

2012

Comprehensive Annual Financial Report



CITY OF DULUTH, MINNESOTA

For the Fiscal Year Ended December 31, 2012



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Department of Finance

For the Fiscal Year Ended December 31, 2012

**CITY OF DULUTH, MINNESOTA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2012**

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INTRODUCTORY SECTION



An Equal Opportunity Employer

City Auditor • Wayne Parson, CPA (inactive)

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June 28, 2013

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, 2012.

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 unmodified opinion on the City of Duluth's financial statements for the year ended December 31, 2012. 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 86,000 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 one of the largest inland seaports in the world.

As one of only four 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, a discretely presented component unit of the City. The City also is financially accountable for several legally separate entities including an airport, convention center, transit services, and recreation area, 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 Development, Duluth's unemployment averaged 6.3% for 2012 which was a significant improvement from the previous year's average unemployment rate of 6.9%. The total number of jobs reported to the state in 2012 peaked at 58,696.

Duluth also serves as a major shipping port for the region. Interlake cargoes of iron, grain, coal and stone combine to make Duluth the top volume port on the Great Lakes with a total of \$250 million in annual economic impact. The Seaway Port Authority of Duluth reports that 913 ships used the port last year. Flag vessels included 614 U.S-flag vessels, 231 Canadian-flag vessels and 68 foreign-flag vessels. Tonnage carried by those vessels in 2012 was 36,673,052 tons. The Seaway Port Authority reported that both mainstays for the port – shipments of iron ore and coal – ended up ahead of the previous year.

Duluth continues to excel in the key industry of tourism bringing approximately 3.5 million visitors to Duluth. Primarily a destination for leisure travelers, efforts in growing the leisure segment along with world-class special events and conventions are producing unparalleled return on investment. According to studies for Visit Duluth, Explore Minnesota Tourism and the University of Minnesota Tourism Center, visitors inject more than \$780 million each year directly into the immediate area. Duluth has turned itself into the top destination for Minnesotans as a primary getaway, according to Explore Minnesota Tourism. Duluth was rated by Money magazine as one of the top four Midwestern small cities, based on livability. Lake Superior, the city's unique history and soft-adventure continue to define Duluth's tourism brand as a family-friendly vacation.

The Duluth Entertainment Convention Center (DECC) remains a leader in convention center business and environmental stewardship. In 2012 the DECC hosted 515 events and 44 conventions. The management of Bayfront Park also became the responsibility of the DECC with a full roster of events, including Bentleyville Tour of Lights. This was the second full year of operations for AMSOIL Arena, which continues to be a huge success as home to the University of Minnesota-Duluth's men's and women's hockey teams. Fans supported WCHA Men's Frozen Four Hockey and Women's NCAA Division 1 Frozen Four Championships. The silver LEED certified Arena featured entertainment from Cirque du Soleil-Quidam, Michael Buble, and Jeff Dunham, to name a few. The DECC proudly continues to focus on sustainability efforts. By reducing waste, recycling, composting, and creating environmentally low-impact events, over 162,000 pounds of waste materials were diverted from the landfill.

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 11,491, UMD provides 13 bachelor degrees in 77 majors, 24 graduate programs including a two year School of Medicine and the College of Pharmacy. In addition, UMD participates in three all-university PhD programs. St. Scholastica offers 50 undergraduate majors, 14 Masters, and 2 Doctoral programs, with a total enrollment of over 4000 students. Lake Superior College offers more than 80 technical majors, programs for transfer, continuing education and customized training for business and industry. A new \$12.1 million Health and Science Center opened in January 2012.

LONG-TERM FINANCIAL PLANNING

Unassigned fund balance in the general fund (10.08 percent of total general fund expenditures and transfers) falls within the policy guidelines set by the Administration and Council for budgetary and planning purposes. According to the policy, unassigned 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.

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. In 2012, the City Council approved using \$2.9 million to pay off debt issued to finance the City's street improvement program and approved transferring an additional \$750,000 for street repairs. As of December 31, 2012, the Community Investment Fund reported a fund balance of \$21.4 million.

In 2007, the City established an irrevocable trust to pre-fund the City's other post-employment benefit liability. Contributions totaling \$24.8 million have been made to the irrevocable trust. The irrevocable trust balance including cumulative investment earnings was \$31.7 million at December 31, 2012. Future contributions will be made from a variety of funding sources including property taxes and public utility revenues.

In 2012, the City transferred parking enforcement activities including parking fine collections from the General Fund to the Parking Enterprise Fund. This policy change will allow all activities associated with parking ramps, parking lots and parking meters to be accounted for in one fund with the goal of achieving self-sufficiency including financing debt service costs and building reserves for future parking related improvements.

MAJOR INITIATIVES

In 2009, the City announced a major funding change for the street improvement program. Prior to 2009, the street improvement program was financed by the issuance of debt. For 2009 and future years, the street improvement program will now be financed by the City's share of revenues generated from the operation of the Fond-du-Luth Casino rather than the issuance of debt. This change in funding mechanism will not only reduce the City's overall debt, but will also result in additional funds dedicated towards street improvements. As of December 31, 2012, the City has authorized the transfer of \$17.8 million to the street improvement program. By 2014, the street improvement program is anticipated to result in the improvement of over 100 miles of city streets.

In 2011, a parks fund referendum levy was passed by voters. Effective for fiscal year 2012, this new special levy will provide \$2.6 million annually as a dedicated funding source for parks and recreation facilities and recreation activities. Parks and recreation operations will no longer be paid from the City's General Fund allowing the General Fund budget allocation for parks and recreation to be redirected towards library operations.

In 2012, an agreement was reached with AAR Aircraft Services, Inc. (AAR), a national aircraft maintenance, repair and overhaul company, to lease the former Northwest Maintenance, Repair and Overhaul (MRO) facility. The lease returns the MRO facility to its original, intended use as a heavy maintenance facility for A320 Airbus aircraft. Federal Aviation Administration certification was received in October 2012. Operations began in 2013 and are projected to result in the hiring of 200 employees.

In February 2012, the City opened a new Law Enforcement Center. The new Center provides for approximately 68,000 square feet of space and consolidates many police department functions into a single location. The Center is co-located with the St. Louis County Sheriff's Office and provides opportunities for coordination and collaboration between the City and the County. It is anticipated that these opportunities will result in enhanced efficiencies which will reduce operating costs.

In February 2012, the City issued \$7.1 million general obligation tax abatement bonds to finance improvements to the Spirit Mountain Recreation Area, including lift improvements, parking lot improvements, and the construction of a new chalet. Spirit Mountain is a component unit of the City.

In May 2012, the City announced that the proposed Duluth Transit Authority Multimodal Transportation Center has received all funding required to complete the \$27.5 million project. The multimodal transportation center will provide an indoor passenger terminal area, including regional and intercity carriers. The multimodal transportation center is a major effort to resolve long-standing parking, sidewalk congestion, and bus passenger safety issues in the downtown area.

In May 2012, the City issued \$7.65 million general obligation airport improvement bonds to finance the local match to federal and state grants for the construction of a new terminal facility at the Duluth International Airport, including a new parking ramp, access road and aprons. Total project costs are estimated to be \$75 million. The new terminal facility opened in January 2013. Project completion is anticipated in late 2013.

In June 2012, the City's infrastructure was severely damaged by a flood. The flood, by historical standards, is referred to as a 500 year event. The flood damage to the City was declared a federal disaster area, eligible for federal and state aid. Flood related infrastructure damages are estimated at \$40 million. Infrastructure repair activities began in 2012 and will continue into 2014.

In September 2012, the City announced a downtown redevelopment project, the Duluth Corporate Tower, a 15 story business tower with attached parking structure and skywalk connection. This projected \$80 million development is the largest downtown private development of its kind in the history of Duluth and will retain more than 400 professional jobs and create an additional 200 jobs. The project is slated to start construction in late 2013.

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, 2011. This was the thirty-seventh 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 2012. 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; I wish to acknowledge the Financial Analysts in the Finance Department who continue to meet this challenge.

Respectfully submitted,



Wayne Parson, CPA (inactive)
City Auditor

**ELECTED AND APPOINTED OFFICIALS
CITY OF DULUTH, MINNESOTA
2012**

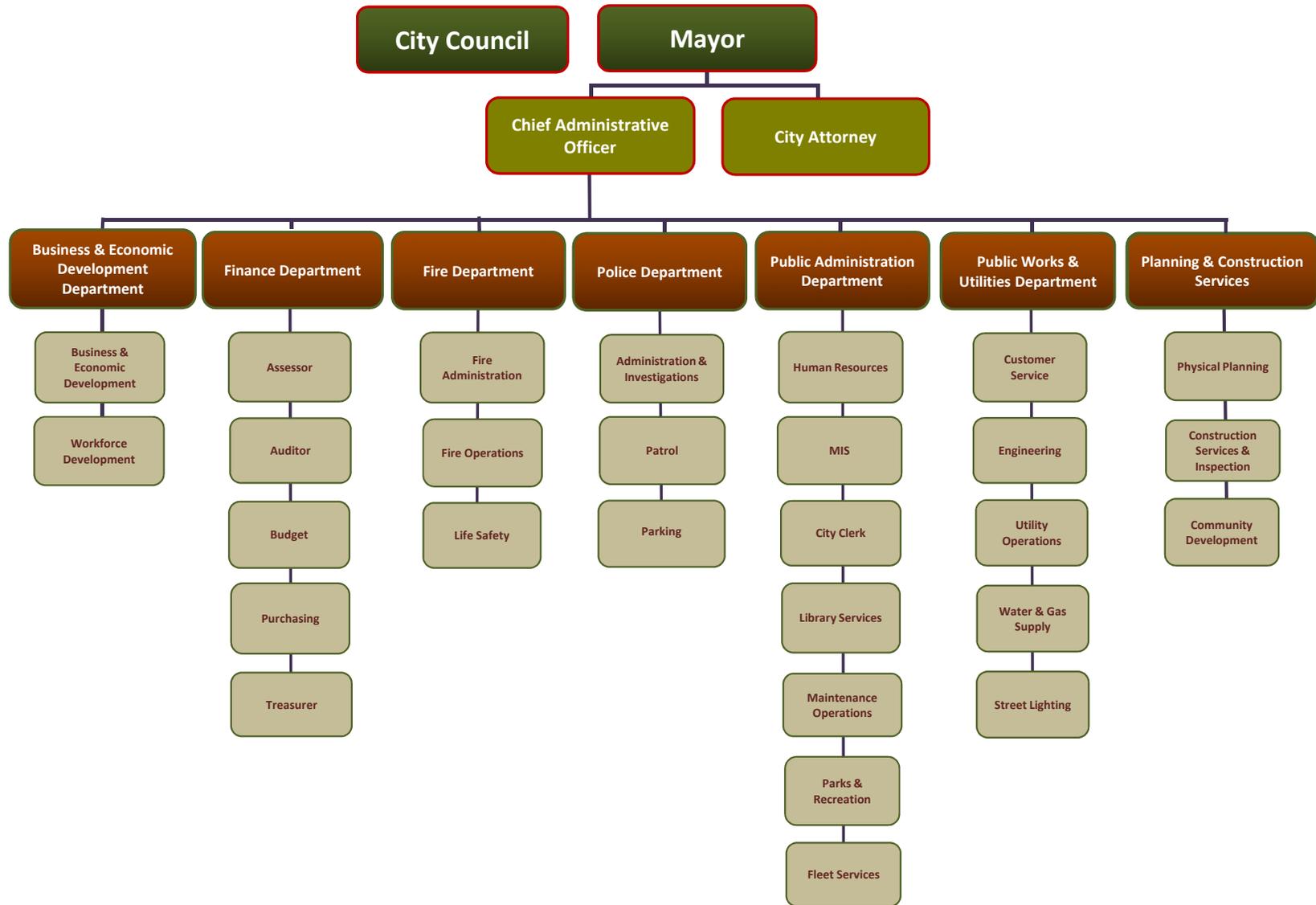
ELECTED POSITIONS	DISTRICT	TERM EXPIRES
Mayor Don Ness		2016
City Council		
Dan Hartman	At large	2014
Linda Krug	At large	2016
Emily Larson	At large	2016
James Stauber	At large	2014
Jennifer Julsrud	1	2016
Patrick Boyle	2	2014
Sharla Gardner	3	2016
Garry Krause	4	2014
Jay Fosle	5	2016

*All terms expire in January

APPOINTED POSITION

Assessor	Gregg Swartwoudt
Attorney	Gunnar Johnson
Auditor	Wayne Parson
Chief Administrative Officer	David Montgomery
Chief Financial Officer	Peggy Spehar
Chief of Fire	John Strongitharm
Chief of Police	Gordon Ramsay
Clerk	Jeffrey Cox
Director of Business & Community Development	Chris Eng
Director of Public Administration	Roshanda Smiley
Director of Public Works and Utilities	James Benning
Treasurer	Brian Hansen

CITY OF DULUTH ORGANIZATION CHART



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, 2011

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.



Christopher P. Moynell

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents. The financial statements and related notes include the Spirit Mountain Recreation Area Authority's activities as of and for the year ended April 30, 2012.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth as of December 31, 2012, including the Spirit Mountain Recreation Area Authority as of April 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Duluth's basic financial statements. The introductory section, the combining and individual fund statements and schedules, the supplementary information, and the 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 the supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, on our consideration of the City of Duluth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Duluth's internal control over financial reporting and compliance.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 27, 2013

Management's
Discussion and Analysis

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

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, 2012, 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, 2012, by \$410.0 million; this amount is identified as net position.
- As of December 31, 2012, the City's governmental funds reported combined ending fund balances of \$59.1 million.
- Nonspendable and restricted fund balance were \$30.3 million of fund balance or 51.3%. These fund balances are not available for appropriation because of constraints placed on the use of these funds. The remaining fund balances of \$28.8 million or 48.7% are unrestricted and classified as committed, assigned, or unassigned.
- 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, 2012, the trust reported Net Position totaling \$31.7 million.
- As of December 31, 2012, the General Fund's unrestricted, unassigned fund balance was \$7.6 million, or 10.1% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City'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 Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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.

The government-wide financial statements include not only the City, referred to as the primary government, but also five 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.

Financial statements for the Duluth Economic Development Authority are included in the Supplementary Information section of this report. 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 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, 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. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide 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 Disaster Recovery Special Revenue Fund, and the General Obligation Debt Service 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 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, demonstrate 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 for the Water, Gas, Sewer, 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 Position and a Statement of Changes in Fiduciary Net Position 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, internal service funds, fiduciary funds, and miscellaneous schedules. These schedules and statements follow the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net position may serve as a useful indicator of the City's financial position. The largest portion of the City's net position (90%) 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 position (9%) represents resources that are subject to external restrictions on how they may be used, with the largest amount set aside for debt service. Approximately 1% of total net position is reported as unrestricted. The following table presents a summary of the City's net position at December 31 for the past two fiscal years (dollars in thousands):

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 131,010	\$ 124,342	\$ 38,884	\$ 37,683	\$ 169,894	\$ 162,025
Capital assets	282,110	276,218	229,111	223,243	511,221	499,461
Total assets	<u>\$ 413,120</u>	<u>\$ 400,560</u>	<u>\$ 267,995</u>	<u>\$ 260,926</u>	<u>\$ 681,115</u>	<u>\$ 661,486</u>
Long-term liabilities outstanding	\$ 163,411	\$ 153,353	\$ 72,716	\$ 74,712	\$ 236,127	\$ 228,065
Other liabilities	24,645	13,071	10,381	12,017	35,026	25,088
Total liabilities	<u>\$ 188,056</u>	<u>\$ 166,424</u>	<u>\$ 83,097</u>	<u>\$ 86,729</u>	<u>\$ 271,153</u>	<u>\$ 253,153</u>
Net position:						
Net investment in capital assets	\$ 209,485	\$ 213,619	\$ 158,415	\$ 150,333	\$ 367,900	\$ 363,952
Restricted	36,781	43,114	1,864	1,999	38,645	45,113
Unrestricted	(21,202)	(22,597)	24,619	21,865	3,417	(732)
Total net position	<u>\$ 225,064</u>	<u>\$ 234,136</u>	<u>\$ 184,898</u>	<u>\$ 174,197</u>	<u>\$ 409,962</u>	<u>\$ 408,333</u>

Overall, the City's financial position remained relatively unchanged for 2012. The City's total net position increased \$1.6 million, an increase of less than 1%. Net position invested in capital assets continue to increase largely due to the City's utility infrastructure replacement. Restricted net position decreased \$6.5 million due to the continuing pay down of street improvement related debt and the spending down of bond proceeds related to the new law enforcement center which was completed in 2012. Unrestricted net position increased \$4.1 million. This was primarily due to favorable operating results in the Water Fund and Street Lighting Fund. Both funds were aided by rate increases in 2012.

In governmental activities, the increase in total liabilities of \$21.6 million was largely due to the issuance of \$14.7 million in debt to fund a new ski chalet at Spirit Mountain Recreation Area and to provide a local match for the construction of the new airport terminal at Duluth International Airport. The total asset increase of \$12.5 million was largely due to an increase in capital assets relating to ongoing street projects and completion of the new law enforcement center.

For business-type activities the increase in total liabilities of \$3.6 million is due to the issuance of Public Facilities Authority Notes to finance water and sewer infrastructure projects.

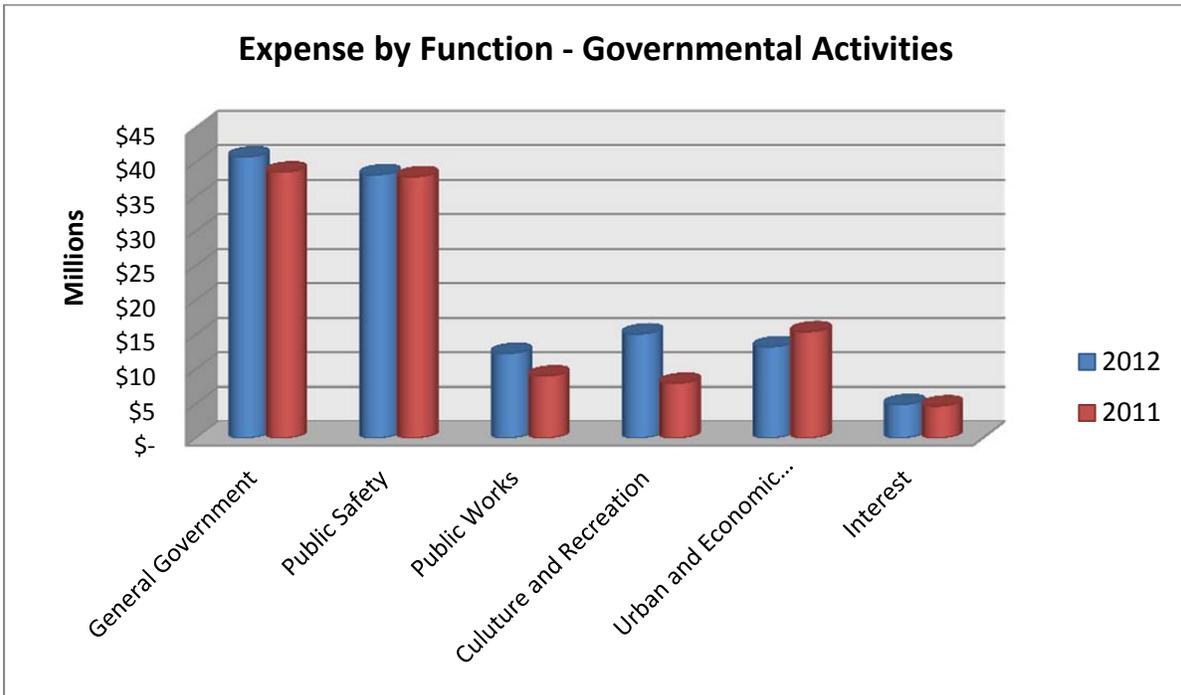
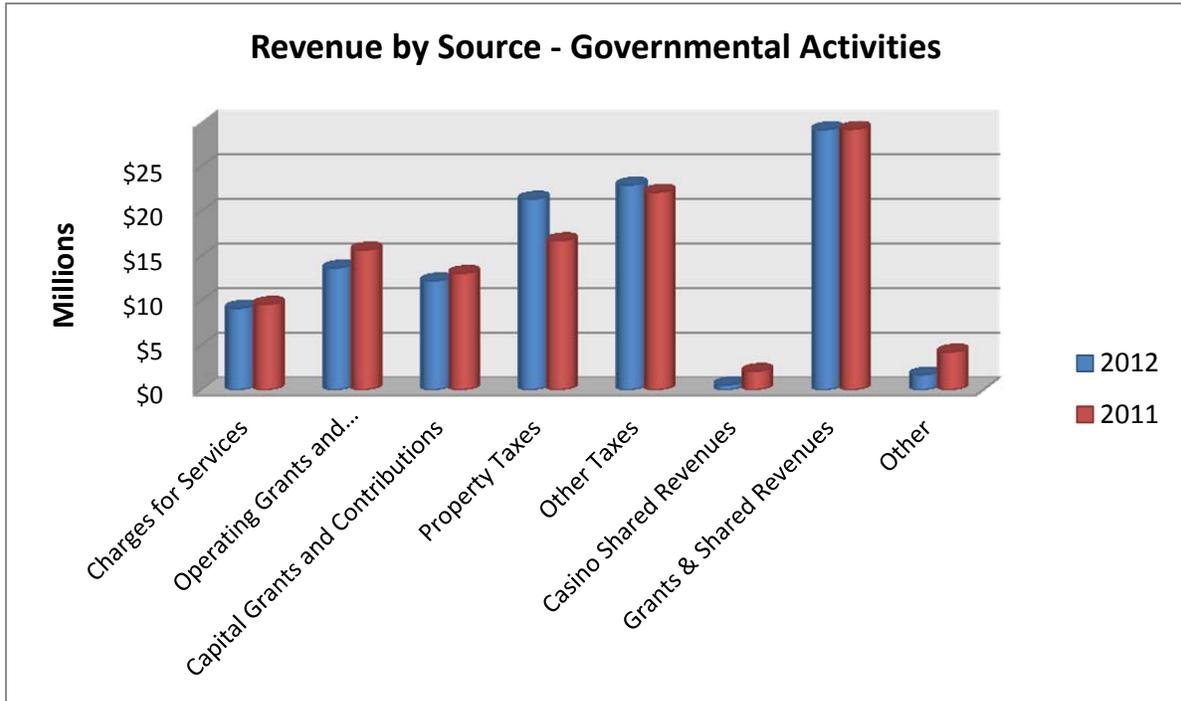
To give users a better understanding of the sources and uses of the City's net position, the following table presents a summary of revenues, expenses, and changes in net position for the past two fiscal years ending December 31 (dollars in thousands):

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 9,165	\$ 9,604	\$ 87,755	\$ 91,335	\$ 96,920	\$ 100,939
Operating grants and contributions	13,668	15,685	-	-	13,668	15,685
Capital grants and contributions	12,230	13,067	3,367	5,136	15,597	18,203
General Revenues:						
Property taxes	21,379	16,718	-	-	21,379	16,718
Other taxes	22,959	22,154	-	-	22,959	22,154
Casino shared revenues	579	2,097	-	-	579	2,097
Grants and shared revenues not restricted to specific programs	29,159	29,189	51	-	29,210	29,189
Other	1,699	4,262	241	2,698	1,940	6,960
Total revenues	110,838	112,776	91,414	99,169	202,252	211,945
Expenses:						
General government	40,761	38,577	-	-	40,761	38,577
Public safety	38,191	37,896	-	-	38,191	37,896
Public works	12,321	9,040	-	-	12,321	9,040
Culture and recreation	15,126	7,986	-	-	15,126	7,986
Urban and economic development	13,275	15,447	-	-	13,275	15,447
Interest	4,907	4,693	-	-	4,907	4,693
Water	-	-	10,243	11,218	10,243	11,218
Gas	-	-	30,352	36,218	30,352	36,218
Sewer	-	-	18,216	17,292	18,216	17,292
Stormwater	-	-	3,447	3,474	3,447	3,474
Steam District #1	-	-	7,083	6,974	7,083	6,974
Golf	-	-	2,193	2,056	2,193	2,056
Parking	-	-	2,924	1,940	2,924	1,940
Street lighting	-	-	1,584	1,481	1,584	1,481
Total expenses	124,581	113,639	76,042	80,653	200,623	194,292
Increase in net position before transfers	(13,743)	(863)	15,372	18,516	1,629	17,653
Transfers	4,671	5,379	(4,671)	(5,379)	-	-
Increase in net position	(9,072)	4,516	10,701	13,137	1,629	17,653
Net position, January 1	234,136	229,620	174,197	161,060	408,333	390,680
Net position, December 31	\$ 225,064	\$ 234,136	\$ 184,898	\$ 174,197	\$ 409,962	\$ 408,333

Governmental activities revenue decreased \$1.9 million in 2012. The decrease was caused in part by a reduction in investment income due to historical low interest rates. In addition, casino shared revenues decreased in 2012 due to expiration of a fifteen year shared revenue agreement with the Fond du Lac Band of Lake Superior Chippewa. The business-type activities revenue decrease of \$7.8 million was partly due to a one-time \$2.3 million Steam District guaranteed energy savings contract settlement received in 2011. In addition, a significant reduction in the cost of natural gas resulted in an equal reduction in gas sales. Natural gas cost savings are passed directly onto customers as a reduction in their gas bills.

