83	400.20	419.94	420.81	420.81
Stormwater					
Miles of storm sewers	258.76	260.00	260.88	262.48	262.48
Steam District #1					
Miles of line	9.75	9.75	10.00	10.00	10.00
Steam District #2					
Feet of line	580	580	580	580	580
Golf					
Number of municipal golf courses	2	2	2	2	2

Sources: Various government departments.

(continued)

**City of Duluth, Minnesota
Capital Asset Statistics by Function
Last Ten Fiscal Years**

Function:	Fiscal Year				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Police					
Patrol units	75	92	87	96	96
Fire					
Fire stations	9	9	9	9	9
Public works					
Miles of streets and alleys:					
Miles of streets - paved	466.63	469.20	471.90	474.66	476.30
Miles of streets - unpaved	78.56	77.31	76.61	73.85	73.11
Miles of Sidewalk	380.83	381.33	382.56	382.56	382.56
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,241	3,712	3,758	3,758	3,758
Overhead street lamps	3,740	3,727	3,732	3,732	3,732
Culture and recreation					
Parks and recreation department					
Number of parks	129	129	107	107	111
Park acreage	11,862	11,862	11,862	11,862	13,490
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	23	23	22	22	22
Community clubs/field houses operated	27	27	27	27	27
Number of athletic fields	39	39	36	36	36
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	406.24	408.22	408.30	424.31	424.40
Number of hydrants	2,279	2,363	2,373	2,396	2,500
Maximum daily capacity of plant in gallons	32,000,000	32,000,000	32,000,000	32,000,000	35,000,000
Gas					
Miles of gas mains	482.20	488.30	495.34	508.00	510.20
Sewer					
Miles of sanitary sewers	404.00	408.00	409.00	409.00	424.00
Stormwater					
Miles of storm sewers	311.00	349.00	351.00	288.00	431.00
Steam District #1					
Miles of line	10.50	11.00	11.00	11.00	11.00
Steam District #2					
Feet of line	580	580	580	580	580
Golf					
Number of municipal golf courses	2	2	2	2	2

Unaudited

**City of Duluth, Minnesota
Miscellaneous Statistical Data
Last Ten Fiscal Years**

	Fiscal Year				
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
COMPONENT UNITS-					
Duluth Entertainment and Convention Center (DECC) -					
Number of events	543	551	554	588	512
Number of conventions	38	39	48	60	38
Duluth Airport Authority -					
Number of passengers	294,180	295,700	288,140	303,070	253,454
Duluth Transit Authority -					
Number of buses	72	87	87	72	66
Number of routes	19	18	18	18	18
Number of passengers	3,037,905	3,046,353	3,148,888	3,048,430	2,771,990
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority -					
Skier visits	210,219	297,883	259,441	256,937	254,616
Season passes	7,488	10,712	10,086	11,129	9,385

	Fiscal Year				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
COMPONENT UNITS-					
Duluth Entertainment and Convention Center (DECC) -					
Number of events	522	545	534	523	533
Number of conventions	44	43	43	45	57
Duluth Airport Authority -					
Number of passengers	316,912	305,750	290,421	349,447	303,163
Duluth Transit Authority -					
Number of buses	66	72	72	72	72
Number of routes	17	18	18	20	20
Number of passengers	2,647,051	2,709,249	2,692,931	2,854,467	3,219,758
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority -					
Skier visits	235,410	257,600	264,424	269,673	242,640
Season passes	8,630	9,209	8,920	8,028	8,123

Unaudited

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