Total expenses increased \$10.9 million for governmental activities. The increase in expenses is primarily due to the issuance of bonds to fund the new chalet at Spirit Mountain and the new terminal at the airport. In both cases the bonds were issued in the City's name, but the proceeds are being used to fund assets that are not the City's. Therefore, City funds expended on the projects were reported as an expense on the statement of activities in 2012. Business-type activities expenses decreased \$4.6 million. The decrease is partially related to a decrease in the cost of natural gas that is resold to customers by the City's Gas Utility.



**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

FUND FINANCIAL ANALYSIS

As noted earlier, the City 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; 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, 2012, the City's governmental funds reported combined ending fund balances of \$59.1 million, a decrease of \$13.8 million from 2011. Of the total fund balance amount, \$28.7 million, or 49%, is reported as unrestricted fund balance, either committed, assigned, or unassigned. The unrestricted fund balance includes \$23.8 million in assigned funds which are intended to be used for specific purposes, but are not ultimately legally restricted as to its use. The Community Investment Special Revenue fund makes up 90% of the assigned fund balance. Restricted fund balance of \$29.9 million is primarily composed of funds dedicated to debt service and capital projects.

The General Fund is the main operating fund of the City. At December 31, 2012, fund balance of the General Fund was \$8.7 million, with \$7.6 million, or 87% reported as unrestricted-unassigned. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted-unassigned fund balance and total fund balance to total fund expenditures. Unrestricted, unassigned fund balance is 10.1% and total fund balance is 11.6% of total General Fund expenditures.

The Community Investment Special Revenue fund balance decreased \$3.8 million in 2012. This reduction was due primarily to the use of funds to pay off debt issued to finance the City's Street Improvement program.

The Disaster Recovery Special Revenue fund accounts for federal and state aid used to finance recovery efforts related to the major flood event that occurred in Duluth in June 2012.

The General Obligation Debt Service fund accounts for the accumulation of resources for, and payment of, general obligation bonds, notes, and certificates. In 2012, bonds were issued to finance improvements including a new chalet at Spirit Mountain Recreation Area and a new terminal at the Duluth International Airport. The Spirit Mountain improvements related debt is being repaid using tourism tax revenue. The Airport improvements related debt is being repaid with airport gross revenues.

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 position for each of the City's major proprietary funds, as well as the change in net position for each fund during the past two fiscal years (dollars in thousands):

	Unrestricted Net Position December 31		Increase (Decrease) Net Position December 31	
	2012	2011	2012	2011
Water	\$ 1,698	\$ (114)	\$ 3,050	\$ 312
Gas	8,601	9,133	839	2,464
Sewer	3,072	2,375	5,092	7,286
Parking	3,769	3,819	112	52

The unrestricted net position in the Water Fund increased due to an increase in water rates. Unrestricted Net Position for the Sewer Fund increased due to favorable operating conditions.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$1.6 million increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$0.5 million appropriation increase for prior year carryovers.
- \$0.9 million appropriation for grants, gifts and donations.
- \$0.2 million appropriation for other budget allowable additions.

The carryover appropriation increase was possible due to prior year fund balance reserves. 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 \$.2 million. The unfavorable variance was due to a decrease in fine and forfeitures revenue and investment income that was partially offset by an increase in tax revenue and license and permit fees.
- Expenditures and transfers were under budget by \$1.0 million due primarily to staff vacancies and associated benefits.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2012, was \$511.2 million, net of accumulated depreciation. This investment includes land and improvements, buildings, equipment, roads and bridges, traffic signals, and utility-related infrastructure. In 2012, the City's total investment in capital assets, net of accumulated depreciation, increased by \$11.7 million. Major capital assets additions in 2012 included: public safety building construction - \$2.1 million; street and bridge improvements - \$8.7 million; and utility related infrastructure improvements of over \$11 million. 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):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Capital Assets:				
Land and improvements	\$ 20,682	\$ 20,603	\$ 4,628	\$ 4,628
Buildings	36,019	22,195	37,199	33,274
Equipment	10,755	9,244	18,926	20,989
Infrastructure	168,427	174,610	129,809	121,181
Construction in progress	<u>46,227</u>	<u>49,566</u>	<u>38,549</u>	<u>43,171</u>
Total	<u>\$ 282,110</u>	<u>\$ 276,218</u>	<u>\$ 229,111</u>	<u>\$ 223,243</u>

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

LONG-TERM DEBT

The City had \$161.1 million of bonded debt outstanding as of December 31, 2012. Of this amount, \$95.5 million is debt backed by the full faith and credit of the City. \$23.9 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 \$41 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):

	Balance <u>12/31/12</u>	Balance <u>12/31/11</u>
Governmental Activities:		
General Obligation Bonds	\$ 76,927	\$ 74,561
General Obligation Tax Abatement Bonds	7,315	285
Lease Revenue Bonds	565	715
Special Assessment Debt with Government Commitment	23,943	29,569
General Obligation Certificates	<u>11,300</u>	<u>10,275</u>
 Total Governmental Activities Bonded Debt	 <u>\$ 120,050</u>	 <u>\$ 115,405</u>
 Business-type Activities:		
Revenue Bonds	\$ -	\$ 145
Revenue and General Obligation Bonds	<u>41,045</u>	<u>44,005</u>
 Total Business-type Activities Bonded Debt	 <u>\$ 41,045</u>	 <u>\$ 44,150</u>

During 2012, the City's total bonded debt increased by \$1.5 million.

In 2012, the City issued \$7.7 million of general obligation bonds, \$7.0 million in general obligation tax abatement bonds, \$3.3 million of general obligation certificates, and various refunding issues totaling \$24.7 million to take advantage of low interest rates. The City also issued \$4.5 million in utility general obligation notes. The City has an "Aa2" rating from Moody's Investors Service and an "AA-" rating from Standard and Poor's.

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 \$111.4 million, which is significantly higher than the City's net debt of \$38.0 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 2013 General Fund budget is \$73.97 million. State local government aid (LGA) payments are anticipated to supply 37% of General Fund revenues. State aid payments are the single biggest financing source for the General Fund.

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

After nearly a decade of uncertainty in the State of Minnesota's Local Government Aid program, the 2013 State Legislature adopted reforms which will benefit Duluth and other cities by increasing the funding for LGA by \$80 million and revising the formula used to determine who gets aid and how much. The "need" factor will be three-tiered depending on the population of the city with separate calculations for cities under 2,500 in population, cities between 2,500 and 10,000 in population, and cities over 10,000 in population because different factors explain variations in a city's revenue base for different size cities. All three formulas were derived using revenue base (levy plus aid) as a proxy for city need. The new formula also stabilizes a city's allocation by capping the maximum annual loss for any city as well as distributes proportionally larger increases to cities whose current aid amount is furthest from their unmet need. For Duluth, these changes will increase anticipated LGA by \$1.6 million in 2014, up from the \$27.4 million received in 2011, 2012 and 2013.

In 2011, 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 2012 was \$15.3 million. For the year ended December 31, 2012, the City made contributions of \$43.7 thousand to an irrevocable trust and paid an additional \$9.7 million of retiree claims resulting in an increase of \$5.3 million in the City's net other post-employment benefits liability. As of December 31, 2012, the City's net other post-employment benefits liability is \$32 million.

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'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 POSITION
DECEMBER 31, 2012**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 72,461,267	\$ 15,338,428	\$ 87,799,695	\$ 18,348,263
Assets held by trustee	6,826,986	-	6,826,986	-
Receivables, net	37,893,690	10,952,838	48,846,528	4,936,490
Due from primary government	-	-	-	813,355
Internal balances	(1,122,449)	1,122,449	-	-
Due from component units	4,677,817	-	4,677,817	-
Due from other governments	8,152,598	1,295,468	9,448,066	935,205
Inventories	293,060	2,284,695	2,577,755	703,580
Prepays	312,164	1,404,263	1,716,427	264,184
Restricted assets:				
Cash and cash equivalents	-	3,146,209	3,146,209	4,881,901
Accounts receivable	-	-	-	91,805
Loans receivable	-	2,774,076	2,774,076	-
Grants receivable	-	-	-	9,697,317
Assets held by trustee	-	-	-	86,948
Deferred charges	1,515,703	565,262	2,080,965	1,065,857
Capital assets (Note 6):				
Non-depreciable	66,909,102	43,177,101	110,086,203	62,655,435
Depreciable, net	215,200,444	185,934,285	401,134,729	199,135,057
Total assets	413,120,382	267,995,074	681,115,456	303,615,397
LIABILITIES				
Accounts payable and other short-term liabilities	9,306,577	7,782,635	17,089,212	8,076,292
Accrued interest payable	1,941,032	625,179	2,566,211	15,247
Due to component units	1,497,934	-	1,497,934	-
Due to primary government	-	-	-	4,830,710
Due to other government	2,814,466	1,010,075	3,824,541	12,916
Unearned revenues	9,085,362	963,547	10,048,909	1,353,709
Noncurrent liabilities (Note 11):				
Due within one year	13,766,282	7,439,598	21,205,880	2,114,539
Due in more than one year	149,645,080	65,276,158	214,921,238	11,780,892
Total liabilities	188,056,733	83,097,192	271,153,925	28,184,305
NET POSITION				
Net investment in capital assets	209,484,876	158,415,070	367,899,946	254,936,875
Restricted for:				
General government	5,153,602	-	5,153,602	-
Public safety	97,811	-	97,811	-
Public works	-	1,843,388	1,843,388	-
Culture and recreation	1,434,999	-	1,434,999	-
Urban and economic development	5,612,702	-	5,612,702	-
Debt service	23,886,395	20,680	23,907,075	86,948
Capital outlay	595,775	-	595,775	14,517,142
Unrestricted	(21,202,511)	24,618,744	3,416,233	5,890,127
Total net position	\$ 225,063,649	\$ 184,897,882	\$ 409,961,531	\$ 275,431,092

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, 2012**

<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	\$ 40,761,298	\$ 4,415,328	\$ 3,223,649	\$ 41,159
Public safety	38,190,780	2,925,524	2,467,036	1,533,120
Public works	12,320,891	394,422	108,755	8,285,065
Culture and recreation	15,125,570	1,082,261	579,896	610,011
Urban and economic development	13,275,120	347,895	7,288,802	1,760,940
Interest	4,907,447	-	-	-
Total governmental activities	124,581,106	9,165,430	13,668,138	12,230,295
Business-type activities:				
Water	10,243,435	13,911,617	-	20,352
Gas	30,351,746	34,071,373	-	31,279
Sewer	18,216,008	20,350,506	-	2,824,792
Stormwater	3,447,389	4,798,166	-	9,894
Steam district #1	7,083,477	7,239,203	-	-
Golf	2,192,560	1,926,929	-	-
Parking	2,923,741	3,185,152	-	480,535
Street Lighting	1,583,897	2,272,395	-	-
Total business-type activities	76,042,253	87,755,341	-	3,366,852
Total primary government	<u>\$ 200,623,359</u>	<u>\$ 96,920,771</u>	<u>\$ 13,668,138</u>	<u>\$ 15,597,147</u>
Component units :				
Duluth Economic Development Authority	\$ 6,059,730	\$ 1,542,729	\$ 74,462	\$ 1,124,817
Duluth Entertainment and Convention Center Authority	12,913,348	7,649,725	-	-
Duluth Airport Authority	10,491,992	4,701,324	-	29,280,778
Duluth Transit Authority	16,598,306	2,663,846	5,976,637	694,675
Spirit Mountain Recreation Area Authority	5,155,988	4,740,484	-	1,711,735
Total component units	<u>\$ 51,219,364</u>	<u>\$ 21,298,108</u>	<u>\$ 6,051,099</u>	<u>\$ 32,812,005</u>

(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, 2012**

<u>Functions/Programs</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>			
	<u>Primary Government</u>			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
Primary Government:				
Governmental activities:				
General government	\$ (33,081,162)	\$ -	\$ (33,081,162)	\$ -
Public safety	(31,265,100)	-	(31,265,100)	-
Public works	(3,532,649)	-	(3,532,649)	-
Culture and recreation	(12,853,402)	-	(12,853,402)	-
Urban and economic development	(3,877,483)	-	(3,877,483)	-
Interest	(4,907,447)	-	(4,907,447)	-
Total governmental activities	<u>(89,517,243)</u>	<u>-</u>	<u>(89,517,243)</u>	<u>-</u>
Business-type activities:				
Water	-	3,688,534	3,688,534	-
Gas	-	3,750,906	3,750,906	-
Sewer	-	4,959,290	4,959,290	-
Stormwater	-	1,360,671	1,360,671	-
Steam district #1	-	155,726	155,726	-
Golf	-	(265,631)	(265,631)	-
Parking	-	741,946	741,946	-
Street Lighting	-	688,498	688,498	-
Total business-type activities	<u>-</u>	<u>15,079,940</u>	<u>15,079,940</u>	<u>-</u>
Total primary government	<u>(89,517,243)</u>	<u>15,079,940</u>	<u>(74,437,303)</u>	<u>-</u>
Component units :				
Duluth Economic Development Authority	-	-	-	(3,317,722)
Duluth Entertainment and Convention Center Authority	-	-	-	(5,263,623)
Duluth Airport Authority	-	-	-	23,490,110
Duluth Transit Authority	-	-	-	(7,263,148)
Spirit Mountain Recreation Area Authority	-	-	-	1,296,231
Total component units	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,941,848</u>
General Revenues:				
Taxes	21,379,384	-	21,379,384	4,581,601
Market value credit aid	9,759	-	9,759	-
Sales taxes	20,888,940	-	20,888,940	-
Other taxes	2,070,076	-	2,070,076	-
Casino shared revenues	579,478	-	579,478	-
Grants and shared revenues not restricted to specific programs	29,148,898	51,272	29,200,170	4,175,800
Investment income	506,168	184,954	691,122	187,486
Gain on sale or disposition of capital assets	19,124	55,623	74,747	54,675
Miscellaneous	1,172,063	-	1,172,063	774,472
Transfers	4,671,197	(4,671,197)	-	-
Total general revenues and transfers	<u>80,445,087</u>	<u>(4,379,348)</u>	<u>76,065,739</u>	<u>9,774,034</u>
Change in net position	(9,072,156)	10,700,592	1,628,436	18,715,882
Net position - beginning	<u>234,135,805</u>	<u>174,197,290</u>	<u>408,333,095</u>	<u>256,715,210</u>
Net position - ending	<u>\$ 225,063,649</u>	<u>\$ 184,897,882</u>	<u>\$ 409,961,531</u>	<u>\$ 275,431,092</u>

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

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Community Investment</u>	<u>Disaster Recovery</u>
ASSETS			
Cash and cash equivalents	\$ 2,819,842	\$ 21,296,989	\$ 4,206,768
Assets held by trustee	138,000	-	-
Receivables, net:			
Taxes	3,243,441	-	-
Accounts	419,922	12,418,992	530
Assessments	1,032,406	-	-
Loans	1,702,370	-	-
Grants	-	-	-
Accrued interest	164,669	54,504	-
Due from other funds	436,276	-	29,358
Due from component units	4,038,427	-	-
Interfund loan receivable	1,917,129	-	-
Due from other governments	638,087	-	4,406,282
Prepays	293,795	-	-
	<u>\$ 16,844,364</u>	<u>\$ 33,770,485</u>	<u>\$ 8,642,938</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,831,404	\$ -	\$ 184,006
Contracts payable	113,127	-	1,145,330
Due to other funds	300,154	-	-
Due to component units	50,000	-	-
Interfund loan payable	-	-	-
Due to other governments	75,127	-	-
Accrued salaries payable	2,189,906	-	149
Deferred revenue	3,574,470	12,418,992	10,061,968
	<u>8,134,188</u>	<u>12,418,992</u>	<u>11,391,453</u>
Fund balances:			
Nonspendable	431,795	-	-
Restricted	97,811	-	-
Committed	9,067	-	-
Assigned	583,777	21,351,493	-
Unassigned	7,587,726	-	(2,748,515)
	<u>8,710,176</u>	<u>21,351,493</u>	<u>(2,748,515)</u>
Total liabilities and fund balances	<u>\$ 16,844,364</u>	<u>\$ 33,770,485</u>	<u>\$ 8,642,938</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, 2012**

	General Obligation	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 7,400,232	\$ 28,126,436	\$ 63,850,267
Assets held by trustee	-	-	138,000
Receivables, net:			
Taxes	380,625	599,206	4,223,272
Accounts	-	76,536	12,915,980
Assessments	-	7,270,173	8,302,579
Loans	-	3,266,774	4,969,144
Grants	-	228,703	228,703
Accrued interest	-	-	219,173
Due from other funds	7,017	973,000	1,445,651
Due from component units	-	629,513	4,667,940
Interfund loan receivable	-	-	1,917,129
Due from other governments	-	3,108,229	8,152,598
Prepays	-	18,369	312,164
	<u>\$ 7,787,874</u>	<u>\$ 44,296,939</u>	<u>\$ 111,342,600</u>
Total assets	<u>\$ 7,787,874</u>	<u>\$ 44,296,939</u>	<u>\$ 111,342,600</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 958,191	\$ 2,973,601
Contracts payable	-	2,243,828	3,502,285
Due to other funds	4,242	1,020,672	1,325,068
Due to component units	-	1,447,934	1,497,934
Interfund loan payable	-	290,085	290,085
Due to other governments	-	2,725,473	2,800,600
Accrued salaries payable	-	111,618	2,301,673
Deferred revenue	316,684	11,222,944	37,595,058
	<u>320,926</u>	<u>20,020,745</u>	<u>52,286,304</u>
Total liabilities	<u>320,926</u>	<u>20,020,745</u>	<u>52,286,304</u>
Fund balances:			
Nonspendable	-	-	431,795
Restricted	7,435,203	22,352,732	29,885,746
Committed	-	294,971	304,038
Assigned	31,745	1,875,455	23,842,470
Unassigned	-	(246,964)	4,592,247
	<u>7,466,948</u>	<u>24,276,194</u>	<u>59,056,296</u>
Total fund balances	<u>7,466,948</u>	<u>24,276,194</u>	<u>59,056,296</u>
Total liabilities and fund balances	<u>\$ 7,787,874</u>	<u>\$ 44,296,939</u>	<u>\$ 111,342,600</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 POSITION
 DECEMBER 31, 2012**

Fund Balance--total governmental funds	\$ 59,056,296
Amounts reported for governmental activities in the statement of net position 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 \$436,280,905, and the accumulated depreciation is \$154,626,150.	281,654,755
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	35,328,504
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 position for \$8,507,569 less \$2,647,567 attributed to business-type activities.	5,860,002
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	123,142,640
Other post employment benefits	31,571,367
Other debt	280,369
Interest accrued on long-term debt	1,841,532
	(156,835,908)
Net position of governmental activities	\$ 225,063,649

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, 2012

	<u>General Fund</u>	<u>Community Investment</u>	<u>Disaster Recovery</u>
REVENUES			
Taxes:			
Property taxes	\$ 12,089,134	\$ -	\$ -
Sales taxes	12,444,742	-	-
Other taxes	2,060,451	-	-
Licenses and permits	1,625,826	-	-
Intergovernmental revenues	31,254,933	-	2,668,666
Charges for services	5,168,536	-	-
Fines and forfeits	1,075,167	-	-
Special assessments	417,027	-	-
Investment income	(29,991)	217,051	22,531
Miscellaneous revenues	1,596,442	-	253,828
Total revenues	<u>67,702,267</u>	<u>217,051</u>	<u>2,945,025</u>
EXPENDITURES			
Current:			
General government	33,728,657	58,555	482,934
Public safety	34,326,803	-	742,563
Public works	1,633,723	-	4,139,693
Culture and recreation	4,041,533	-	305,819
Urban and economic development	1,259,652	-	-
Debt service:			
Principal retirement	150,000	-	-
Interest and fiscal fees	30,750	-	-
Bond issuance costs	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>75,171,118</u>	<u>58,555</u>	<u>5,671,009</u>
Excess (deficiency) of revenues over expenditures	<u>(7,468,851)</u>	<u>158,496</u>	<u>(2,725,984)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	-	-
Proceeds from refundings	-	-	-
Premium on issuance of bonds	-	-	-
Payment to refunded bond escrow agent	-	-	-
Transfers in	8,049,143	-	-
Transfers out	<u>(126,308)</u>	<u>(4,008,318)</u>	<u>(22,531)</u>
Total other financing sources (uses)	<u>7,922,835</u>	<u>(4,008,318)</u>	<u>(22,531)</u>
Net change in fund balance	453,984	(3,849,822)	(2,748,515)
Fund balance - January 1, 2012	<u>8,256,192</u>	<u>25,201,315</u>	<u>-</u>
Fund balance - December 31, 2012	<u>\$ 8,710,176</u>	<u>\$ 21,351,493</u>	<u>\$ (2,748,515)</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, 2012

	<u>General Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes:			
Property taxes	\$ 6,560,902	\$ 2,686,249	\$ 21,336,285
Sales taxes	-	8,444,198	20,888,940
Other taxes	-	9,625	2,070,076
Licenses and permits	-	-	1,625,826
Intergovernmental revenues	242,201	15,304,051	49,469,851
Charges for services	-	723,192	5,891,728
Fines and forfeits	-	-	1,075,167
Special assessments	-	2,467,570	2,884,597
Investment income	20,794	199,671	430,056
Miscellaneous revenues	1,127,415	1,147,000	4,124,685
	<u>7,951,312</u>	<u>30,981,556</u>	<u>109,797,211</u>
Total revenues			
EXPENDITURES			
Current:			
General government	-	355,001	34,625,147
Public safety	-	1,406,743	36,476,109
Public works	-	273,097	6,046,513
Culture and recreation	-	3,414,574	7,761,926
Urban and economic development	7,490,075	11,453,279	20,203,006
Debt service:			
Principal retirement	7,559,052	5,335,948	13,045,000
Interest and fiscal fees	3,687,930	1,378,806	5,097,486
Bond issuance costs	55,425	225,175	280,600
Capital outlay	-	23,247,154	23,247,154
	<u>18,792,482</u>	<u>47,089,777</u>	<u>146,782,941</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(10,841,170)</u>	<u>(16,108,221)</u>	<u>(36,985,730)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	7,650,000	10,330,000	17,980,000
Proceeds from refundings	-	6,905,000	6,905,000
Premium on issuance of bonds	22,104	846,315	868,419
Payment to refunded bond escrow agent	-	(7,363,043)	(7,363,043)
Transfers in	4,352,817	6,764,588	19,166,548
Transfers out	(682,979)	(9,604,527)	(14,444,663)
	<u>11,341,942</u>	<u>7,878,333</u>	<u>23,112,261</u>
Total other financing sources (uses)			
Net change in fund balance	500,772	(8,229,888)	(13,873,469)
Fund balance - January 1, 2012	6,966,176	32,506,082	72,929,765
Fund balance - December 31, 2012	<u>\$ 7,466,948</u>	<u>\$ 24,276,194</u>	<u>\$ 59,056,296</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, 2012**

Net change in fund balances - total governmental funds \$ (13,873,469)

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	17,404,492	
Depreciation expense	<u>(11,424,415)</u>	
Excess of capital outlay over depreciation expense		5,980,077

Miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and other disposals) decreased net position. (22,777)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of \$162,568 from internal funds plus \$283,359 attributed to business-type activities is reported with governmental activities. (445,927)

Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, proceeds were received from:

Bonds issued, including a bond premium of \$307,145 less issuance costs of \$192,634.	18,094,511	
Refunding bonds, including a bond premium of \$561,274 less issuance costs of \$87,966.	<u>7,378,308</u>	
Total bond proceeds		(25,472,819)

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 position. In the current year, these amounts consist of:

Bond principal retirement	13,045,000	
Payments to the bond refunding agent	<u>7,363,043</u>	
Total long-term debt repayment		20,408,043

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. 1,817,329

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	74,049	
Increase in net other post employment benefits payable	(4,677,363)	
Increase in loans receivable	7,215,000	
Other	(79,114)	
Amortization of deferred amounts:		
for bond premiums	194,431	
for bond issuance costs	<u>(189,616)</u>	
Total additional expenditures		<u>2,537,387</u>

Change in net position of governmental activities \$ 9,072,156

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 ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual Amounts	Actual to
	Original	Final	(Budgetary Basis) (Note 2)	Modified Budget Favorable (Unfavorable)
REVENUES				
Taxes	\$ 25,998,700	\$ 25,998,700	\$ 26,594,327	\$ 595,627
Licenses and permits	1,255,100	1,255,100	1,625,826	370,726
Intergovernmental revenues	31,185,900	31,295,134	31,254,933	(40,201)
Charges for services	5,385,700	5,385,700	5,168,536	(217,164)
Fines and forfeits	1,787,500	1,855,437	1,075,167	(780,270)
Special assessments	441,000	463,190	417,027	(46,163)
Investment income	469,600	469,600	(29,991)	(499,591)
Miscellaneous revenues	1,200,500	1,367,108	1,596,442	229,334
Total revenues	<u>67,724,000</u>	<u>68,089,969</u>	<u>67,702,267</u>	<u>(387,702)</u>
EXPENDITURES				
Current:				
General government	34,369,900	34,367,093	33,851,428	515,665
Public safety	33,149,300	34,676,029	34,326,803	349,226
Public works	1,744,500	1,654,800	1,633,723	21,077
Culture and recreation	4,051,700	4,026,102	4,047,539	(21,437)
Urban and economic development	1,333,700	1,368,500	1,264,652	103,848
Debt service:				
Capital lease obligation - principal	150,000	150,000	150,000	-
Capital lease obligation - interest	30,900	30,900	30,750	150
Total expenditures	<u>74,830,000</u>	<u>76,273,424</u>	<u>75,304,895</u>	<u>968,529</u>
Excess (deficiency) of revenues over expenditures	<u>(7,106,000)</u>	<u>(8,183,455)</u>	<u>(7,602,628)</u>	<u>580,827</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	7,106,000	7,856,000	8,049,143	193,143
Transfers out	-	(126,308)	(126,308)	-
Total other financing sources (uses)	<u>7,106,000</u>	<u>7,729,692</u>	<u>7,922,835</u>	<u>193,143</u>
Net change in fund balance - budgetary basis	-	(453,763)	320,207	773,970
Net adjustments to reflect operations in accordance with generally accepted accounting principles			133,777	133,777
Net change in fund balance - GAAP basis	-	(453,763)	453,984	<u>\$ 907,747</u>
Fund balance - January 1, 2012	<u>8,256,192</u>	<u>8,256,192</u>	<u>8,256,192</u>	
Fund balance - December 31, 2012	<u>\$ 8,256,192</u>	<u>\$ 7,802,429</u>	<u>\$ 8,710,176</u>	

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds		
	Water	Gas	Sewer
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 800,187	\$ 2,888,656	\$ 2,538,149
Restricted cash and cash equivalents:			
Customer deposits	89,300	2,352,074	-
Construction	-	-	20,680
Loans	-	684,155	-
Restricted assets held by trustee	-	-	-
Receivables, net:			
Accounts	1,381,982	5,234,385	2,062,748
Restricted loans	-	592,418	-
Assessments	67,420	17,421	13,551
Due from other funds	36,306	78,991	248,685
Due from component units	-	-	-
Due from other governments	266,503	263,279	765,295
Inventories	924,050	876,748	69,037
Prepays	-	1,317,018	38,135
Total current assets	3,565,748	14,305,145	5,756,280
Noncurrent assets:			
Assessments receivable	107,491	16,867	128,273
Restricted loans receivable	-	2,181,658	-
Issuance costs	48,143	75,956	236,940
Capital assets, net	48,517,427	44,312,396	88,710,049
Total noncurrent assets	48,673,061	46,586,877	89,075,262
Total assets	52,238,809	60,892,022	94,831,542
LIABILITIES			
Current liabilities:			
Accounts payable	200,235	2,603,666	203,711
Contracts payable	249,677	275,188	1,141,832
Claims payable	-	-	-
Notes payable	794,887	-	1,380,288
Leases payable	196,258	179,903	169,000
Due to other funds	326,950	111,667	77,518
Interfund loan payable	-	-	-
Due to other governments	191,630	72,523	716,808
Accrued interest payable	116,763	120,979	285,298
Accrued salaries payable	164,293	216,384	107,249
Compensated absences	241,821	338,068	167,431
Unearned revenue	59,675	764,497	80,529
Deposits	10,000	1,484,593	-
Revenue bonds payable	427,028	857,980	1,390,440
Total current liabilities	2,979,217	7,025,448	5,720,104
Noncurrent liabilities:			
Notes payable	6,357,429	-	14,551,798
Claims payable	-	-	-
Compensated absences	19,388	28,864	11,450
Leases payable	2,573,703	2,359,228	2,216,245
Net other postemployment benefits payable	394,357	42,654	-
Revenue bonds payable	2,488,544	5,221,877	10,895,969
Less unamortized bond premium (discount)	7,879	123,909	(79,581)
Total noncurrent liabilities	11,841,300	7,776,532	27,595,881
Total liabilities	14,820,517	14,801,980	33,315,985
NET POSITION			
Net investment in capital assets	35,719,842	35,645,455	58,422,830
Restricted for health insurance trust	-	-	-
Restricted for special accounts	-	-	20,680
Restricted for loans	-	1,843,388	-
Unrestricted	1,698,450	8,601,199	3,072,047
Total net position	\$ 37,418,292	\$ 46,090,042	\$ 61,515,557

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Parking	Other Enterprise Funds	Total Enterprise Funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 3,830,698	\$ 5,280,738	\$ 15,338,428	\$ 8,611,000
Restricted cash and cash equivalents:				
Customer deposits	-	-	2,441,374	-
Construction	-	-	20,680	-
Loans	-	-	684,155	-
Restricted assets held by trustee	-	-	-	6,688,986
Receivables, net:				
Accounts	195,368	1,704,933	10,579,416	185,737
Restricted loans	-	-	592,418	-
Assessments	-	22,399	120,791	-
Due from other funds	-	46,378	410,360	339,698
Due from component units	-	-	-	9,877
Due from other governments	391	-	1,295,468	-
Inventories	-	414,860	2,284,695	293,060
Prepays	-	49,110	1,404,263	-
Total current assets	4,026,457	7,518,418	35,172,048	16,128,358
Noncurrent assets:				
Assessments receivable	-	-	252,631	-
Restricted loans receivable	-	-	2,181,658	-
Issuance costs	114,409	89,814	565,262	-
Capital assets, net	21,301,284	26,270,230	229,111,386	454,791
Total noncurrent assets	21,415,693	26,360,044	232,110,937	454,791
Total assets	25,442,150	33,878,462	267,282,985	16,583,149
LIABILITIES				
Current liabilities:				
Accounts payable	26,136	856,228	3,889,976	202,279
Contracts payable	33,936	114,304	1,814,937	-
Claims payable	-	-	-	2,509,555
Notes payable	-	-	2,175,175	-
Leases payable	-	110,718	655,879	-
Due to other funds	102,882	67,345	686,362	184,279
Interfund loan payable	-	1,249,116	1,249,116	377,928
Due to other governments	-	29,114	1,010,075	13,866
Accrued interest payable	56,681	45,458	625,179	-
Accrued salaries payable	15,397	79,806	583,129	46,370
Compensated absences	22,427	98,797	868,544	2,601,727
Unearned revenue	-	58,846	963,547	69,206
Deposits	-	-	1,494,593	-
Revenue bonds payable	860,000	204,552	3,740,000	-
Total current liabilities	1,117,459	2,914,284	19,756,512	6,005,210
Noncurrent liabilities:				
Notes payable	-	-	20,909,227	-
Claims payable	-	-	-	1,256,377
Compensated absences	-	17,594	77,296	813,993
Leases payable	-	236,105	7,385,281	-
Net other postemployment benefits payable	-	71,327	508,338	-
Revenue bonds payable	11,520,000	7,178,610	37,305,000	-
Less unamortized bond premium (discount)	(649,702)	(311,489)	(908,984)	-
Total noncurrent liabilities	10,870,298	7,192,147	65,276,158	2,070,370
Total liabilities	11,987,757	10,106,431	85,032,670	8,075,580
NET POSITION				
Net investment in capital assets	9,685,395	18,941,548	158,415,070	454,791
Restricted for health insurance trust	-	-	-	4,533,875
Restricted for special accounts	-	-	20,680	-
Restricted for loans	-	-	1,843,388	-
Unrestricted	3,768,998	4,830,483	21,971,177	3,518,903
Total net position	\$ 13,454,393	\$ 23,772,031	\$ 182,250,315	\$ 8,507,569

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

Net position of business-type activities

2,647,567
\$ 184,897,882

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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds		
	Water	Gas	Sewer
OPERATING REVENUES			
Sales	\$ -	\$ 32,412,220	\$ -
Charges for services	13,644,510	695,002	20,162,743
Miscellaneous revenues	267,107	964,151	187,763
Total operating revenues	<u>13,911,617</u>	<u>34,071,373</u>	<u>20,350,506</u>
OPERATING EXPENSES			
Cost of sales and services	-	19,376,845	-
Personal services	5,382,214	6,870,099	3,390,660
Supplies	1,156,035	991,036	394,293
Utilities	1,216,858	34,903	109,062
Other services and charges	1,135,437	1,503,637	12,028,209
Amortization	7,218	13,689	24,405
Depreciation	1,487,132	1,272,122	1,435,519
Medical and insurance	-	-	-
Total operating expenses	<u>10,384,894</u>	<u>30,062,331</u>	<u>17,382,148</u>
Operating income	<u>3,526,723</u>	<u>4,009,042</u>	<u>2,968,358</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	16,894	77,251	36,535
Intergovernmental revenue	16,919	23,365	8,283
Gain (loss) on sale or disposition of capital assets	1,273	3,349	1,001
Interest expense	(296,162)	(274,210)	(699,824)
Total non-operating revenue (expenses)	<u>(261,076)</u>	<u>(170,245)</u>	<u>(654,005)</u>
Income before contributions and transfers	3,265,647	3,838,797	2,314,353
Capital contributions	20,352	31,279	2,824,792
Transfers in	10,660	15,990	9,430
Transfers out	(246,395)	(3,047,010)	(57,014)
Change in net position	3,050,264	839,056	5,091,561
Total net position - January 1, 2012	<u>34,368,028</u>	<u>45,250,986</u>	<u>56,423,996</u>
Total net position - December 31, 2012	<u>\$ 37,418,292</u>	<u>\$ 46,090,042</u>	<u>\$ 61,515,557</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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Parking</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Activities - Internal Service Fund</u>
OPERATING REVENUES				
Sales	\$ -	\$ 506,965	\$ 32,919,185	\$ 2,880,079
Charges for services	2,660,838	15,466,829	52,629,922	17,926,992
Miscellaneous revenues	524,314	262,899	2,206,234	1,293,810
Total operating revenues	<u>3,185,152</u>	<u>16,236,693</u>	<u>87,755,341</u>	<u>22,100,881</u>
OPERATING EXPENSES				
Cost of sales and services	-	298,639	19,675,484	2,560,124
Personal services	502,396	2,391,158	18,536,527	4,973,428
Supplies	61,528	3,580,266	6,183,158	53,676
Utilities	149,575	1,165,206	2,675,604	-
Other services and charges	1,137,698	4,626,192	20,431,173	2,528,691
Amortization	9,792	17,453	72,557	-
Depreciation	490,016	1,919,667	6,604,456	65,099
Medical and insurance	-	-	-	12,113,292
Total operating expenses	<u>2,351,005</u>	<u>13,998,581</u>	<u>74,178,959</u>	<u>22,294,310</u>
Operating income	<u>834,147</u>	<u>2,238,112</u>	<u>13,576,382</u>	<u>(193,429)</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	31,053	23,221	184,954	76,112
Intergovernmental revenue	-	2,705	51,272	5,835
Gain (loss) on sale or disposition of capital assets	-	50,000	55,623	-
Interest expense	(572,736)	(303,721)	(2,146,653)	(398)
Total non-operating revenue (expenses)	<u>(541,683)</u>	<u>(227,795)</u>	<u>(1,854,804)</u>	<u>81,549</u>
Income before contributions and transfers	292,464	2,010,317	11,721,578	(111,880)
Capital contributions	480,535	9,894	3,366,852	-
Transfers in	662,185	4,920	703,185	-
Transfers out	(1,323,052)	(700,911)	(5,374,382)	(50,688)
Change in net position	112,132	1,324,220	10,417,233	(162,568)
Total net position - January 1, 2012	<u>13,342,261</u>	<u>22,447,811</u>	<u>171,833,082</u>	<u>8,670,137</u>
Total net position - December 31, 2012	<u>\$ 13,454,393</u>	<u>\$ 23,772,031</u>	<u>\$ 182,250,315</u>	<u>\$ 8,507,569</u>

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

Change in net position	\$ 10,417,233
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	283,359
Change in net position of business-type activities	<u>\$ 10,700,592</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, 2012**

T.O.C.

	Business-type Activities - Enterprise Funds		
	Water	Gas	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 13,666,624	\$ 34,698,576	\$ 20,280,395
Cash paid to suppliers	(3,695,589)	(20,799,102)	(12,537,265)
Cash paid to employees	(5,251,774)	(6,868,605)	(3,237,644)
Other operating revenues	185,085	242,777	122,258
Net cash provided (used) by operating activities	<u>4,904,346</u>	<u>7,273,646</u>	<u>4,627,744</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	10,660	15,990	-
Transfers to other funds	(246,005)	(3,047,010)	(57,014)
Operating grants	16,919	23,365	8,283
Interfund financing	(664,867)	664,867	-
Net cash provided (used) by noncapital financing activities	<u>(883,293)</u>	<u>(2,342,788)</u>	<u>(48,731)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital grants and contributions	72,234	42,014	2,105,230
Transfer from other funds	-	-	9,430
Issuance of revenue bonds and notes	1,167,302	-	4,320,465
Principal paid on bonds, notes and capitalized leases	(1,278,203)	(634,232)	(2,737,775)
Interest paid on bonds, notes and capitalized leases	(302,238)	(267,517)	(687,251)
Transfer to trustee debt service account	-	-	-
Payment of bond issuance costs	-	-	(45,994)
Sale of capital assets	140	-	-
Acquisition or construction of capital assets	(2,887,879)	(2,160,265)	(8,139,146)
Net cash provided (used) by capital and related financing activities	<u>(3,228,644)</u>	<u>(3,020,000)</u>	<u>(5,175,041)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment interest	8,038	75,618	28,701
Net increase (decrease) in cash and cash equivalents	800,447	1,986,476	(567,327)
Cash and cash equivalents - January 1, 2012	89,040	3,938,409	3,126,156
Cash and cash equivalents - December 31, 2012	<u>\$ 889,487</u>	<u>\$ 5,924,885</u>	<u>\$ 2,558,829</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Net operating income (loss)	<u>\$ 3,526,723</u>	<u>\$ 4,009,042</u>	<u>\$ 2,968,358</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,494,350	1,285,811	1,459,924
Change in assets and liabilities:			
Decrease (increase) in receivables	(189,303)	(165,634)	(108,193)
Decrease (increase) in inventory	(83,393)	45,708	68,804
Decrease (increase) in prepaid items	-	1,707,478	186,865
Increase (decrease) in payables	156,733	347,127	36,255
Increase (decrease) in deferred revenues	(764)	44,114	15,731
Total adjustments	<u>1,377,623</u>	<u>3,264,604</u>	<u>1,659,386</u>
Net cash provided (used) by operating activities	<u>\$ 4,904,346</u>	<u>\$ 7,273,646</u>	<u>\$ 4,627,744</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, 2012**

	<u>Business-type Activities - Enterprise Funds</u>		<u>Governmental</u>	
	<u>Parking</u>	<u>Other Enterprise Funds</u>	<u>Activities - Internal Service Fund</u>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 3,031,482	\$ 16,214,428	\$ 87,891,505	\$ 22,112,723
Cash paid to suppliers	(1,312,834)	(9,658,705)	(48,003,495)	(17,246,931)
Cash paid to employees	(479,026)	(2,091,749)	(17,928,798)	(4,775,418)
Other operating revenues	1,025	139,689	690,834	3,750
Net cash provided (used) by operating activities	<u>1,240,647</u>	<u>4,603,663</u>	<u>22,650,046</u>	<u>94,124</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	4,920	31,570	-
Transfers to other funds	(1,306,584)	(749,614)	(5,406,227)	(50,688)
Operating grants	-	2,705	51,272	5,835
Interfund financing	-	245,500	245,500	(130,246)
Net cash provided (used) by noncapital financing activities	<u>(1,306,584)</u>	<u>(496,489)</u>	<u>(5,077,885)</u>	<u>(175,099)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants and contributions	480,535	17,620	2,717,633	-
Transfer from other funds	662,185	-	671,615	-
Issuance of revenue bonds and notes	69,482	48,106	5,605,355	-
Principal paid on bonds, notes and capitalized leases	(825,000)	(1,267,937)	(6,743,147)	(23,887)
Interest paid on bonds, notes and capitalized leases	(620,262)	(445,102)	(2,322,370)	(597)
Transfer to trustee debt service account	-	(46,492)	(46,492)	-
Payment of bond issuance costs	(52,508)	(41,568)	(140,070)	-
Sale of capital assets	-	50,000	50,140	-
Acquisition or construction of capital assets	(16,280)	(1,450,359)	(14,653,929)	(6,268)
Net cash provided (used) by capital and related financing activities	<u>(301,848)</u>	<u>(3,135,732)</u>	<u>(14,861,265)</u>	<u>(30,752)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment interest	31,053	22,571	165,981	76,112
Net increase (decrease) in cash and cash equivalents	(336,732)	994,013	2,876,877	(35,615)
Cash and cash equivalents - January 1, 2012	<u>4,167,430</u>	<u>4,286,725</u>	<u>15,607,760</u>	<u>15,335,601</u>
Cash and cash equivalents - December 31, 2012	<u>\$ 3,830,698</u>	<u>\$ 5,280,738</u>	<u>\$ 18,484,637</u>	<u>\$ 15,299,986</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	<u>\$ 834,147</u>	<u>\$ 2,238,112</u>	<u>\$ 13,576,382</u>	<u>\$ (193,429)</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	499,808	1,937,120	6,677,013	65,099
Change in assets and liabilities:				
Decrease (increase) in receivables	(130,710)	353,493	(240,347)	(108,427)
Decrease (increase) in inventory	-	45,071	76,190	(34,204)
Decrease (increase) in prepaid items	-	(48,557)	1,845,786	9,154
Increase (decrease) in payables	59,337	76,218	675,670	347,138
Increase (decrease) in deferred revenues	(21,935)	2,206	39,352	8,793
Total adjustments	<u>406,500</u>	<u>2,365,551</u>	<u>9,073,664</u>	<u>287,553</u>
Net cash provided (used) by operating activities	<u>\$ 1,240,647</u>	<u>\$ 4,603,663</u>	<u>\$ 22,650,046</u>	<u>\$ 94,124</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, 2012**

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Water

Capital contributions are reported net of timing differences totaling \$43,026 due to receivables.

Gas

Capital contributions are reported net of timing differences totaling \$9,102 due to receivables.

Sewer

Refunding bond proceeds totaling \$2,055,307 were deposited with a trustee and used to advance refund \$1,920,000 of bonds and pay issuance costs of \$20,480.

Capital contributions are reported net of timing differences totaling \$305,591 due to receivables.

Parking

Refunding bond proceeds totaling \$10,217,715 were deposited with a trustee and used to advance refund \$9,440,000 of bonds and pay issuance costs of \$43,629.

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012**

T.O.C.

	Other Post Employment Benefits Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 2,389,084
Receivables:		
Loans	-	1,091,619
Investments, at fair value:		
Fixed income pool	12,077,636	-
Equity pool	19,665,498	-
Other assets	-	1,203
	<u> </u>	<u> </u>
Total assets	<u>\$ 31,743,134</u>	<u>\$ 3,481,906</u>
 LIABILITIES		
Accounts payable	\$ -	\$ 33,674
Due to agency	-	3,448,232
	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>\$ 3,481,906</u>
 NET POSITION		
Held in trust for post employment benefits	<u>\$ 31,743,134</u>	

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POST EMPLOYMENT BENEFITS TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

ADDITIONS

Contributions	<u>\$ 9,699,313</u>
Investment earnings:	
Interest and dividends	881,208
Net increase in fair value of investments	<u>2,501,714</u>
Total investment earnings	<u>3,382,922</u>
Total additions	<u>13,082,235</u>

DEDUCTIONS

Benefits	9,655,613
Other	500,000
Administrative fees	<u>2,783</u>
Total deductions	<u>10,158,396</u>
Change in net position	2,923,839
Net position - January 1, 2012	<u>28,819,295</u>
Net position - December 31, 2012	<u><u>\$ 31,743,134</u></u>

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2012**

	Duluth Economic Development Authority	Duluth Entertainment & Convention Center Authority	Duluth Airport Authority
ASSETS			
Cash and cash equivalents	\$ 6,670,971	\$ 1,890,250	\$ 283,504
Receivables, net			
Taxes	90,813	-	-
Accounts	238,893	203,458	454,356
Assessments	59,652	-	-
Loans	3,382,317	-	-
Deposits	250,000	-	-
Grants	-	-	48,081
Due from primary government	556,322	255,589	1,444
Due from other governments	658,875	-	-
Inventories	192,500	114,700	73,929
Prepays	161,629	11,687	41,971
Deferred charges	-	-	898,274
Restricted assets:			
Cash and cash equivalents	-	150,303	4,731,598
Accounts receivable	-	10,842	80,963
Grants receivable	-	-	9,697,317
Assets held by trustee	-	86,948	-
Capital assets, net:			
Non-depreciable	4,206,884	905,601	53,414,081
Depreciable	16,446,592	101,830,877	61,542,050
Total assets	32,915,448	105,460,255	131,267,568
LIABILITIES			
Accounts payable and other short-term liabilities	535,773	292,790	264,413
Contracts payable	137,120	-	5,949,631
Accrued interest payable	-	7,102	-
Due to primary government	634,333	5,821	4,009,917
Due to other government	-	-	-
Deferred revenue	-	838,598	19,781
Deposits	-	160,797	-
Non-current liabilities:			
Due within one year	-	257,836	599,331
Due in more than one year	-	987,915	8,362,671
Total liabilities	1,307,226	2,550,859	19,205,744
NET POSITION			
Net investment in capital assets	20,653,476	102,286,009	111,626,361
Restricted for:			
Debt service	-	86,948	-
Capital projects	6,660,269	-	-
Unrestricted	4,294,477	536,439	435,463
Total net position	\$ 31,608,222	\$ 102,909,396	\$ 112,061,824

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2012**

	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	Totals
ASSETS			
Cash and cash equivalents	\$ 9,262,568	\$ 240,970	\$ 18,348,263
Receivables, net			
Taxes	40,277	-	131,090
Accounts	65,047	103,596	1,065,350
Assessments	-	-	59,652
Loans	-	-	3,382,317
Deposits	-	-	250,000
Grants	-	-	48,081
Due from primary government	-	-	813,355
Due from other governments	276,330	-	935,205
Inventories	205,127	117,324	703,580
Prepays	48,897	-	264,184
Deferred charges	-	167,583	1,065,857
Restricted assets:			
Cash and cash equivalents	-	-	4,881,901
Accounts receivable	-	-	91,805
Grants receivable	-	-	9,697,317
Assets held by trustee	-	-	86,948
Capital assets, net:			
Non-depreciable	222,367	3,906,502	62,655,435
Depreciable	14,333,547	4,981,991	199,135,057
Total assets	24,454,160	9,517,966	303,615,397
LIABILITIES			
Accounts payable and other short-term liabilities	653,220	82,548	1,828,744
Contracts payable	-	-	6,086,751
Accrued interest payable	-	8,145	15,247
Due to primary government	6,400	174,239	4,830,710
Due to other government	-	12,916	12,916
Deferred revenue	91,760	403,570	1,353,709
Deposits	-	-	160,797
Non-current liabilities:			
Due within one year	535,819	721,553	2,114,539
Due in more than one year	-	2,430,306	11,780,892
Total liabilities	1,287,199	3,833,277	28,184,305
NET POSITION			
Net Investment in capital assets	14,555,914	5,815,115	254,936,875
Restricted for:			
Debt service	-	-	86,948
Capital projects	7,856,873	-	14,517,142
Unrestricted	754,174	(130,426)	5,890,127
Total net position	\$ 23,166,961	\$ 5,684,689	\$ 275,431,092

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, 2012**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Duluth Economic Development Authority				
Governmental activities:				
Economic development	\$ 6,059,730	\$ 1,542,729	\$ 74,462	\$ 1,124,817
Duluth Entertainment & Convention Center Authority				
Business-type activities:				
Entertainment and convention facility	12,913,348	7,649,725	-	-
Duluth Airport Authority				
Business-type activities:				
Airport facility	10,491,992	4,701,324	-	29,280,778
Duluth Transit Authority				
Business-type activities:				
Public transportation	16,598,306	2,663,846	5,976,637	694,675
Spirit Mountain Recreation Area Authority				
Business-type activities:				
Ski hill operations	5,155,988	4,740,484	-	1,711,735
Total component units	\$ 51,219,364	\$ 21,298,108	\$ 6,051,099	\$ 32,812,005

(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, 2012**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position					Totals
	Duluth Economic Development Authority	Duluth Entertainment & Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	
Duluth Economic Development Authority						
Governmental activities:						
Economic development	\$ (3,317,722)	\$ -	\$ -	\$ -	\$ -	\$ (3,317,722)
Duluth Entertainment & Convention Center Authority						
Business-type activities:						
Entertainment and convention facility	-	(5,263,623)	-	-	-	(5,263,623)
Duluth Airport Authority						
Business-type activities:						
Airport facility	-	-	23,490,110	-	-	23,490,110
Duluth Transit Authority						
Business-type activities:						
Public transportation	-	-	-	(7,263,148)	-	(7,263,148)
Spirit Mountain Recreation Area Authority						
Business-type activities:						
Ski hill operations	-	-	-	-	1,296,231	1,296,231
Total component units						8,941,848
General revenues:						
Taxes	2,068,762	1,195,939	-	1,316,900	-	4,581,601
Grants and shared revenues not restricted to specific programs	-	-	-	4,175,800	-	4,175,800
Investment income	63,172	11,907	33,518	77,331	1,558	187,486
Gain on sale of capital assets	43,675	-	-	-	11,000	54,675
Miscellaneous	5,592	682,277	-	-	86,603	774,472
Total general revenues and transfers	2,181,201	1,890,123	33,518	5,570,031	99,161	9,774,034
Change in net position	(1,136,521)	(3,373,500)	23,523,628	(1,693,117)	1,395,392	18,715,882
Net position - beginning	32,744,743	106,282,896	88,538,196	24,860,078	4,289,297	256,715,210
Net position - ending	\$ 31,608,222	\$ 102,909,396	\$ 112,061,824	\$ 23,166,961	\$ 5,684,689	\$ 275,431,092

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

Notes to the
Financial Statements

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**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

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.

DISCRETELY PRESENTED COMPONENT UNITS

As required by generally accepted accounting principles, the financial statements in this report present the City, the primary government, and its five component units: the Duluth Economic Development Authority, Duluth Entertainment and Convention Center Authority, Duluth Airport Authority, 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. Three of the seven board members of the Duluth Economic Development Authority must be City Councilors.

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. The City Council must approve any expenditure greater than \$100,000 for the Duluth Economic Development Authority.

Combining statements for the City's component units are presented in the Basic Financial Statements section of this report. Financial statements for the Duluth Economic Development Authority are included as schedules in the Supplementary Information 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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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 position and the statement of changes in net position) 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. **Notes To O.C.** Program revenues 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.

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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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:

General Fund	The City's primary operating fund. It accounts for all financial transactions not accounted for in another fund.
Community Investment Special Revenue Fund	This 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.
Disaster Recovery Special Revenue Fund	This fund was established to account for grants and aids associated with the 500-year flood event, which occurred in June 2012.
General Obligation Debt Service Fund	This fund was established to account for the accumulation of resources, and the payment of principal and interest on general obligation bonds, notes and certificates.

The City reports the following major proprietary funds:

Water Enterprise Fund	This fund accounts for the collection, treatment, and distribution of water.
Gas Enterprise Fund	This fund accounts for the distribution of natural gas, as well as inspection, maintenance and servicing of customer gas utilization equipment.
Sewer Enterprise Fund	The operation and maintenance of the sanitary sewer system is accounted for in this fund.
Parking Fund	The operation and maintenance of municipal parking ramps, municipal lots and parking meters is accounted for in this fund.

Additionally, the City reports the following fund types:

Internal Service Funds	Accounts 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 irrevocable trust established for funding other post-employment benefits for eligible retired employees under a single-employer defined benefit plan.
Agency Funds	Accounts for assets held by the City as an agent for the Duluth 1200 Loan and Duluth Public Arts entities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2012. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

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 and funds held pursuant to a self-insurance trust agreement.

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."

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 material 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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.

The inventory of the Duluth Transit Authority component unit consists of materials, supplies and fuel. The diesel fuel and gasoline inventories are based on perpetual records and priced using the moving average method. The materials and supplies inventory is also based on perpetual records but priced 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. The Duluth Economic Development Authority has a prepaid lease agreement for space rental which is being amortized over 15 years.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

A liability for unused vacation is reported in an internal service fund and the governmental activities column of the government-wide statement of net position 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.

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 position. 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as another 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 the following fund balance classifications:

Nonspendable - amounts that cannot be spent because they are not in spendable form or that are legally or contractually required to be maintained intact.

Restricted - amounts to be used for specific purposes as determined by enabling legislation or imposed by grantors or debt covenants.

Committed - amounts to be used for specific purposes as determined by Council action.

Assigned - amounts intended to be used for certain purposes as determined by Council action or by joint action by the Chief Administrative Officer and Chief Financial Officer.

Unassigned - residual balances in the General Fund that have not been restricted, committed or assigned. Other governmental funds may report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of the fund.

It is the City's policy to first use restricted resources and then unrestricted resources as needed. When unrestricted resources are available for use, it is the City's policy to use resources in the following order; first committed, then assigned and finally unassigned. Fund balance commitments may be established, modified or rescinded by City Council resolution.

RECLASSIFICATIONS

Several account balances were reclassified for the year ended December 31, 2011, 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 10% 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 assigned 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 either an assigned or a restricted fund balance since they do not constitute expenditures or liabilities.

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, 2012; an auditor's report on compliance and internal accounting control will be issued at a later date.

DEFICIT FUND EQUITY

The following special revenue funds had deficit fund balances due to grants earned but not received within 90 days of the end of the current fiscal year: Disaster Recovery Fund - \$2,748,515, Lake Superior Zoo - \$99,689, Home Investment Partnership Program - \$129,888, Police Grant Programs - \$8,660, and Economic Development - \$8,727. The deficits will be eliminated upon receipt of the grant funds.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

Notes T.O.C.

3. DEPOSITS AND INVESTMENTS

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

Government-wide Statement of Net Position

Governmental Activities

Cash and cash equivalents	\$ 72,461,267
Assets held by trustee	6,826,986

Business-type Activities

Cash and cash equivalents	15,338,428
Cash and cash equivalents - restricted assets	3,146,209

Discrete Component Units

Cash and cash equivalents	18,348,263
Cash and cash equivalents - restricted assets	4,881,901
Assets held by trustee - restricted assets	86,948

Statement of Fiduciary Net Position

Cash and cash equivalents	2,389,084
Investments, at fair value	31,743,134

Total Cash and Investments

\$ 155,222,220

DEPOSITS

Minnesota Statutes § 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, 2012, deposits with financial institutions were fully insured or collateralized by securities held in the City's name.

INVESTMENTS

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

3. DEPOSITS AND INVESTMENTS (continued)

1) governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities defined in Minnesota Statutes § 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.

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 § 429.091, Subd. 7, § 469.178, Subd. 5, or § 475.61, Subd. 6.

6) repurchase agreements consisting of collateral allowable in Minnesota Statutes § 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 § 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 § 118A.05, Subd. 2, clause (1) or (2), and having an office in Minnesota. Securities lending transactions may be entered into with entities meeting the qualifications of Minnesota Statutes § 118A.05, Subd. 2 and the collateral for such transactions shall be restricted to the securities described in Minnesota Statutes § 118A.04 and § 118A.05.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. DEPOSITS AND INVESTMENTS (continued)

8) agreements or contracts for:

- (1) shares of a Minnesota joint powers investment trust whose investments are restricted to securities described in Minnesota Statutes § 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 § 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.

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, 2012, 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	\$ 104,757,377	\$ 34,462,516	\$ 49,998,881	\$ 20,295,980
Negotiable Certificates of Deposit	3,233,000	3,233,000	-	-
Mutual Funds	44,127,935	44,127,935	-	-
Total Investments	\$ 152,118,312	\$ 81,823,451	\$ 49,998,881	\$ 20,295,980
Deposits	\$ 3,103,908			
Total Deposits and Investments	\$ 155,222,220			

* 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.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

3. DEPOSITS AND INVESTMENTS (continued)

The City's exposure to credit risk as of December 31, 2012, is as follows:

<u>S & P Rating</u>	<u>Fair Value</u>
AA+	\$ 104,757,377
<u>Moody's Rating</u>	
Aaa	12,384,801
<u>Not Rated</u>	
Mutual Funds	31,743,134
Negotiable Certificates of Deposit	3,233,000
Total	<u>\$ 152,118,312</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, 2012, none of the City's investments were subject to custodial credit risk.

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 Mortgage Association	\$ 13,993,899
Federal National Mortgage Association	\$ 22,843,147
Federal Farm Credit Bank	\$ 23,932,844
Federal Home Loan Bank	\$ 44,201,967

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, 2012, was 97.3%.

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 \$1,285,871. The uncollectible amounts related to the revenues of the City's utility enterprise funds at December 31, 2012, are as follows:

Water	\$ 149,943
Gas	599,515
Sewer	331,038
Nonmajor	101,374
Total Uncollectible	<u>\$ 1,181,870</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, 2012:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes	\$ 996,499	\$ -
Grants	2,234,739	8,770,422
Assessments	8,220,167	-
Loans	4,243,106	63,591
Deposits	-	155,860
Casino shared revenues	12,418,992	-
Total for Governmental Funds	<u>\$ 28,113,503</u>	<u>\$ 8,989,873</u>

CITY OF DULUTH, MINNESOTA
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6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

<u>PRIMARY GOVERNMENT</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 20,603,043	\$ 78,997	\$ -	\$ 20,682,040
Construction in progress	49,566,123	14,132,221	17,471,282	46,227,062
Total capital assets, not being depreciated	<u>70,169,166</u>	<u>14,211,218</u>	<u>17,471,282</u>	<u>66,909,102</u>
Capital assets, being depreciated:				
Buildings	51,773,647	15,376,149	-	67,149,796
Equipment	26,857,995	4,287,614	520,029	30,625,580
Infrastructure	271,828,794	1,043,125	-	272,871,919
Total capital assets being depreciated	<u>350,460,436</u>	<u>20,706,888</u>	<u>520,029</u>	<u>370,647,295</u>
Less accumulated depreciation for:				
Buildings	29,578,781	1,552,642	-	31,131,423
Equipment	17,614,350	2,753,892	497,252	19,870,990
Infrastructure	97,219,125	7,225,313	-	104,444,438
Total accumulated depreciation *(1)	<u>144,412,256</u>	<u>11,531,847</u>	<u>497,252</u>	<u>155,446,851</u>
Total capital assets, being depreciated, net	<u>206,048,180</u>	<u>9,175,041</u>	<u>22,777</u>	<u>215,200,444</u>
Governmental activities capital assets, net	<u>\$276,217,346</u>	<u>\$ 23,386,259</u>	<u>\$ 17,494,059</u>	<u>\$282,109,546</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 4,628,407	\$ -	\$ -	\$ 4,628,407
Construction in progress	43,170,626	11,448,144	16,070,076	38,548,694
Total capital assets, not being depreciated	<u>47,799,033</u>	<u>11,448,144</u>	<u>16,070,076</u>	<u>43,177,101</u>
Capital assets, being depreciated:				
Buildings	57,545,779	5,171,037	-	62,716,816
Equipment	44,768,697	862,173	397,124	45,233,746
Infrastructure	163,441,041	11,082,055	-	174,523,096
Total capital assets, being depreciated	<u>265,755,517</u>	<u>17,115,265</u>	<u>397,124</u>	<u>282,473,658</u>
Less accumulated depreciation for:				
Buildings	24,271,932	1,245,684	-	25,517,616
Equipment	23,779,341	2,926,104	397,124	26,308,321
Infrastructure	42,259,831	2,453,606	-	44,713,437
Total accumulated depreciation *(2)	<u>90,311,104</u>	<u>6,625,394</u>	<u>397,124</u>	<u>96,539,374</u>
Total capital assets, being depreciated, net	<u>175,444,413</u>	<u>10,489,871</u>	<u>-</u>	<u>185,934,284</u>
Business-type activities capital assets, net	<u>\$223,243,446</u>	<u>\$ 21,938,015</u>	<u>\$ 16,070,076</u>	<u>\$229,111,385</u>

*(1) Fully depreciated assets totaling \$42,333 were transferred from business-type activities to governmental activities.

*(2) Fully depreciated assets totaling \$20,940 were transferred from governmental activities to business-type activities.

6. **CAPITAL ASSETS** (continued)

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

Governmental activities:

General government	\$ 2,192,566
Public Safety	1,491,830
Public works, including depreciation of general infrastructure assets	6,824,052
Culture and recreation	915,967
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	65,099
Total depreciation expense - governmental activities	<u>\$ 11,489,514</u>

Business-type activities:

Water	\$ 1,487,133
Gas	1,272,121
Sewer	1,435,518
Stormwater	477,969
Steam #1	998,705
Street Lighting	224,421
Parking	490,016
Golf	218,571
Total depreciation expense - business-type activities	<u>\$ 6,604,454</u>

COMPONENT UNITS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 9,575,317	\$ -	\$ 34,780	\$ 9,540,537
Construction in progress	17,493,224	36,093,788	472,114	53,114,898
Total capital assets, not being depreciated	<u>27,068,541</u>	<u>36,093,788</u>	<u>506,894</u>	<u>62,655,435</u>
Capital assets, being depreciated:				
Buildings	225,469,458	1,608,834	2,995,104	224,083,188
Equipment	60,934,033	1,268,674	37,900	62,164,807
Infrastructure	80,575,646	-	-	80,575,646
Other	724,388	-	-	724,388
Total capital assets being depreciated	<u>367,703,525</u>	<u>2,877,508</u>	<u>3,033,004</u>	<u>367,548,029</u>
Less accumulated depreciation for:				
Buildings	74,242,008	6,496,290	1,890,662	78,847,636
Equipment	38,676,184	3,578,753	37,900	42,217,037
Infrastructure	43,022,687	3,933,622	-	46,956,309
Other	349,687	42,303	-	391,990
Total accumulated depreciation	<u>156,290,566</u>	<u>14,050,968</u>	<u>1,928,562</u>	<u>168,412,972</u>
Total capital assets, being depreciated, net	<u>211,412,959</u>	<u>(11,173,460)</u>	<u>1,104,442</u>	<u>199,135,057</u>
Component unit capital assets, net	<u>\$ 238,481,500</u>	<u>\$ 24,920,328</u>	<u>\$ 1,611,336</u>	<u>\$ 261,790,492</u>

Depreciation expense was charged to component units as follows:

Duluth Airport Authority	\$ 5,486,475
Duluth Entertainment and Convention Center Authority	3,817,133
Duluth Transit Authority	3,140,133
Duluth Economic Development Authority	994,801
Spirit Mountain Recreation Area Authority	612,426
Total Depreciation expense - component units	<u>\$ 14,050,968</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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Notes T.O.C.

7. COMMITMENTS

CONSTRUCTION COMMITMENTS

At December 31, 2012, the City had construction commitments of approximately \$14,345,293 for various projects and street improvements. The Duluth Airport Authority component unit had construction commitments of \$10,372,642 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.

PURCHASE COMMITMENTS

At December 31, 2012, the City had purchase commitments represented by open encumbrances. These are included as part of fund balance as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 133,776
Community Investment	402,531
Other Governmental Funds	4,983,761
Total Purchase Commitments	<u>\$ 5,520,068</u>

FLOOD DAMAGE REPAIR COMMITMENTS

On June 19 and 20, 2012, the City incurred significant flood damage to its infrastructure due to an unprecedented rain event. The City has been awarded \$12,956,953 in federal and state grants to repair flood damaged roads, bridges, facilities, parks and streams.

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 \$920,000 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 Chapter 176 in excess of the \$920,000 retention limit.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

8. RISK MANAGEMENT (continued)

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 \$730,000 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 2011 and 2012 were as follows:

	Liability January 1	Claims and Changes in Estimates	Less Claims Payments	Liability December 31
2011	1,089,301	810,840	435,418	1,464,723
2012	1,464,723	484,164	455,655	1,493,232

The Group Health Fund, an internal service fund, was established for the payment of employee medical and dental claims. The City pays Delta Dental of Minnesota, HealthPartners, 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 HealthPartners. The stop-loss policy has an individual limit of \$400,000 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 2011 and 2012 were as follows:

	Liability January 1	Claims and Changes in Estimates	Less Claims Payments	Liability December 31
2011	1,731,549	19,931,731	19,668,340	1,994,940
2012	1,994,940	20,972,616	20,694,856	2,272,700

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 2012:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Component Units</u>
Police Garage	\$ 15,356	\$ -
Impound Lot	2,800	-
Parking Spaces	4,920	-
Land & Right-of-way	24,553	53,735
Buildings	386,232	-
Equipment	591,920	5,335
Total Expense	<u>\$ 1,025,781</u>	<u>\$ 59,070</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, 2012:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	<u>Component Units</u>
2013	\$ 33,700	\$ 53,735
2014	33,700	53,735
2015	33,701	53,735
2016	33,700	53,735
2017	33,700	53,735
2018-2022	151,157	53,736
2023-2027	81,780	-
2028-2032	66,424	-
2033-2037	5,000	-
2038-2042	5,000	-
2043-2047	5,000	-
2048-2052	5,000	-
2053-2057	5,000	-
2058-2062	3,000	-
Total minimum payments required	<u>\$ 495,862</u>	<u>\$ 322,411</u>

Component unit subleases of noncancelable operating leases provide for future minimum rentals to be received totaling \$322,411 at December 31, 2012.

CITY OF DULUTH, MINNESOTA
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Notes T.O.C.

9. LEASE OBLIGATIONS (continued)CAPITAL LEASES

Capitalized leases for the City and its component units at December 31, 2012, consist of the following capital assets shown at original costs as summarized below:

<u>Type of Property</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Buildings	\$ -	\$ 1,534,313
Equipment	10,080,476	3,342,943
Total	10,080,476	4,877,256
Less: Accumulated amortization	(2,413,015)	(1,496,489)
Total Expense	<u>\$ 7,667,461</u>	<u>\$ 3,380,767</u>

Minimum future lease payments are:

<u>Year Ending December 31</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
2013	\$ 957,477	\$ 695,811
2014	957,476	544,409
2015	957,477	507,366
2016	831,660	362,544
2017	831,660	236,417
2018-2022	4,158,301	1,066,039
2023-2027	1,247,491	580,404
Total minimum lease payments	9,941,542	3,992,990
Less: Imputed interest	(1,900,381)	(696,008)
Present value of minimum lease payments	<u>\$ 8,041,161</u>	<u>\$ 3,296,982</u>

10. SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2012, follows:

	<u>Balance 01/01/12</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/12</u>
Duluth Economic Development Authority Loans Payable	\$ 358,946	\$ -	\$ 50,942	\$ 308,004

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.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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Notes T.O.C.

11. LONG-TERM DEBTCHANGES IN LONG-TERM LIABILITIES

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

	Balance 01/01/12	Additions	Deletions	Balance 12/31/12	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 74,561,023	\$ 7,650,000	\$ 5,284,052	\$ 76,926,971	\$ 2,828,265
General Obligation - Tax Abatement	285,000	7,055,000	25,000	7,315,000	25,000
Lease Revenue Bonds	715,000	-	150,000	565,000	150,000
Special Assessment Debt with Government Commitment	29,568,977	6,905,000	12,530,948	23,943,029	3,041,735
General Obligation Certificates	10,275,000	3,275,000	2,250,000	11,300,000	2,510,000
Add deferred amounts: For					
Bond Premium	938,355	868,419	194,431	1,612,343	-
Public Facilities Authority Note	180,000	-	25,000	155,000	25,000
Revenue Notes	2,906,000	-	65,000	2,841,000	75,000
Capital Leases Payable	23,887	-	23,887	-	-
Compensated Absences	3,546,459	2,406,812	2,537,551	3,415,720	2,601,727
Claims and Judgments	3,459,663	21,456,780	21,150,511	3,765,932	2,509,555
Net Other Post-Employment Benefits Payable	26,894,004	4,677,363	-	31,571,367	-
Total Governmental Long-Term Liabilities	\$ 153,353,368	\$ 54,294,374	\$ 44,236,380	\$ 163,411,362	\$ 13,766,282
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 145,000	\$ -	\$ 145,000	\$ -	\$ -
Revenue and General Obligation Bonds	44,004,999	17,745,000	20,704,999	41,045,000	3,740,000
Less deferred amounts:					
For Issuance Discounts/ Premiums	127,263	16,489	1,052,736	(908,984)	-
General Obligation Notes	20,561,632	4,469,745	1,946,975	23,084,402	2,175,175
Capital Leases Payable	8,672,333	-	631,173	8,041,160	655,879
Net Other Post-Employment Benefits Payable	244,520	263,818	-	508,338	-
Compensated Absences	955,936	758,171	768,267	945,840	868,544
Total Business-Type Long-Term Liabilities	\$ 74,711,683	\$ 23,253,223	\$ 25,249,150	\$ 72,715,756	\$ 7,439,598
Component Unit Activities:					
Duluth Economic Development Authority					
Tax Increment Revenue Bonds	\$ 45,000	\$ -	\$ 45,000	\$ -	\$ -
Tax Increment Revenue Notes	50,000	-	50,000	-	-
Duluth Entertainment and Convention Center Authority					
Capital Leases	576,823	-	140,774	436,049	135,177
Compensated Absences	189,832	142,808	128,084	204,556	122,659
Net Other Post-Employment Benefits Payable	577,699	27,447	-	605,146	-
Duluth Transit Authority					
Compensated Absences	532,686	535,819	532,686	535,819	535,819

CITY OF DULUTH, MINNESOTA
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Notes T.O.C.

11. LONG-TERM DEBT (continued)

	Balance 01/01/12	Additions	Deletions	Balance 12/31/12	Due Within One Year
Duluth Airport Authority					
Notes Payable	404,817	-	40,040	364,777	43,662
Loans Payable	242,222	7,650,000	461,666	7,430,556	471,667
Compensated Absences	91,831	84,002	91,831	84,002	84,002
Deferred Revenue	337,052	-	20,621	316,431	-
Net Other Post-Employment Benefits Payable	665,139	101,097	-	766,236	-
Spirit Mountain Recreation Authority					
Revenue Bond Payable	420,809	-	208,364	212,445	212,445
Capital Leases	2,600,313	540,332	279,712	2,860,933	430,627
Compensated Absences	74,963	78,481	74,963	78,481	78,481
Total Component Unit Long- Term Liabilities	<u>\$ 6,809,186</u>	<u>\$ 9,159,986</u>	<u>\$ 2,073,741</u>	<u>\$ 13,895,431</u>	<u>\$ 2,114,539</u>

DEBT REQUIREMENTS AND SOURCES OF REPAYMENTSGovernmental 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.

General obligation annual debt service requirements to maturity follow:

Year Ending December 31	General Obligation Bonds		General Obligation Certificates		General Obligation Tax Abatement	
	Interest	Principal	Interest	Principal	Interest	Principal
2013	\$ 3,325,716	\$ 2,828,265	\$ 224,215	\$ 2,510,000	\$ 177,899	\$ 25,000
2014	3,199,057	3,413,139	184,328	2,745,000	173,486	375,000
2015	3,096,566	3,355,567	120,591	2,265,000	165,499	380,000
2016	2,992,621	3,320,000	73,893	1,765,000	157,239	395,000
2017	2,886,598	3,365,000	37,425	1,320,000	148,704	400,000
2018-2022	12,861,628	14,545,000	10,425	695,000	609,576	2,095,000
2023-2027	9,675,501	16,605,000	-	-	369,440	2,185,000
2028-2032	4,953,193	21,320,000	-	-	66,450	1,460,000
2033-2034	417,622	8,175,000	-	-	-	-
Total	<u>\$ 43,408,502</u>	<u>\$ 76,926,971</u>	<u>\$ 650,877</u>	<u>\$ 11,300,000</u>	<u>\$ 1,868,293</u>	<u>\$ 7,315,000</u>

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.

CITY OF DULUTH, MINNESOTA
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11. LONG-TERM DEBT (continued)

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

Year Ending December 31	Lease Revenue Bonds	
	Interest	Principal
2013	\$ 22,600	\$ 150,000
2014	16,600	415,000
Total	<u>\$ 39,200</u>	<u>\$ 565,000</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 follow:

Year Ending December 31	United States Dept. of Housing and Urban Development Revenue Notes	
	Interest	Principal
2013	\$ 161,580	\$ 75,000
2014	157,792	80,000
2015	153,736	30,000
2016	152,209	5,000
2017	151,954	5,000
2018-2022	751,351	75,000
2023-2025	438,670	2,571,000
Total	<u>\$ 1,967,292</u>	<u>\$ 2,841,000</u>

Special Assessment Bonds

The City has a contingent liability against its full faith and credit on \$23,943,029 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		G.O. Revenue Notes Public Facilities Authority	
	Interest	Principal	Interest	Principal
2013	\$ 704,657	\$ 3,041,735	\$ 1,550	\$ 25,000
2014	649,218	3,806,862	1,300	25,000
2015	534,227	3,299,432	1,050	26,000
2016	437,290	2,710,000	790	26,000
2017	354,820	2,270,000	530	26,000
2018-2022	732,934	8,225,000	270	27,000
2023-2024	22,964	590,000	-	-
Total	<u>\$ 3,436,110</u>	<u>\$ 23,943,029</u>	<u>\$ 5,490</u>	<u>\$ 155,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Notes T.O.C.

11. LONG-TERM DEBT (continued)

Other Debt

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

Governmental activities compensated absences and net other post-employment benefit obligations are liquidated primarily through the General Fund.

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.

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 of the business-type activities follow:

Year Ending December 31	Revenue and General Obligation Bonds		G.O. Revenue Notes Public Facilities Authority	
	Interest	Principal	Interest	Principal
2013	\$ 921,597	\$ 3,740,000	\$ 323,543	\$ 2,175,175
2014	895,567	4,640,000	320,242	2,192,156
2015	772,734	4,855,000	285,840	2,178,449
2016	667,086	4,435,000	251,466	2,152,413
2017	565,491	4,350,000	220,606	2,184,000
2018-2022	1,469,742	14,715,000	638,275	8,853,413
2023-2026	221,147	4,310,000	96,236	3,348,796
Total	<u>\$ 5,513,364</u>	<u>\$ 41,045,000</u>	<u>\$ 2,136,208</u>	<u>\$ 23,084,402</u>

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%, 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.

The annual requirements to service the debt follow:

Year Ending April 30	Spirit Mountain Gross Revenue Bond	
	Interest	Principal
2013	\$ 7,154	\$ 212,445

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 \$404,817, 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%.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Notes T.O.C.

11. LONG-TERM DEBT (continued)

The annual requirements to service the debt follow:

Year Ending December 31	Airport Facility Revenue Note	
	Interest	Principal
2013	\$ 31,338	\$ 43,662
2014	27,338	47,612
2015	23,081	51,919
2016	18,385	56,615
2017	13,263	61,737
2018-2019	9,268	103,232
Total	<u>\$ 122,673</u>	<u>\$ 364,777</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.

The City issued \$7,650,000 General Obligation Airport Improvement Bonds, dated May 24, 2012, on behalf of the Duluth Airport Authority. Proceeds of the bonds will be used as a local match of federal and state grants to fund a new terminal facility, parking ramp, access road and aprons. The Duluth Airport Authority entered into a loan agreement with the City requiring the Airport Authority to make loan payments to the City to fund debt payments on the bonds.

DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS

	Issue Date	Amount Outstanding	Total
Governmental Activities:			
General Obligation Bonds Payable -			
G.O. Improvement	03/01/2004	195,000	
Airpark Improvement	09/01/2004	580,000	
Capital Improvement	06/01/2005	470,000	
Capital Improvement	09/07/2006	440,000	
Capital Improvement	12/13/2007	740,000	
Duluth Entertainment and Convention Center Authority			
Improvement	08/07/2008	40,415,000	
Aerial Lift Bridge Improvement	08/07/2008	1,085,000	
Capital Improvement	12/09/2008	1,130,000	
Capital Improvement	12/17/2009	6,580,000	
Capital Improvement - Law Enforcement Center	12/17/2009	11,905,000	
West Michigan Street Improvements Refunding	12/17/2009	316,971	
Capital Improvement	11/23/2010	1,990,000	
Airport Improvement Refunding	11/23/2010	1,560,000	
Capital Improvement	11/29/2011	1,870,000	
Airport Improvement	05/24/2012	<u>7,650,000</u>	
Total General Obligation Bonds Payable			\$ 76,926,971
General Obligation Tax Abatement			
Lake Walk Homes Tax Abatement Bonds	10/01/2005	260,000	
Spirit Mountain Tax Abatement Bonds	02/23/2012	<u>7,055,000</u>	
Total General Obligation Tax Abatement Bonds			\$ 7,315,000
Revenue Bonds Payable -			
Lease Revenue Bond	02/07/2007	<u>565,000</u>	565,000
Special Assessment Debt with			
Government Commitment	15 issues	<u>23,943,029</u>	23,943,029
General Long-Term Debt Certificates Payable:			
General Obligation Certificates Payable -	6 issues	<u>11,300,000</u>	<u>11,300,000</u>
Total Governmental Activities Debt			<u>\$ 120,050,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Notes T.O.C.

11. LONG-TERM DEBT (continued)

Business-type Activities Debt:	Issue Date	Amount Outstanding	Total
Revenue and General Obligation Bonds Payable:			
Parking Fund	3 issues	12,380,000	
Water Fund	4 issues	2,915,572	
Gas Fund	3 issues	6,079,857	
Steam District #1	1 issues	5,475,000	
Sewer Fund	11 issues	12,286,409	
Stormwater Fund	2 issues	<u>1,908,162</u>	
Total Revenue and General Obligation Bonds Payable			41,045,000
Total Business-type Activities Debt			<u>\$ 41,045,000</u>
Total Bonds Payable			<u>\$ 161,095,000</u>
Deductions Allowable:			
Airport Improvement Refunding	11/23/2010	1,560,000	
Airpark Improvement	09/01/2004	580,000	
Duluth Entertainment and Convention Center Authority Improvement	08/07/2008	40,415,000	
Lake Walk Home Tax Abatement Bonds	10/01/2005	260,000	
Lease Revenue Bond	05/01/1995	565,000	
Airport Improvement	05/24/2012	7,650,000	
Spirit Mountain Tax Abatement Bonds	02/23/2012	7,055,000	
Special Assessment		23,943,029	
Parking Fund		12,380,000	
Water Fund		2,915,572	
Gas Fund		6,079,857	
Steam District #1		5,475,000	
Sewer Fund		12,286,409	
Stormwater Fund		<u>1,908,162</u>	
Total Deductions Allowable			<u>\$ 123,073,029</u>
Net Debt			<u>\$ 38,021,971</u>
Legal Debt Margin for Duluth			
Taxable Market Value (5,571,357,700 X 2%)			<u>\$ 111,427,154</u>

Overlapping Debt to Duluth

Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$ 63,720,000	88.3%	\$ 56,264,760
Independent School District 704	12,790,000	6.2%	792,980
St. Louis County	31,900,000	35.8%	11,420,200
			<u>\$ 68,477,940</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 2012, the City issued \$6,905,000 General Obligation Street Improvement Refunding Bonds with the obligation to be paid primarily by special assessments levied. The transaction resulted in a net present value savings of \$788,141 and a reduction in future debt service payments of \$812,084. The proceeds from this issue were used to current refund the City's Series 2003D and 2004B Bonds and to advance refund the City's Series 2005D Bonds.

In 2012, the City issued \$5,475,000 General Obligation Steam Utility Revenue Refunding Bonds with the obligation to be paid primarily by net revenues derived from operation of the City steam utility. The transaction resulted in a net present value savings of \$361,599 and a reduction in future debt service payments of \$409,617. The proceeds from this issue were used to current refund the City's Series 2003E Bonds and to advance refund the City's Series 2005B and 2006E Bonds.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

11. LONG-TERM DEBT (continued)

All current refunded debt is fully defeased.

The following refunded bonds were recalled on December 27, 2012:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
2003D	09/01/2003	General Obligation Street Improvement Bonds	\$ 2,710,000
2003E	09/01/2003	General Obligation Steam Utility Revenue Bonds	\$ 1,535,000

The following refunded bonds are scheduled to be recalled on February 1, 2013:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
2004B	09/01/2004	General Obligation Street Improvement Bonds	\$ 2,910,000

Advance Refunding Bonds

When the City issues an advance refunding bond, an escrow account is established from the proceeds. Amounts in the escrow account 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.

In 2012, the City issued \$2,000,000 General Obligation Sewer Utility Revenue Refunding Bonds with the obligation to be paid by net revenues derived from operation of the City sewer utility. The transaction resulted in a net present value savings of \$161,906 and a reduction in future debt service payments of \$164,378.

In 2012, the City issued \$10,270,000 Parking Improvement Tax Increment Refunding Bonds with the obligation to be paid by net revenues of the parking ramp financed and ad valorem real estate taxes. The transaction resulted in a net present value savings of \$1,595,825 and a reduction in future debt service payments of \$1,800,237.

The following refunded bonds are scheduled to be recalled on February 1, 2013, related to a prior year advance refunding:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
2004D	09/01/2004	General Obligation Sewer Utility Revenue Bonds	\$ 2,170,000

The following refunded bonds are scheduled to be recalled on February 1, 2014, related to the current year advance refunding:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
2005D	10/06/2005	General Obligation Street Improvement Bonds	\$ 2,315,000
2005F	12/19/2005	General Obligation Sewer Utility Revenue Bonds	\$ 1,920,000
2005G	12/16/2005	Parking Improvement Tax Increment Bonds	\$ 9,440,000
2005B	06/01/2005	General Obligation Steam Utility Revenue Bonds	\$ 800,000

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Notes T.O.C.

11. LONG-TERM DEBT (continued)

The following refunded bonds are scheduled to be recalled on February 1, 2015, related to the current year advance refunding:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
2006E	12/19/2006	General Obligation Steam Utility Revenue Bonds	\$ 3,315,000

All other advance refunded bonds have been paid in full.

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

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Balance</u>
Governmental Activities:			
Current Refunding Bonds:			
Street Improvement	12/19/2006	\$ 3,445,000	\$ 1,090,000
Art Space Refunding Bond	02/07/2007	1,380,000	565,000
Street Improvement	12/09/2008	3,055,000	1,605,000
West Michigan Street	12/17/2009	589,118	316,971
General Obligation Improvement	12/17/2009	397,780	214,023
General Obligation Improvement	12/17/2009	506,415	314,729
General Obligation Improvement	12/17/2009	656,687	444,277
Airport Improvement	11/23/2010	1,850,000	1,560,000
General Obligation Improvement	11/23/2010	1,205,000	1,122,600
Street Improvement	11/27/2012	6,905,000	6,905,000
Advance Refunding Bonds:			
Street Improvement	12/19/2006	3,190,000	1,545,000
General Obligation Improvement	11/23/2010	1,135,000	1,057,400
Total Governmental Activities		<u>\$ 24,315,000</u>	<u>\$ 16,740,000</u>
Business-type Activities:			
Current Refunding Bonds:			
Water Utility Revenue and G.O.	12/13/2007	\$ 950,000	\$ 515,000
Sewer Utility Revenue and G.O.	12/13/2007	1,325,000	640,000
Parking Improvements	12/09/2008	1,965,000	1,030,000
Gas Utility Revenue and G.O.	12/17/2009	2,846,814	2,079,857
Sewer Utility Revenue and G.O.	12/17/2009	713,186	520,142
Water Utility Revenue and G.O.	11/23/2010	1,625,000	1,416,572
Sewer Utility Revenue and G.O.	11/23/2010	2,025,000	1,765,267
Stormwater Utility Revenue and G.O.	11/23/2010	755,000	658,162
Gas Utility Revenue and G.O.	11/29/2011	3,125,000	3,125,000
Steam Utility Revenue and G.O.	11/27/2012	5,475,000	5,475,000
Advance Refunding Bonds:			
Sewer Utility Revenue and G.O.	11/29/2011	2,265,000	2,265,000
Sewer Utility Revenue and G.O.	11/27/2012	2,000,000	2,000,000
Parking Improvements	11/27/2012	10,270,000	10,270,000
Total Business-type Activities		<u>\$ 35,340,000</u>	<u>\$ 31,760,000</u>
		Total	<u>\$ 48,500,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

11. LONG-TERM DEBT (continued)

BONDS/CERTIFICATES AND NOTES PAYABLE - BY ISSUE

Bonds, certificates and notes payable at December 31, 2012, are comprised of the following individual issues:

BONDS AND CERTIFICATES BY ISSUE

	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding
Governmental Activities:					
General Obligation Bonds Payable -					
General Obligation					
Capital Improvement	2.00 to 3.40%	02/01; 08/01	03-01-04 02-01-14	800,000	195,000
Airpark Improvement	2.00 to 4.20%	02/01; 08/01	09-01-04 02-01-20	945,000	580,000
Capital Improvement	2.80 to 3.70%	02/01; 08/01	06-01-05 02-01-15	1,255,000	470,000
Capital Improvement	4.00%	02/01; 08/01	09-07-06 02-01-16	895,000	440,000
Capital Improvement	4.00%	02/01; 08/01	12-13-07 02-01-17	1,240,000	740,000
Duluth Entertainment and Convention Center					
Authority Improvement	4.00 to 5.00%	02/01; 08/01	08-07-08 02-01-34	40,635,000	40,415,000
Aerial Lift Bridge Improvement	3.00 to 4.30%	02/01; 08/01	08-07-08 02-01-19	1,475,000	1,085,000
Capital Improvement	3.00 to 4.25%	02/01; 08/01	12-09-08 02-01-18	1,600,000	1,130,000
Capital Improvement	2.50 to 4.00%	02/01; 08/01	12-17-09 02-01-20	7,085,000	6,580,000
Capital Improvement - Law Enforcement Center	5.00 to 6.00%	02/01; 08/01	12-17-09 02-01-32	11,905,000	11,905,000
West Michigan Street Improvements Refunding	2.00 to 3.00%	02/01; 08/01	12-17-09 02-01-18	589,118	316,971
Capital Improvement	2.00 to 3.00%	02/01; 08/01	11-23-10 02-01-21	2,175,000	1,990,000
Airport Improvement Refunding	0.75 to 2.45%	02/01; 08/01	11-23-10 02-01-17	1,850,000	1,560,000
Capital Improvement	3.00%	02/01; 08/01	11-29-11 02-01-22	1,870,000	1,870,000
Airport Improvement	2.00 to 3.25%	02/01; 08/01	05-24-12 12-31-28	7,650,000	7,650,000
Total General Obligation				<u>\$ 81,969,118</u>	<u>\$ 76,926,971</u>
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	\$ 260,000
Spirit Mountain Tax Abatement Bonds	2.00 to 3.00%	02/01; 08/01	02-23-12 02-01-30	7,055,000	7,055,000
Total General Obligation Bonds Payable				<u>\$ 7,365,000</u>	<u>\$ 7,315,000</u>
Revenue Bonds Payable -					
Lease Revenue Bonds Payable -					
Artspace Community Center Refunding	4.00%	02/01; 08/01	02-07-07 08-01-14	\$ 1,380,000	\$ 565,000
Special Assessment Debt with Government Commitment -					
General Obligation Improvement	3.50 to 4.00%	02/01; 08/01	06-01-05 02-01-20	\$ 2,275,000	\$ 1,460,000
Street Improvement	3.50 to 4.25%	02/01; 08/01	10-01-05 02-01-21	4,260,000	550,000
General Obligation Improvement	4.00%	02/01; 08/01	09-07-06 02-01-21	1,985,000	1,410,000
Street Improvement	4.00%	02/01; 08/01	09-07-06 02-01-22	3,355,000	2,480,000
Street Improvement Refunding	3.75 to 4.00%	02/01; 08/01	12-19-06 02-01-14	3,445,000	1,090,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-06 02-01-16	3,190,000	1,545,000
Street Improvement	3.75 to 4.25%	02/01; 08/01	12-13-07 02-01-23	2,285,000	1,805,000
Street Improvement	4.00 to 4.75%	02/01; 08/01	08-07-08 02-01-24	2,320,000	1,940,000
Street Improvement Refunding	3.50 to 4.00%	02/01; 08/01	12-09-08 02-01-15	3,055,000	1,605,000
General Obligation Improvement Refunding	2.00 to 3.00%	02/01; 08/01	12-17-09 02-01-15	397,780	214,023
General Obligation Improvement Refunding	2.00 to 3.00%	02/01; 08/01	12-17-09 02-01-15	506,415	314,729
General Obligation Improvement Refunding	2.00 to 3.00%	02/01; 08/01	12-17-09 02-01-16	656,687	444,277
General Obligation Improvement Refunding	2.25 to 2.40%	02/01; 08/01	11-23-10 02-01-19	1,205,000	1,122,600
General Obligation Improvement Refunding	2.25 to 2.40%	02/01; 08/01	11-23-10 02-01-19	1,135,000	1,057,400
Street Improvement Refunding	2.00 to 3.00%	02/01; 08/01	11-27-12 02-01-21	6,905,000	6,905,000
Total Special Assessment Debt with Government Commitment				<u>\$ 36,975,882</u>	<u>\$ 23,943,029</u>
General Obligation Certificates Payable -					
Equipment	4.25 to 5.00%	02/01; 08/01	12-13-07 02-01-13	\$ 1,985,000	\$ 430,000
Equipment	3.50 to 4.00%	02/01; 08/01	12-09-08 02-01-14	2,515,000	1,070,000
Equipment	2.00 to 3.00%	02/01; 08/01	12-17-09 02-01-15	2,570,000	1,580,000
Equipment	0.60 to 1.55%	02/01; 08/01	11-23-10 02-01-16	2,295,000	1,850,000
Equipment	2.00%	02/01; 08/01	11-29-11 02-01-17	3,095,000	3,095,000
Equipment	3.00%	02/01; 08/01	11-27-12 02-01-18	3,275,000	3,275,000
Total General Obligation Certificates Payable				<u>\$ 15,735,000</u>	<u>\$ 11,300,000</u>
Total Governmental Activities				<u>\$143,425,000</u>	<u>\$120,050,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Notes T.O.C.

11. LONG-TERM DEBT (continued)

	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding
Business-type Activities:					
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	\$ 1,080,000
Technology Village Parking Ramp Tax Increment Refunding	3.50 to 4.00%	02/01; 08/01	12-09-08 02-01-15	1,965,000	1,030,000
Parking Improvement Tax Increment Refunding	1.00 to 2.75%	02/01; 08/01	11-27-12 02-01-26	10,270,000	10,270,000
Total Parking Fund				<u>\$ 25,020,000</u>	<u>\$ 12,380,000</u>
Water Fund -					
Water Utility Revenue and General Obligation Refunding	3.63 to 4.20%	02/01; 08/01	12-19-06 02-01-22	\$ 1,120,000	\$ 820,000
Water Utility Revenue and General Obligation Refunding	4.00%	02/01; 08/01	12-13-07 02-01-16	950,000	515,000
Water Utility Revenue and General Obligation Refunding	2.00 to 4.00%	02/01; 08/01	02-19-09 02-01-24	196,000	164,000
Water Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-23-10 02-01-18	1,625,000	1,416,572
Total Water Fund				<u>\$ 3,891,000</u>	<u>\$ 2,915,572</u>
Gas Fund -					
Gas Utility Revenue and General Obligation Refunding	3.63 to 4.20%	02/01; 08/01	12-19-06 02-01-22	\$ 1,190,000	\$ 875,000
Gas Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	12-17-09 02-01-17	2,846,814	2,079,857
Gas Utility Revenue and General Obligation Refunding	3.00 to 4.00%	02/01; 08/01	11-29-11 02-01-19	3,125,000	3,125,000
Total Gas Fund				<u>\$ 7,161,814</u>	<u>\$ 6,079,857</u>
Steam District # 1 Fund -					
Steam Utility Revenue and General Obligation Refunding	1.00 to 2.125%	02/01; 08/01	11-27-12 02-01-22	\$ 5,475,000	\$ 5,475,000
Sewer Fund -					
Sewer Utility Revenue and General Obligation Refunding	3.00 to 4.20%	02/01; 08/01	12-01-04 02-01-20	\$ 4,045,000	\$ 265,000
Sewer Utility Revenue and General Obligation Refunding	3.50 to 4.30%	02/01; 08/01	12-19-05 02-01-21	3,515,000	450,000
Sewer Utility Revenue and General Obligation Refunding	3.63 to 4.20%	02/01; 08/01	12-19-06 02-01-22	945,000	690,000
Sewer Utility Revenue and General Obligation Refunding	3.75 to 4.25%	02/01; 08/01	12-13-07 02-01-23	2,120,000	1,675,000
Sewer Utility Revenue and General Obligation Refunding	4.00%	02/01; 08/01	12-13-07 02-01-16	1,325,000	640,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 4.00%	02/01; 08/01	02-19-09 02-01-24	1,444,000	1,206,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	12-17-09 02-01-17	713,186	520,142
Sewer Utility Revenue and General Obligation Refunding	2.00 to 4.00%	02/01; 08/01	12-17-09 02-01-25	905,000	810,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-23-10 02-01-18	2,025,000	1,765,267
Sewer Utility Revenue and General Obligation Refunding	1.00 to 3.00%	02/01; 08/01	11-29-11 02-01-20	2,265,000	2,265,000
Sewer Utility Revenue and General Obligation Refunding	2.00%	02/01; 08/01	11-27-12 02-01-20	2,000,000	2,000,000
Total Sewer Fund				<u>\$ 21,302,186</u>	<u>\$ 12,286,409</u>
Stormwater Fund -					
Stormwater Utility Revenue and General Obligation Refunding	4.00%	02/01; 08/01	09-07-06 02-01-22	\$ 1,705,000	\$ 1,250,000
Stormwater Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-23-10 02-01-18	755,000	658,162
Total Stormwater Fund				<u>\$ 2,460,000</u>	<u>\$ 1,908,162</u>
Total Business-type Activities				<u>\$ 65,310,000</u>	<u>\$ 41,045,000</u>
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	\$ 212,445
Total Component Units				<u>\$ 1,646,750</u>	<u>\$ 212,445</u>

CITY OF DULUTH, MINNESOTA
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11. LONG-TERM DEBT (continued)

NOTES PAYABLE BY ISSUE	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	1.00%	02/20; 08/20	07-24-02 08-20-18	\$ 364,195	\$ 155,000
Revenue Note					
U.S. Dept. of Housing and Urban Development	5.23 to 5.77%	01/22; 07/22	08-01-05 08-01-25	\$ 7,876,000	\$ 2,841,000
Total Governmental Activities				\$ 8,240,195	\$ 2,996,000
Business-type Activities:					
General Obligation:					
Water Fund -					
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03 08-20-18	\$ 870,000	\$ 398,227
Public Facilities Authority Note	2.530%	02/20; 08/20	07-23-04 08-20-18	1,971,532	891,000
Public Facilities Authority Note (Note 1)	1.077%	02/20; 08/20	10-28-09 08-20-19	1,698,450	1,179,363
Public Facilities Authority Note (Note 2)	1.258%	02/20; 08/20	07-28-10 08-20-25	1,371,653	1,019,914
Public Facilities Authority Note (Note 3)	1.076%	02/20; 08/20	12-07-10 08-20-25	3,534,265	2,981,548
Public Facilities Authority Note (Note 4)	1.221%	02/20; 08/20	11-18-11 08-20-26	1,605,655	682,264
Total Water Fund				\$ 11,051,555	\$ 7,152,316
Sewer Fund -					
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03 08-20-18	\$ 100,000	\$ 45,773
Public Facilities Authority Note	1.340%	02/20; 08/20	10-17-03 08-20-18	1,179,115	540,000
Public Facilities Authority Note	1.150%	02/20; 08/20	07-12-07 08-20-22	1,973,033	1,489,000
Public Facilities Authority Note	1.969%	02/20; 08/20	08-20-09 08-20-24	796,835	669,000
Public Facilities Authority Note	2.017%	02/20; 08/20	11-25-09 08-20-24	2,414,150	2,087,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10 08-20-25	3,753,059	3,295,000
Public Facilities Authority Note (Note 5)	1.258%	02/20; 08/20	07-28-10 08-20-25	9,087,385	7,383,334
Public Facilities Authority Note (Note 6)	1.000%	02/20; 08/20	11-18-11 08-20-21	354,551	102,449
Public Facilities Authority Note (Note 7)	1.000%	02/20; 08/20	11-30-11 08-20-21	282,620	87,413
Public Facilities Authority Note (Note 8)	1.000%	02/20; 08/20	11-18-11 08-20-21	278,149	160,786
Public Facilities Authority Note (Note 9)	1.000%	02/20; 08/20	09-10-12 08-20-22	600,175	72,331
Total Sewer Fund				\$ 20,819,072	\$ 15,932,086
Total Business-type Activities				\$ 31,870,627	\$ 23,084,402
Component Units:					
Duluth Airport Authority					
Revenue Note	8.85%	06/01;12/01	11-01-05 06-01-19	497,379	364,777
Total Component Units				497,379	364,777

Note 1: Only \$ 1,668,813 has been drawn on the Public Facilities Authority Note dated 10/28/2009.

Note 2: Only \$ 1,187,567 has been drawn on the Public Facilities Authority Note dated 7/28/2010.

Note 3: Only \$ 3,314,813 has been drawn on the Public Facilities Authority Note dated 12/7/2010.

Note 4: Only \$ 697,919 has been drawn on the Public Facilities Authority Note dated 11/18/2011.

Note 5: Only \$ 8,492,720 has been drawn on the Public Facilities Authority Note dated 7/28/2010.

Note 6: Only \$ 108,000 has been drawn on the Public Facilities Authority Note dated 11/18/2011.

Note 7: Only \$ 100,033 has been drawn on the Public Facilities Authority Note dated 11/30/2011.

Note 8: Only \$ 171,935 has been drawn on the Public Facilities Authority Note dated 11/18/2011.

Note 9: Only \$ 72,331 has been drawn on the Public Facilities Authority Note dated 9/10/2012.

CITY OF DULUTH, MINNESOTA
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Notes T.O.C.

12. FUND EQUITY

For governmental funds, fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources. Fund balance classifications as of December 31, 2012, are as follows:

	General Fund	Community Investment	Disaster Recovery	General Obligation	Other Governmental Funds	Total Fund Balance
Fund Balances:						
Nonspendable:						
Escrow Funds	\$ 138,000	\$ -	\$ -	\$ -	\$ -	\$ 138,000
Prepaid Expenses	293,795	-	-	-	-	293,795
Spendable:						
Restricted for:						
Forfeitures	97,811	-	-	-	27,284	125,095
Capital Projects	-	-	-	-	7,165,330	7,165,330
Community Development	-	-	-	-	607,148	607,148
Employment Programs	-	-	-	-	260,994	260,994
Parks and Recreation Programs	-	-	-	-	477,196	477,196
Public Access Television	-	-	-	-	300,229	300,229
Public Safety Programs	-	-	-	-	2,753	2,753
Economic Development Programs	-	-	-	-	868,834	868,834
Library	-	-	-	-	957,803	957,803
Energy Program	-	-	-	-	289,461	289,461
Tourism Programs	-	-	-	-	1,120,558	1,120,558
Debt Service	-	-	-	7,435,203	10,275,142	17,710,345
Committed for:						
Parks and Recreation Programs	-	-	-	-	267,261	267,261
Public Safety Programs	9,067	-	-	-	27,710	36,777
Assigned to:						
General Government	133,777	-	-	-	-	133,777
Community Investment	-	21,351,493	-	-	-	21,351,493
Parks and Recreation Programs	-	-	-	-	200,007	200,007
Debt Service	-	-	-	31,745	-	31,745
Public Works	450,000	-	-	-	-	450,000
Capital Projects	-	-	-	-	1,675,448	1,675,448
Unassigned	7,587,726	-	(2,748,515)	-	(246,964)	4,592,247
Total Fund Balances	<u>\$ 8,710,176</u>	<u>\$ 21,351,493</u>	<u>\$ (2,748,515)</u>	<u>\$ 7,466,948</u>	<u>\$ 24,276,194</u>	<u>\$ 59,056,296</u>

CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Notes T.O.C.

13. INTERFUND ASSETS/LIABILITIES/TRANSFERSDUE 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, 2012, are:

Due from Fund	Due to Fund	Amount	
General	Water Enterprise	\$ 1,133	
	Gas Enterprise	3,349	
	Sewer Enterprise	1,001	
	Nonmajor Governmental Funds	10,640	
	Nonmajor Enterprise Funds	24,113	
	Internal Service Funds	259,918	
	General Obligation Debt Service	General	4,242
Parking Enterprise	General	101,803	
	Nonmajor Enterprise Funds	1,079	
	Water Enterprise	General	390
Gas Enterprise	Nonmajor Governmental Funds	304,793	
	Internal Service Funds	21,767	
	Nonmajor Governmental Funds	92,199	
Sewer Enterprise	Internal Service Funds	19,468	
	Nonmajor Governmental Funds	63,505	
Nonmajor Governmental Funds	Internal Service Funds	14,013	
	General	217,262	
	Disaster Recovery	29,358	
	General Obligation Debt Service	7,017	
	Water Enterprise	28,790	
	Gas Enterprise	61,723	
	Sewer Enterprise	209,175	
	Nonmajor Governmental Funds	445,824	
	Nonmajor Enterprise Funds	21,186	
	Internal Service Funds	337	
	Nonmajor Enterprise Funds	Nonmajor Governmental Funds	43,150
		Internal Service Funds	24,195
	Internal Service Funds	General	112,579
Water Enterprise		6,383	
Gas Enterprise		13,919	
Sewer Enterprise		38,509	
Nonmajor Governmental Funds		12,889	
Total		<u>\$ 2,195,709</u>	
Due from other funds, reported in	Balance Sheet - Governmental Funds	\$ 1,445,651	
	Statement of Net Position - Proprietary Funds:		
	Business-type Activities - Enterprise Funds	410,360	
	Governmental Activities - Internal Service Funds	339,698	
Total		<u>\$ 2,195,709</u>	

DUE TO/FROM PRIMARY GOVERNMENT/COMPONENT UNITS

Due To/From primary government and component unit results from the time lag between the date goods or services are provided and when payment is made. Balances as shown below are reported on the Government-wide Statement of Net Position. Balances are at December 31, 2012, with the exception of the Spirit Mountain Recreation Authority, whose fiscal year ended April 30, 2012.

CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Notes T.O.C.

13. INTERFUND ASSETS/LIABILITIES/TRANSFERS (continued)

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government:	Component Unit:	
General Fund	Duluth Transit Authority	\$ 6,400
	Duluth Entertainment and Convention Center Authority	5,821
	Spirit Mountain Recreation Area Authority	21,346
	Duluth Airport Authority	4,000,040
	Duluth Economic Development Authority	4,820
Nonmajor Governmental Funds	Duluth Economic Development Authority	629,513
Internal Service Funds	Duluth Airport Authority	9,877
Total Due From Component Units		<u>\$ 4,677,817</u>
Due To Primary Government:		
Total Due To Primary Government		\$ 4,830,710
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2012		(174,239)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2012		21,346
Total Due From Primary Government		<u>\$ 4,677,817</u>
Component Unit:	Primary Government:	
Duluth Entertainment and Convention Center Authority	Nonmajor Governmental Funds	\$ 255,589
Duluth Airport Authority	Nonmajor Governmental Funds	1,444
Duluth Economic Development Authority	General	50,000
	Nonmajor Governmental Funds	506,322
Total Due From Primary Government		<u>\$ 813,355</u>
Total Due To Component Units		\$ 1,497,934
Add Spirit Mountain Recreation Area Authority balance at April 30, 2012		-
Deduct Spirit Mountain Recreation Area Authority balance at December 31, 2012		(684,579)
Total Due To Component Units		<u>\$ 813,355</u>

INTERFUND LOAN RECEIVABLES/PAYABLES

These balances are a result of temporary interfund financing at year-end. Balances are December 31, 2012, are:

<u>Receivable Fund</u>	<u>Amount</u>
General	<u>\$ 1,917,129</u>
<u>Payable Fund</u>	
Nonmajor Governmental Funds	\$ 290,085
Nonmajor Enterprise Funds	1,249,116
Internal Service Funds	377,928
Total	<u>\$ 1,917,129</u>

CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2012

Notes T.O.C.

13. 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, reimbursements 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 Investments Pools*. Interfund transfers for the year ended December 31, 2012, are as follows:

<u>Transfer to, reported in fund:</u>	<u>Transfer from, reported in fund:</u>	<u>Amount</u>
General	Disaster Recovery	\$ 22,531
	Community Investment Trust	1,095,136
	General Obligation Debt Service	20,794
	Parking Enterprise	1,323,052
	Water Enterprise	246,395
	Gas Enterprise	2,972,010
	Sewer Enterprise	57,014
	Nonmajor Governmental Funds	1,601,612
	Nonmajor Enterprise Funds	659,911
	Internal Service Funds	50,688
General Obligation Debt Service	Nonmajor Governmental Funds	4,352,817
Parking Enterprise	General Obligation Debt Service	662,185
Water Enterprise	Nonmajor Enterprise Funds	10,660
Gas Enterprise	Nonmajor Enterprise Funds	15,990
Sewer Enterprise	Nonmajor Enterprise Funds	9,430
Nonmajor Governmental Funds	General	126,308
	Community Investment Trust	2,913,182
	Gas Enterprise	75,000
	Nonmajor Governmental Funds	3,650,098
Nonmajor Enterprise Funds	Nonmajor Enterprise Funds	4,920
Total		<u>\$ 19,869,733</u>
Transfers out, reported in	Statement of Revenues, Expenditures, and	
	Changes in Fund Balance:	
	Governmental Funds	\$ 14,444,663
	Statement of Revenues, Expenditures, and	
	Changes in Fund Net Position:	
	Business-type Activities - Enterprise Funds	5,374,382
	Governmental Activities - Internal Service Fund:	50,688
Total		<u>\$ 19,869,733</u>

14. PENSION PLANS

PLAN DESCRIPTION

All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan, and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

All police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund. For members first eligible for membership after June 30, 2010, benefits vest on a graduated schedule starting with 50% after five years and increasing 10% for each year of service until fully vested after ten years. Members eligible for membership before July 1, 2010, are fully vested after three years of service.

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. Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for the General Employees Retirement Fund 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% of average salary for each year of service.

For General 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. Normal retirement age is 55 for Public Employees Police and Fire Fund members and either 65 or 66 (depending on date hired) for Public Employees Retirement Fund members. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at www.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 THE FINANCIAL STATEMENTS
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14. PENSION PLANS (continued)

FUNDING POLICY

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minnesota Statutes Chapter 353. 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. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10% and 6.25%, respectively, of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 9.60%.

The City is required to contribute the following percentages of annual covered payroll in 2012:

	2012 Statutory Rates	
	Employees	Employer
General Employees Retirement Fund		
Basic Members	9.10%	11.78%
Coordinated Members	6.25%	7.25%
Public Employees Police and Fire Fund	9.60%	14.40%

The City's contributions for the years ending December 31, 2012, 2011, and 2010, for the General Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	2012	2011	2010
General Employees Retirement Fund	\$ 2,274,824	\$ 2,245,375	\$ 2,148,942
Public Employees Police and Fire Fund	2,900,390	2,824,259	2,764,443
Total	<u>\$ 5,175,214</u>	<u>\$ 5,069,634</u>	<u>\$ 4,913,385</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 deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minnesota Statutes Chapter 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 time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minnesota Statutes § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00% 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% of employer contributions and 0.25% of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the City during the year ended December 31, 2012, were:

	Employee	Employer
Contribution amount	\$ 5,414	\$ 5,414
Percentage of covered payroll	5.00%	5.00%

Required contribution rates were 5.0%.

14. **PENSION PLANS** (continued)

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 2012 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 2012 annual report.

15. **OTHER POST-EMPLOYMENT BENEFITS**

PLAN DESCRIPTION

The City 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. Effective January 1, 2010, retirees are provided the same benefits as are provided to active employees. 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's Joint Powers Enterprise Trust. 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 Statutes § 471.617.

As of December 31, 2012, there were 935 retirees receiving health benefits from the City's health plan and 835 active employees covered under the plan.

FUNDING POLICY

The City 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 Joint Powers Enterprise Trust 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, 2012, the City contributed \$9,287,781 and retirees contributed \$90,492.

In July 2007, the City established an Other Post-Employment Benefits (OPEB) irrevocable trust and began prefunding a portion of the OPEB liability. Contributions of \$43,700 were made to the irrevocable trust in 2012.

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 2012, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

CITY OF DULUTH, MINNESOTA
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15. OTHER POST-EMPLOYMENT BENEFITS (continued)

Annual required contribution (ARC)	\$ 15,345,228
Interest on Net OPEB obligation	1,524,883
Adjustment to ARC	<u>(1,881,553)</u>
Annual OPEB Cost	14,988,558
Claims paid on behalf of retirees	(9,655,613)
Contributions to irrevocable trust	<u>(43,700)</u>
Increase in Net OPEB obligation	5,289,245
Net OPEB, January 1	<u>26,752,325</u>
Net OPEB, December 31	<u><u>\$ 32,041,570</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation 2010, 2011, and 2012, were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	17,399,118	10,043,975	57.73%	23,551,568
December 31, 2011	15,031,231	11,830,474	78.71%	26,752,325
December 31, 2012	14,988,558	9,699,313	64.71%	32,041,570

FUNDING STATUS AND FUNDING PROGRESS

As of June 1, 2011, the most recent actuarial valuation date, the plan was 12.63% funded. The actuarial accrued liability for benefits was \$219,748,555, and the actuarial value of assets was \$27,753,929 resulting in an unfunded actuarial accrued liability (UAAL) of \$191,994,626. The covered payroll (annual payroll of active employees covered by the plan) was \$39,716,268. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 483.42%.

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 multi-year 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 the assets, consistent with the long-term perspective of the calculations.

In the June 1, 2011, 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 5.7% 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 at a 2.2% inflation rate. 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 a 30 year open amortization period.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

15. OTHER POST-EMPLOYMENT BENEFITS (continued)

TRUST FUND

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

The financial statements are prepared using the accrual basis 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 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 \$12,000 per employee will be made depending on the union contract and the date of hire.

16. SEGMENT INFORMATION

The City has issued revenue bonds for each of the following non-major enterprise funds: Steam District #1, the plant which generates and distributes steam to users in the downtown area; and Stormwater Utility, which operates the stormwater sewer collection system. Summary financial information for each of these funds for fiscal year ending December 31, 2012, is presented below:

CONDENSED STATEMENT OF NET POSITION

	<u>Stormwater</u>	<u>Steam District #1</u>
Assets		
Current assets	\$ 2,935,482	\$ 2,997,770
Due from other funds	21,186	25,192
Capital assets	13,719,388	8,600,614
Noncurrent assets	24,270	65,544
Total assets	<u>16,700,326</u>	<u>11,689,120</u>
Liabilities		
Current liabilities	566,862	763,778
Due to other funds	62,137	104
Noncurrent liabilities	1,798,125	5,157,917
Total liabilities	<u>2,427,124</u>	<u>5,921,799</u>
Net Position		
Net investment in capital assets	11,829,902	3,508,241
Unrestricted	2,443,300	2,259,080
Total Net Position	<u>\$ 14,273,202</u>	<u>\$ 5,767,321</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Notes T.O.C.

16. SEGMENT INFORMATIONCONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>Stormwater</u>	<u>Steam District #1</u>
Operating revenues (expenses)		
Charges (pledged against bonds)	\$ 4,798,166	\$ 7,239,203
Depreciation expense	(477,970)	(998,705)
Other operating expenses	(2,897,725)	(5,867,609)
Operating income	<u>1,422,471</u>	<u>372,889</u>
Nonoperating revenues (expenses)		
Investment earnings	22,463	751
Other revenue	2,705	-
Gain (loss) on sale or disposition of capital assets	50,000	-
Interest expense	(65,101)	(217,509)
Capital contributions	9,894	-
Transfers In	4,920	-
Transfers Out	(519,522)	(140,389)
Change in net position	<u>927,830</u>	<u>15,742</u>
Beginning net position	<u>13,345,372</u>	<u>5,751,579</u>
Ending net position	<u><u>\$ 14,273,202</u></u>	<u><u>\$ 5,767,321</u></u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>Stormwater</u>	<u>Steam District #1</u>
Net Cash provided (used) by		
Operating activities	\$ 2,312,856	\$ 1,438,302
Noncapital financing activities	(511,897)	(189,092)
Capital and related financing activities	(1,092,590)	(1,714,794)
Investing activities	21,820	751
Net increase (decrease)	<u>730,189</u>	<u>(464,833)</u>
Beginning cash and cash equivalents	<u>1,649,337</u>	<u>2,122,795</u>
Ending cash and cash equivalents	<u><u>\$ 2,379,526</u></u>	<u><u>\$ 1,657,962</u></u>

17. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIESLAKE SUPERIOR CENTER

The City and Duluth Economic Development Authority (DEDA) entered into agreements with the 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.

17. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

LITIGATION

The City has completed negotiations with the Environment 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 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 \$11 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 require compliance with terms and conditions specified in the grant agreements and are 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, 2012.

JOINT VENTURE

The Duluth Area Family Services Collaborative was established in 1995 pursuant to Minnesota Statutes § 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, 2012, is:

Total Assets	\$	58,834
Total Liabilities	\$	-
Total Net Position	\$	58,834
Total Revenues	\$	-
Total Expenditures	\$	-
Change in Net Position	\$	-

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Notes T.O.C.

17. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

RELATED ORGANIZATION

The Duluth Housing and Redevelopment Authority is a legally separate organization from the City with its own rights and powers. Although the Mayor of the City appoints all Authority Board members, there is no financial accountability necessary for including this organization as a component unit of the City. 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 \$1,545,703 to the Duluth Housing and Redevelopment Authority in 2012.

MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE

The City entered into an agreement with several organizations to perform a feasibility study of passenger rail service between the City of Duluth and the City of Minneapolis. Upon completion of the study, the City, together with other participating counties and cities, elected to continue working to restore passenger rail service and entered into a joint powers agreement forming Minneapolis-Duluth/Superior Passenger Rail Alliance. Funding for the Alliance is derived by a cost sharing funding formula adopted by the board and approved annually by each party's governing body.

The St. Louis and Lake County Regional Railroad Authority serves as the fiscal agent. Separate financial information can be obtained from the Authority's office located in Eveleth, Minnesota. A summary of the financial information of the Alliance for December 31, 2011, (the most recent available) was:

Total Assets	\$	529,245
Total Liabilities	\$	106,304
Total Net Position	\$	422,941
Total Revenues	\$	366,000
Total Expenditures	\$	265,919
Change in Net Position	\$	100,081

FOND DU LUTH CASINO

In 2009 the Band unilaterally stopped all contractually required payments to the City. Pursuant to the 1994 City of Duluth/Fond du Lac Band agreement, the City is to receive 19% of all slot machine revenue through March 31, 2011 ("First Term"), and an amount set through arbitration thereafter until 2036 ("Second Term"). The City has sued to recover the outstanding payments and the United States Federal District Court has granted the City summary judgment on the payment issue through March 31, 2011. The City and the Band appealed the case to the Eighth Circuit Court of Appeals and on January 14, 2013, the court issued a decision remanding the First Term payment issue back to the District Court. On June 27, 2013, District Court Judge Susan Nelson will hold a hearing on the matter. A decision is expected within 90 days of the hearing. If the City prevails before Judge Nelson, there will be a trial on a contra revenue issue before the City receives its back payments. As of December 31, 2012, the Band owes \$12,418,992 to the City for the First Term.

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, 2012, follows:

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

Notes T.O.C.

17. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

A & L Renaissance	\$	728,654
Augusta Building	\$	266,321
Fifth Street Redevelopment	\$	195,748
Garfield Business Park, LLC	\$	611,069
Ramsey Townhouses	\$	123,611
Sherman Associates Hotel/Condominium	\$	5,000,000
Spirit Bay	\$	104,670
Accessible Space, Inc.	\$	26,571
Central Hillside Development, LLP	\$	326,952

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, 2012, are as follows:

<u>Entity</u>	<u>Series</u>	<u>Issued</u>	<u>Principal</u>
Aftenro Home	2006	\$ 2,620,000	\$ 2,365,324
Center for Alcohol & Drug Treatment	2000A	\$ 2,600,000	\$ 1,452,095
Duluth Regional Care	2012A	\$ 1,040,800	\$ 1,021,177
Duluth Regional Care	2012B	\$ 259,100	\$ 244,677
Merritt School, LLC	2004	\$ 660,000	\$ 502,421
Residential Services	2000B	\$ 576,421	\$ 138,568
Residential Services	2000C	\$ 330,919	\$ 79,434
St. Luke's Hospital	2012	\$ 81,595,000	\$ 81,595,000

Required Supplementary
Information

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB) TRUST
DECEMBER 31, 2012**

YEARS ENDED DECEMBER 31, 2007 THROUGH 2012

Year Ended December 31	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2007	\$22,081,427	\$23,742,663	93.0%
2008	\$13,171,329	\$23,742,663	55.5%
2009	\$13,488,168	\$17,615,054	76.6%
2010	\$10,043,975	\$17,615,054	57.0%
2011	\$11,830,474	\$15,345,228	77.1%
2012	\$9,699,313	\$15,345,228	63.2%

**CITY OF DULUTH
SCHEDULE OF FUNDING PROGRESS
OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB)
DECEMBER 31, 2012**

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%
June 1, 2009	\$16,740,064	\$224,338,111	\$207,598,047	7.46%	\$41,970,420	494.63%
June 1, 2011	\$27,753,929	\$219,748,555	\$191,994,626	12.63%	\$39,716,268	483.42%

The June 1, 2009 actuarial valuation reflected changes in benefit provisions which resulted in a lower Actuarial Accrued Liability. The primary change in benefit provisions was the transition of all retirees to Medical Plan 3 and Rx Plan 1, effective January 1, 2010. These are the same plans provided to active employees.

Combining and Individual
Fund Statements and
Schedules

Governmental Funds

**CITY OF DULUTH, MINNESOTA
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

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.

Parks– to account for a tax levy dedicated for parks and recreation facilities, recreation activities, and implantation of the Duluth parks and recreation master plan.

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 unemployed and underemployed persons.

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

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.

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.

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

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.

**CITY OF DULUTH, MINNESOTA
NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

SPECIAL REVENUE FUNDS (continued)

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

DEBT SERVICE FUNDS

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

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.

Special Assessment Debt Service– to account for the resources accumulated and payments made for the principal and interest on long-term special assessment debt.

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.

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 capital improvements financed by sources other than

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 capital improvements that are financed by issuance of debt.

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

Spirit Mountain Capital Improvements– to account for improvements to Spirit Mountain Recreation Area including lift improvements and a new chalet.

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds				
	Lake Superior Zoo	Parks	Home Investment Partnership Program	Community Development	Workforce Development
ASSETS					
Cash and cash equivalents	\$ -	\$ 746,532	\$ -	\$ 369,730	\$ 93,916
Receivables, net:					
Taxes	-	90,048	-	-	-
Accounts	-	-	-	16,996	30,053
Assessments	-	-	-	-	-
Loans	-	-	249,861	2,599,294	-
Grants	-	-	-	-	-
Due from other funds	-	2,136	12,419	15,541	1,903
Due from component units	-	-	-	-	-
Due from other governments	40,017	-	132,880	974,255	315,737
Prepays	-	-	-	-	-
Total assets	\$ 40,017	\$ 838,716	\$ 395,160	\$ 3,975,816	\$ 441,609
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 456	\$ 103,623	\$ -	\$ 2,545	\$ 32,267
Contracts payable	-	174,849	64,024	558,343	-
Due to other funds	-	337	6,783	29,243	53,613
Due to component units	-	-	-	-	-
Interfund loan payable	138,439	-	50,869	-	-
Due to other governments	811	7,798	81	351	16,917
Accrued salaries payable	-	28,684	-	12,887	52,461
Deferred revenue	-	67,580	403,291	2,765,299	26,044
Total liabilities	139,706	382,871	525,048	3,368,668	181,302
Fund balances:					
Restricted	-	455,845	-	607,148	260,307
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	(99,689)	-	(129,888)	-	-
Total fund balances	(99,689)	455,845	(129,888)	607,148	260,307
Total liabilities and fund balances	\$ 40,017	\$ 838,716	\$ 395,160	\$ 3,975,816	\$ 441,609

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds				
	Senior Employment	Special Projects	Police Grant Programs	Recovery Loan Program	Bayfront Festival Park
ASSETS					
Cash and cash equivalents	\$ -	\$ 679,480	\$ 10,000	\$ 247,846	\$ 198,507
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	-	29,487	-	-	-
Assessments	-	-	-	-	-
Loans	-	-	-	417,619	-
Grants	-	-	228,703	-	-
Due from other funds	13,776	4,897	-	-	2,323
Due from component units	-	-	-	622,000	-
Due from other governments	69,901	36,043	-	-	-
Prepays	18,369	-	-	-	-
	<u>102,046</u>	<u>749,907</u>	<u>238,703</u>	<u>1,287,465</u>	<u>200,830</u>
Total assets	<u>\$ 102,046</u>	<u>\$ 749,907</u>	<u>\$ 238,703</u>	<u>\$ 1,287,465</u>	<u>\$ 200,830</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,465	\$ 12,972	\$ 131,312	\$ -	\$ -
Contracts payable	-	16,581	63,245	-	-
Due to other funds	13	2,133	31,636	-	-
Due to component units	-	3,514	-	-	-
Interfund loan payable	85,414	-	15,363	-	-
Due to other governments	-	-	-	418,631	-
Accrued salaries payable	14,467	-	-	-	-
Deferred revenue	-	89,470	5,807	-	823
	<u>101,359</u>	<u>124,670</u>	<u>247,363</u>	<u>418,631</u>	<u>823</u>
Total liabilities	<u>101,359</u>	<u>124,670</u>	<u>247,363</u>	<u>418,631</u>	<u>823</u>
Fund balances:					
Restricted	687	330,266	-	868,834	-
Committed	-	294,971	-	-	-
Assigned	-	-	-	-	200,007
Unassigned	-	-	(8,660)	-	-
	<u>687</u>	<u>625,237</u>	<u>(8,660)</u>	<u>868,834</u>	<u>200,007</u>
Total fund balances	<u>687</u>	<u>625,237</u>	<u>(8,660)</u>	<u>868,834</u>	<u>200,007</u>
Total liabilities and fund balances	<u>\$ 102,046</u>	<u>\$ 749,907</u>	<u>\$ 238,703</u>	<u>\$ 1,287,465</u>	<u>\$ 200,830</u>

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Special Revenue Funds				
	Library Special Accounts	Economic Development	Energy Management	Tourism Tax	Public Facility and Programs
ASSETS					
Cash and cash equivalents	\$ 997,626	\$ 1,895	\$ 296,275	\$ 1,041,243	\$ 20,906
Receivables, net:					
Taxes	-	-	-	488,813	445
Accounts	-	-	-	-	-
Assessments	-	-	-	-	-
Loans	-	-	-	-	-
Grants	-	-	-	-	-
Due from other funds	-	3,420	105	-	-
Due from component units	-	7,513	-	-	-
Due from other governments	-	558,991	-	74,927	-
Prepays	-	-	-	-	-
Total assets	\$ 997,626	\$ 571,819	\$ 296,380	\$ 1,604,983	\$ 21,351
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 17,719	\$ 9,263	\$ 3,800	\$ -	\$ -
Contracts payable	-	4,526	-	83,753	-
Due to other funds	-	-	-	400,672	-
Due to component units	-	507,766	-	-	-
Interfund loan payable	-	-	-	-	-
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	3,119	-	-
Deferred revenue	22,104	58,991	-	-	-
Total liabilities	39,823	580,546	6,919	484,425	-
Fund balances:					
Restricted	957,803	-	289,461	1,120,558	21,351
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	(8,727)	-	-	-
Total fund balances	957,803	(8,727)	289,461	1,120,558	21,351
Total liabilities and fund balances	\$ 997,626	\$ 571,819	\$ 296,380	\$ 1,604,983	\$ 21,351

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Debt Service Funds			Capital Project Funds	
	Street Improvement Debt Service	Special Assessment Debt Service	DECC Revenue	Special Assessment	Permanent Improvement
ASSETS					
Cash and cash equivalents	\$ 5,980,471	\$ 2,204,742	\$ 1,935,736	\$ 39,460	\$ 3,309,760
Receivables, net:					
Taxes	-	-	-	-	19,900
Accounts	-	-	-	-	-
Assessments	1,984,019	3,957,760	-	63,396	-
Loans	-	-	-	-	-
Grants	-	-	-	-	-
Due from other funds	10,863	-	385,318	150	150,000
Due from component units	-	-	-	-	-
Due from other governments	-	-	-	-	856,868
Prepays	-	-	-	-	-
Total assets	\$ 7,975,353	\$ 6,162,502	\$ 2,321,054	\$ 103,006	\$ 4,336,528
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 6,600	\$ 3,552	\$ -	\$ -	\$ 645
Contracts payable	-	-	-	-	873,865
Due to other funds	-	62,174	-	7,508	226,865
Due to component units	-	-	252,075	-	-
Interfund loan payable	-	-	-	-	-
Due to other governments	-	-	-	-	2,280,682
Accrued salaries payable	-	-	-	-	-
Deferred revenue	1,984,019	3,875,347	-	63,396	585,361
Total liabilities	1,990,619	3,941,073	252,075	70,904	3,967,418
Fund balances:					
Restricted	5,984,734	2,221,429	2,068,979	-	369,110
Committed	-	-	-	-	-
Assigned	-	-	-	32,102	-
Unassigned	-	-	-	-	-
Total fund balances	5,984,734	2,221,429	2,068,979	32,102	369,110
Total liabilities and fund balances	\$ 7,975,353	\$ 6,162,502	\$ 2,321,054	\$ 103,006	\$ 4,336,528

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	Capital Project Funds				Total Nonmajor Governmental Funds
	Street Improvement Program	Capital Improvements	Capital Equipment	Spirit Mountain Capital Improvements	
ASSETS					
Cash and cash equivalents	\$ 1,778,473	\$ 3,990,217	\$ 2,435,638	\$ 1,747,983	\$ 28,126,436
Receivables, net:					
Taxes	-	-	-	-	599,206
Accounts	-	-	-	-	76,536
Assessments	1,264,998	-	-	-	7,270,173
Loans	-	-	-	-	3,266,774
Grants	-	-	-	-	228,703
Due from other funds	318,270	-	51,879	-	973,000
Due from component units	-	-	-	-	629,513
Due from other governments	-	48,610	-	-	3,108,229
Prepays	-	-	-	-	18,369
Total assets	\$ 3,361,741	\$ 4,038,827	\$ 2,487,517	\$ 1,747,983	\$ 44,296,939
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 27,664	\$ 604,308	\$ -	\$ 958,191
Contracts payable	253,500	151,142	-	-	2,243,828
Due to other funds	199,695	-	-	-	1,020,672
Due to component units	-	-	-	684,579	1,447,934
Interfund loan payable	-	-	-	-	290,085
Due to other governments	202	-	-	-	2,725,473
Accrued salaries payable	-	-	-	-	111,618
Deferred revenue	1,264,998	10,414	-	-	11,222,944
Total liabilities	1,718,395	189,220	604,308	684,579	20,020,745
Fund balances:					
Restricted	-	3,849,607	1,883,209	1,063,404	22,352,732
Committed	-	-	-	-	294,971
Assigned	1,643,346	-	-	-	1,875,455
Unassigned	-	-	-	-	(246,964)
Total fund balances	1,643,346	3,849,607	1,883,209	1,063,404	24,276,194
Total liabilities and fund balances	\$ 3,361,741	\$ 4,038,827	\$ 2,487,517	\$ 1,747,983	\$ 44,296,939

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012**

	Special Revenue Funds				
	Lake Superior Zoo	Parks	Home Investment Partnership Program	Community Development	Workforce Development
REVENUES					
Taxes:					
Property taxes	\$ -	\$ 2,536,938	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	350,882	-	548,356	3,556,027	2,081,200
Charges for services	723,192	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	-	-	-	255	-
Miscellaneous revenues	61,066	7,000	-	234,406	102,113
Total revenues	<u>1,135,140</u>	<u>2,543,938</u>	<u>548,356</u>	<u>3,790,688</u>	<u>2,183,313</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	1,563,947	1,651,242	-	-	-
Urban and economic development	-	-	628,257	3,790,746	2,389,181
Debt service:					
Principal retirement	-	-	-	65,000	-
Interest and fiscal fees	-	-	-	164,850	-
Bond issuance costs	-	-	-	-	-
Capital outlay	84,382	436,851	-	-	-
Total expenditures	<u>1,648,329</u>	<u>2,088,093</u>	<u>628,257</u>	<u>4,020,596</u>	<u>2,389,181</u>
Excess (deficiency) of revenues over expenditures	<u>(513,189)</u>	<u>455,845</u>	<u>(79,901)</u>	<u>(229,908)</u>	<u>(205,868)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Proceeds from refundings	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	520,000	-	-	-	-
Transfers out	-	-	-	(29,250)	-
Total other financing sources (uses)	<u>520,000</u>	<u>-</u>	<u>-</u>	<u>(29,250)</u>	<u>-</u>
Net change in fund balance	6,811	455,845	(79,901)	(259,158)	(205,868)
Fund balance - January 1, 2012	<u>(106,500)</u>	<u>-</u>	<u>(49,987)</u>	<u>866,306</u>	<u>466,175</u>
Fund balance - December 31, 2012	<u>\$ (99,689)</u>	<u>\$ 455,845</u>	<u>\$ (129,888)</u>	<u>\$ 607,148</u>	<u>\$ 260,307</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, 2012

	<u>Special Revenue Funds</u>				
	<u>Senior Employment</u>	<u>Special Projects</u>	<u>Police Grant Programs</u>	<u>Recovery Loan Program</u>	<u>Bayfront Festival Park</u>
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	482,115	1,028,616	1,856,433	-	-
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	-	-	-	-	-
Miscellaneous revenues	-	271,184	20,142	14,820	37,380
Total revenues	<u>482,115</u>	<u>1,299,800</u>	<u>1,876,575</u>	<u>14,820</u>	<u>37,380</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	965,274	400,642	-	-
Public works	-	-	-	-	-
Culture and recreation	-	165,389	-	-	-
Urban and economic development	409,349	-	-	15,285	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	774,957	-	-
Total expenditures	<u>409,349</u>	<u>1,130,663</u>	<u>1,175,599</u>	<u>15,285</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>72,766</u>	<u>169,137</u>	<u>700,976</u>	<u>(465)</u>	<u>37,380</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Proceeds from refundings	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	(1,599)	(752,494)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(1,599)</u>	<u>(752,494)</u>	<u>-</u>	<u>-</u>
Net change in fund balance	72,766	167,538	(51,518)	(465)	37,380
Fund balance - January 1, 2012	<u>(72,079)</u>	<u>457,699</u>	<u>42,858</u>	<u>869,299</u>	<u>162,627</u>
Fund balance - December 31, 2012	<u>\$ 687</u>	<u>\$ 625,237</u>	<u>\$ (8,660)</u>	<u>\$ 868,834</u>	<u>\$ 200,007</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, 2012

	<u>Special Revenue Funds</u>				
	<u>Library Special Accounts</u>	<u>Economic Development</u>	<u>Energy Management</u>	<u>Tourism Tax</u>	<u>Public Facility and Programs</u>
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	8,444,198	-
Other taxes	-	-	-	-	9,625
Intergovernmental revenues	4,584	1,127,910	41,159	-	-
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	163	-	-	21,422	-
Miscellaneous revenues	312,649	32,030	45,973	-	-
	<u>317,396</u>	<u>1,159,940</u>	<u>87,132</u>	<u>8,465,620</u>	<u>9,625</u>
Total revenues					
	<u>317,396</u>	<u>1,159,940</u>	<u>87,132</u>	<u>8,465,620</u>	<u>9,625</u>
EXPENDITURES					
Current:					
General government	-	-	115,474	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	33,996	-	-	-	-
Urban and economic development	-	1,141,447	-	2,826,939	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	45,164	-	-	-	-
	<u>79,160</u>	<u>1,141,447</u>	<u>115,474</u>	<u>2,826,939</u>	<u>-</u>
Total expenditures					
	<u>79,160</u>	<u>1,141,447</u>	<u>115,474</u>	<u>2,826,939</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>238,236</u>	<u>18,493</u>	<u>(28,342)</u>	<u>5,638,681</u>	<u>9,625</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Proceeds from refundings	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	-	75,000	-	-
Transfers out	-	-	-	(6,622,281)	-
	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>(6,622,281)</u>	<u>-</u>
Total other financing sources (uses)					
	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>(6,622,281)</u>	<u>-</u>
Net change in fund balance	238,236	18,493	46,658	(983,600)	9,625
Fund balance - January 1, 2012	719,567	(27,220)	242,803	2,104,158	11,726
Fund balance - December 31, 2012	<u>\$ 957,803</u>	<u>\$ (8,727)</u>	<u>\$ 289,461</u>	<u>\$ 1,120,558</u>	<u>\$ 21,351</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, 2012

	Debt Service Funds				Capital Project Fund
	Street Improvement Debt Service	Transit Bond	Special Assessment Debt Service	DECC Revenue	Special Assessment
REVENUES					
Taxes:					
Property taxes	\$ -	\$ 845	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	-
Charges for services	-	-	-	-	-
Special assessments	584,045	-	1,017,865	-	8,365
Investment income	39,373	-	1,034	-	18
Miscellaneous revenues	-	-	-	-	-
Total revenues	<u>623,418</u>	<u>845</u>	<u>1,018,899</u>	<u>-</u>	<u>8,383</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	-	-	252,075	-
Debt service:					
Principal retirement	4,380,000	-	890,948	-	-
Interest and fiscal fees	1,011,909	-	202,047	-	-
Bond issuance costs	87,966	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>5,479,875</u>	<u>-</u>	<u>1,092,995</u>	<u>252,075</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(4,856,457)</u>	<u>845</u>	<u>(74,096)</u>	<u>(252,075)</u>	<u>8,383</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Proceeds from refundings	6,905,000	-	-	-	-
Premium on issuance of bonds	561,274	-	-	-	-
Payment to refunded bond escrow agent	(7,363,043)	-	-	-	-
Transfers in	2,913,182	-	-	2,714,258	-
Transfers out	<u>(37,162)</u>	<u>(151,383)</u>	<u>-</u>	<u>(1,748,945)</u>	<u>-</u>
Total other financing sources (uses)	<u>2,979,251</u>	<u>(151,383)</u>	<u>-</u>	<u>965,313</u>	<u>-</u>
Net change in fund balance	(1,877,206)	(150,538)	(74,096)	713,238	8,383
Fund balance - January 1, 2012	<u>7,861,940</u>	<u>150,538</u>	<u>2,295,525</u>	<u>1,355,741</u>	<u>23,719</u>
Fund balance - December 31, 2012	<u>\$ 5,984,734</u>	<u>\$ -</u>	<u>\$ 2,221,429</u>	<u>\$ 2,068,979</u>	<u>\$ 32,102</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, 2012

	<u>Capital Project Funds</u>				
	<u>Permanent Improvement</u>	<u>Street Improvement Program</u>	<u>Capital Improvements</u>	<u>Capital Equipment</u>	<u>Spirit Mountain Capital Improvements</u>
REVENUES					
Taxes:					
Property taxes	\$ 148,466	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	4,188,573	-	38,196	-	-
Charges for services	-	-	-	-	-
Special assessments	-	857,295	-	-	-
Investment income	34,275	885	58,293	9,027	34,926
Miscellaneous revenues	-	-	8,237	-	-
	<u>4,371,314</u>	<u>858,180</u>	<u>104,726</u>	<u>9,027</u>	<u>34,926</u>
Total revenues					
EXPENDITURES					
Current:					
General government	-	-	239,527	-	-
Public safety	-	-	40,827	-	-
Public works	273,097	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	40,537	96,672
Capital outlay	6,607,757	1,641,625	4,513,457	3,168,273	5,974,688
	<u>6,880,854</u>	<u>1,641,625</u>	<u>4,793,811</u>	<u>3,208,810</u>	<u>6,071,360</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>(2,509,540)</u>	<u>(783,445)</u>	<u>(4,689,085)</u>	<u>(3,199,783)</u>	<u>(6,036,434)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	3,275,000	7,055,000
Proceeds from refundings	-	-	-	-	-
Premium on issuance of bonds	-	-	-	235,499	49,542
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	29,250	512,898	-	-
Transfers out	(229,288)	-	(27,421)	-	(4,704)
	<u>(229,288)</u>	<u>29,250</u>	<u>485,477</u>	<u>3,510,499</u>	<u>7,099,838</u>
Total other financing sources (uses)					
Net change in fund balance	(2,738,828)	(754,195)	(4,203,608)	310,716	1,063,404
Fund balance - January 1, 2012	3,107,938	2,397,541	8,053,215	1,572,493	-
Fund balance - December 31, 2012	<u>\$ 369,110</u>	<u>\$ 1,643,346</u>	<u>\$ 3,849,607</u>	<u>\$ 1,883,209</u>	<u>\$ 1,063,404</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, 2012**

	Total Nonmajor Governmental Funds
	<u> </u>
REVENUES	
Taxes:	
Property taxes	\$ 2,686,249
Sales taxes	8,444,198
Other taxes	9,625
Intergovernmental revenues	15,304,051
Charges for services	723,192
Special assessments	2,467,570
Investment income	199,671
Miscellaneous revenues	<u>1,147,000</u>
 Total revenues	 <u>30,981,556</u>
EXPENDITURES	
Current:	
General government	355,001
Public safety	1,406,743
Public works	273,097
Culture and recreation	3,414,574
Urban and economic development	11,453,279
Debt service:	
Principal retirement	5,335,948
Interest and fiscal fees	1,378,806
Bond issuance costs	225,175
Capital outlay	<u>23,247,154</u>
 Total expenditures	 <u>47,089,777</u>
 Excess (deficiency) of revenues over expenditures	 <u>(16,108,221)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of bonds	10,330,000
Proceeds from refundings	6,905,000
Premium on issuance of bonds	846,315
Payment to refunded bond escrow agent	(7,363,043)
Transfers in	6,764,588
Transfers out	<u>(9,604,527)</u>
 Total other financing sources (uses)	 <u>7,878,333</u>
 Net change in fund balance	 (8,229,888)
Fund balance - January 1, 2012	<u>32,506,082</u>
Fund balance - December 31, 2012	<u>\$ 24,276,194</u>

CITY OF DULUTH MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Taxes:				
General property -				
Current	\$ 11,907,800	\$ 11,907,800	\$ 11,738,880	\$ (168,920)
Delinquent	150,000	150,000	303,379	153,379
Mobile home	39,200	39,200	46,875	7,675
Forfeited tax sale apportionment	15,100	15,100	25,363	10,263
Franchise	1,938,600	1,938,600	1,928,149	(10,451)
Sales taxes	11,900,000	11,900,000	12,444,742	544,742
Charitable gambling	48,000	48,000	53,513	5,513
Other	-	-	53,426	53,426
Total Taxes	<u>25,998,700</u>	<u>25,998,700</u>	<u>26,594,327</u>	<u>595,627</u>
Licenses and Permits:				
Liquor and non-intoxicating liquor	399,000	399,000	442,337	43,337
Health	20,500	20,500	26,003	5,503
Police protective	23,400	23,400	31,641	8,241
Amusement	20,000	20,000	23,935	3,935
Manufacturing and merchandising	35,300	35,300	35,413	113
Other	756,900	756,900	1,066,497	309,597
Total Licenses and Permits	<u>1,255,100</u>	<u>1,255,100</u>	<u>1,625,826</u>	<u>370,726</u>
Intergovernmental revenues:				
Shared revenues -				
Local government aid	27,449,000	27,449,000	27,449,555	555
PERA aid	124,400	124,400	124,428	28
Insurance premium	1,600,000	1,600,000	1,574,915	(25,085)
State grants -				
Minnesota Library Information Network	-	5,000	4,672	(328)
Snowmobile trail	18,000	18,000	26,348	8,348
Police training reimbursement	50,000	50,000	46,160	(3,840)
HAZMAT regional response team	-	48,208	30,019	(18,189)
Purchase of bulletproof vests	-	13,232	14,522	1,290
Market value credit aid	-	-	6,284	6,284
MSA maintenance allotment	1,451,800	1,451,800	1,487,672	35,872
Federal grants -				
Fair housing enforcement	20,000	20,000	16,000	(4,000)
ATF Northern Minnesota Task Force	-	-	1,429	1,429
Bulletproof vest partnership program	-	14,534	19,383	4,849
Organized Crime Drug Enforcement Task Force	-	24,260	28,043	3,783
Other grants -				
St. Louis County	161,000	161,000	165,604	4,604
Payments in lieu of taxes -				
Housing and Redevelopment Authority	99,700	99,700	44,423	(55,277)
Independent School District #709	212,000	212,000	211,476	(524)
Miscellaneous	-	4,000	4,000	-
Total Intergovernmental Revenues	<u>31,185,900</u>	<u>31,295,134</u>	<u>31,254,933</u>	<u>(40,201)</u>

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	<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	83,500	83,500	112,428	28,928
Parks and recreation	35,000	35,000	35,735	735
Engineering	300,000	300,000	172,888	(127,112)
Building inspection services	2,012,200	2,012,200	1,792,220	(219,980)
MIS services	1,500	1,500	4,232	2,732
Grant administration services	46,300	46,300	89,500	43,200
Hydrant maintenance services	30,000	30,000	30,000	-
Assessment fees	69,500	69,500	113,826	44,326
Other services	1,500	1,500	7,984	6,484
Departmental sales -				
Copier and microfilm prints	26,200	26,200	20,691	(5,509)
Print and plan sales	8,000	8,000	7,158	(842)
Book sales	200	200	562	362
Miscellaneous sales and services	62,200	62,200	118,912	56,712
Share of general expenses -				
Duluth Airport Authority	58,000	58,000	45,200	(12,800)
Water and Gas	927,700	927,700	872,400	(55,300)
Sewer	330,700	330,700	306,900	(23,800)
Stormwater	170,000	170,000	150,700	(19,300)
Steam District #1	49,500	49,500	49,500	-
Duluth Entertainment & Convention Center	25,000	25,000	25,000	-
Duluth Transit Authority	10,300	10,300	10,300	-
Golf	66,800	66,800	66,800	-
Duluth Economic Development Authority	365,000	365,000	365,000	-
Fleet Services	108,200	108,200	108,200	-
Group Health	250,000	250,000	255,000	5,000
Self Insurance	283,200	283,200	283,200	-
Spirit Mountain Recreation Area Authority	37,700	37,700	37,700	-
Parking	23,300	23,300	23,300	-
Street Lighting	-	-	59,000	59,000
Total Charges for Services	<u>5,385,700</u>	<u>5,385,700</u>	<u>5,168,536</u>	<u>(217,164)</u>
Fines and Forfeits:				
Library fines	90,000	90,000	87,856	(2,144)
Parking fines	1,025,000	1,025,000	377,140	(647,860)
Court fees	664,500	664,500	536,139	(128,361)
License penalties	8,000	8,000	6,095	(1,905)
Felony forfeitures	-	67,937	67,937	-
Total Fines and Forfeits	<u>1,787,500</u>	<u>1,855,437</u>	<u>1,075,167</u>	<u>(780,270)</u>
Special Assessments	<u>441,000</u>	<u>463,190</u>	<u>417,027</u>	<u>(46,163)</u>
Investment Income	<u>469,600</u>	<u>469,600</u>	<u>(29,991)</u>	<u>(499,591)</u>

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Miscellaneous Revenues:				
Commission and concessions	9,500	9,500	9,975	475
Payments in lieu of taxes	16,000	16,000	16,086	86
Police auction proceeds	-	13,060	16,645	3,585
Rent and lease	112,700	112,700	105,626	(7,074)
Damage claims	-	15,446	17,736	2,290
Sale of equipment	100,000	100,000	59,198	(40,802)
Sale of land	50,000	50,000	81,618	31,618
Sale of scrap	2,000	2,000	7,936	5,936
Surcharge retainage	1,500	1,500	1,156	(344)
Refunds and reimbursements	904,100	1,042,202	1,278,147	235,945
Gifts and donations	4,700	4,700	2,319	(2,381)
Total Miscellaneous Revenues	<u>1,200,500</u>	<u>1,367,108</u>	<u>1,596,442</u>	<u>229,334</u>
Total Revenues	<u>67,724,000</u>	<u>68,089,969</u>	<u>67,702,267</u>	<u>(387,702)</u>
Other Financing Sources:				
Operating transfers in:				
Special Projects	-	-	1,599	1,599
Duluth Police Grant Programs	691,800	691,800	752,494	60,694
Disaster Recovery Fund	-	-	22,531	22,531
Community Investment Trust	317,000	1,067,000	1,095,136	28,136
Tourism Taxes	737,900	737,900	767,659	29,759
G O Debt Service- Tax Levy	-	-	20,794	20,794
Street Improvement Debt Service	-	-	37,162	37,162
Permanent Improvement	100,000	100,000	42,698	(57,302)
Parking	1,352,700	1,352,700	1,323,052	(29,648)
Water	280,000	280,000	246,395	(33,605)
Gas	2,920,000	2,920,000	2,972,010	52,010
Sewer	50,000	50,000	57,014	7,014
Stormwater	510,600	510,600	519,522	8,922
Steam	146,000	146,000	140,389	(5,611)
Self Insurance	-	-	20,783	20,783
Employee Vacation Compensation	-	-	29,905	29,905
Total Other Financing Sources	<u>7,106,000</u>	<u>7,856,000</u>	<u>8,049,143</u>	<u>193,143</u>
Total Revenues and Other Financing Sources	<u>\$ 74,830,000</u>	<u>\$ 75,945,969</u>	<u>\$ 75,751,410</u>	<u>\$ (194,559)</u>
Reconciliation:				
Original budget as approved by Duluth City Council		\$ 74,830,000		
Adjustments made in accordance with budget ordinance provisions:				
Grants, gifts, and donations		906,236		
Ordinance allowable		<u>209,733</u>		
Total adjustments		<u>1,115,969</u>		
Modified budget as reported above		<u>\$ 75,945,969</u>		

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
GENERAL GOVERNMENT:							
Legislative and Executive							
City Council							
Personal services - salaries	\$ 90,000	\$ 90,400		\$ 90,364	\$ -	\$ 90,364	\$ 36
Personal services - benefits	6,500	6,600		6,521	-	6,521	79
Other expenditures	46,800	31,200		21,342	-	21,342	9,858
Total City Council	143,300	128,200	1	118,227	-	118,227	9,973
Mayor's Office							
Personal services - salaries	211,500	179,600		178,637	-	178,637	963
Personal services - benefits	60,500	55,200		55,109	-	55,109	91
Other expenditures	14,600	21,600		20,395	-	20,395	1,205
Total Mayor's Office	286,600	256,400	1	254,141	-	254,141	2,259
Chief Administrative Officer							
Personal services - salaries	196,000	193,700		193,620	-	193,620	80
Personal services - benefits	57,800	74,800		74,781	-	74,781	19
Other expenditures	10,600	15,700		10,672	-	10,672	5,028
Total Chief Administrative Officer	264,400	284,200	1	279,073	-	279,073	5,127
Attorney and Human Rights							
Personal services - salaries	1,411,400	1,375,900		1,374,940	-	1,374,940	960
Personal services - benefits	377,700	431,000		430,870	-	430,870	130
Other expenditures	48,300	40,300		36,933	-	36,933	3,367
Capital outlay	5,000	5,000		1,259	-	1,259	3,741
Total Attorney and Human Rights	1,842,400	1,852,200	1	1,844,002	-	1,844,002	8,198
Human Resources							
Personal services - salaries	720,100	715,300		715,257	-	715,257	43
Personal services - benefits	226,500	249,500		249,295	-	249,295	205
Other expenditures	105,900	47,400		32,368	-	32,368	15,032
Total Human Resources	1,052,500	1,012,200	1	996,920	-	996,920	15,280
Total Legislative and Executive	3,589,200	3,533,200		3,492,363	-	3,492,363	40,837
Management Information Services							
Management Information Services							
Personal services - salaries	1,351,500	1,189,300		1,189,214	-	1,189,214	86
Personal services - benefits	411,900	387,700		387,609	-	387,609	91
Other expenditures	808,200	778,082		617,479	57,935	675,414	102,668
Total Management Information Services	2,571,600	2,355,082	1,2	2,194,302	57,935	2,252,237	102,845
Total Management Information Services	2,571,600	2,355,082		2,194,302	57,935	2,252,237	102,845

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
GENERAL GOVERNMENT: (continued)							
Public Administration							
Clerk							
Personal services - salaries	486,100	507,100		506,681	-	506,681	419
Personal services - benefits	138,800	163,900		163,782	-	163,782	118
Other expenditures	31,500	42,500		41,729	-	41,729	771
Total Clerk	656,400	713,500	1	712,192	-	712,192	1,308
Maintenance Operations							
Personal services - salaries	4,755,900	4,791,450		4,790,538	-	4,790,538	912
Personal services - benefits	1,623,800	1,767,692		1,767,406	-	1,767,406	286
Other expenditures	6,793,100	7,550,935		7,486,198	39,453	7,525,651	25,284
Capital outlay	-	28,139		14,809	11,696	26,505	1,634
Total Maintenance Operations	13,172,800	14,138,216	1,2,3	14,058,951	51,149	14,110,100	28,116
Total Public Administration	13,829,200	14,851,716		14,771,143	51,149	14,822,292	29,424
Finance							
Budget							
Personal services - salaries	441,300	336,100		332,395	-	332,395	3,705
Personal services - benefits	130,300	90,900		90,274	-	90,274	626
Other expenditures	5,100	8,700		4,540	-	4,540	4,160
Total Budget	576,700	435,700	1	427,209	-	427,209	8,491
Assessor							
Personal services - salaries	639,400	599,900		599,507	-	599,507	393
Personal services - benefits	203,100	218,900		218,797	-	218,797	103
Other expenditures	87,400	69,300		43,970	-	43,970	25,330
Total Assessor	929,900	888,100	1	862,274	-	862,274	25,826
Auditor							
Personal services - salaries	787,900	822,700		822,293	-	822,293	407
Personal services - benefits	245,200	293,900		293,594	-	293,594	306
Other expenditures	296,800	277,300		254,784	-	254,784	22,516
Total Auditor	1,329,900	1,393,900	1	1,370,671	-	1,370,671	23,229
Purchasing							
Personal services - salaries	140,200	125,700		124,781	-	124,781	919
Personal services - benefits	48,000	53,100		52,401	-	52,401	699
Other expenditures	10,800	9,200		3,798	-	3,798	5,402
Total Purchasing	199,000	188,000	1	180,980	-	180,980	7,020
Treasurer							
Personal services - salaries	268,200	287,200		286,711	-	286,711	489
Personal services - benefits	76,200	66,200		65,155	-	65,155	1,045
Other expenditures	64,000	37,700		31,448	13,687	45,135	(7,435)
Total Treasurer	408,400	391,100	1	383,314	13,687	397,001	(5,901)
Total Finance	3,443,900	3,296,800		3,224,448	13,687	3,238,135	58,665
TOTAL GENERAL GOVERNMENT	23,433,900	24,036,798		23,682,256	122,771	23,805,027	231,771

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
PUBLIC SAFETY:							
Fire							
Administration							
Personal services - salaries	265,600	282,600		281,973	-	281,973	627
Personal services - benefits	61,000	74,500		74,097	-	74,097	403
Other expenditures	78,400	87,804		69,028	-	69,028	18,776
Total Administration	405,000	444,904	1,2	425,098	-	425,098	19,806
Operations							
Personal services - salaries	8,427,800	8,807,022		8,795,824	-	8,795,824	11,198
Personal services - benefits	2,667,600	3,094,000		3,093,507	-	3,093,507	493
Other expenditures	553,000	553,000		532,132	-	532,132	20,868
Total Operations	11,648,400	12,454,022	1,3	12,421,463	-	12,421,463	32,559
Life Safety							
Personal services - salaries	675,200	673,500		673,104	-	673,104	396
Personal services - benefits	235,500	255,600		254,674	-	254,674	926
Other expenditures	143,500	182,583		151,261	-	151,261	31,322
Total Life Safety	1,054,200	1,111,683	1,2,4	1,079,039	-	1,079,039	32,644
Building Safety							
Personal services - salaries	1,046,800	987,600		985,609	-	985,609	1,991
Personal services - benefits	339,600	343,300		342,192	-	342,192	1,108
Other expenditures	110,500	110,500		109,094	-	109,094	1,406
Total Building Safety	1,496,900	1,441,400	1	1,436,895	-	1,436,895	4,505
Hazardous Materials (HAZMAT)							
Other expenditures	-	16,886		16,885	-	16,885	1
Total Hazardous Materials (HAZMAT)	-	16,886	1,3	16,885	-	16,885	1
Total Fire	14,604,500	15,468,895		15,379,380	-	15,379,380	89,515
Police							
Administration and Investigation							
Personal services - salaries	5,513,300	5,570,410		5,567,016	-	5,567,016	3,394
Personal services - benefits	1,786,100	1,869,508		1,868,879	-	1,868,879	629
Other expenditures	1,786,500	1,629,188		1,495,959	-	1,495,959	133,229
Total Administration and Investigation	9,085,900	9,069,106	1,3	8,931,854	-	8,931,854	137,252
Patrol							
Personal services - salaries	7,003,300	7,253,900		7,253,493	-	7,253,493	407
Personal services - benefits	2,315,400	2,518,800		2,517,659	-	2,517,659	1,141
Other expenditures	140,200	140,200		116,879	-	116,879	23,321
Total Patrol	9,458,900	9,912,900	1,4	9,888,031	-	9,888,031	24,869
Police Special Accounts							
Other expenditures	-	225,128		127,538	-	127,538	97,590
Total Police Special Accounts	-	225,128	1,2,4	127,538	-	127,538	97,590
Total Police	18,544,800	19,207,134		18,947,423	-	18,947,423	259,711
TOTAL PUBLIC SAFETY	33,149,300	34,676,029		34,326,803	-	34,326,803	349,226

(continued)

**CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012**

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
PUBLIC WORKS:							
Public Works and Utilities							
Public Works Director's Office							
Personal services - salaries	36,200	37,600		37,569	-	37,569	31
Personal services - benefits	8,400	9,300		9,222	-	9,222	78
Other expenditures	900	900		221	-	221	679
Total Public Works Director's Office	45,500	47,800	1	47,012	-	47,012	788
Engineering							
Personal services - salaries	1,173,800	1,069,000		1,068,408	-	1,068,408	592
Personal services - benefits	361,500	374,300		373,846	-	373,846	454
Other expenditures	163,700	163,700		144,457	-	144,457	19,243
Total Engineering	1,699,000	1,607,000	1	1,586,711	-	1,586,711	20,289
Total Public Works and Utilities	1,744,500	1,654,800		1,633,723	-	1,633,723	21,077
TOTAL PUBLIC WORKS	1,744,500	1,654,800		1,633,723	-	1,633,723	21,077
CULTURE AND RECREATION:							
Library Services							
Personal services - salaries	2,629,800	2,542,300		2,542,101	-	2,542,101	199
Personal services - benefits	831,300	833,700		833,640	-	833,640	60
Other expenditures	326,100	335,600		335,532	-	335,532	68
Capital outlay	264,500	314,502		314,502	-	314,502	-
Total Library Services	4,051,700	4,026,102	1,3	4,025,775	-	4,025,775	327
TOTAL CULTURE AND RECREATION	4,051,700	4,026,102		4,025,775	-	4,025,775	327
URBAN AND ECONOMIC DEVELOPMENT:							
Planning							
Personal services - salaries	431,400	415,800		415,439	-	415,439	361
Personal services - benefits	141,800	145,700		145,458	-	145,458	242
Other expenditures	68,500	170,000		141,101	5,000	146,101	23,899
Total Planning	641,700	731,500	1,2,4	701,998	5,000	706,998	24,502
Total Business and Community Development							
Personal services - salaries	518,000	476,500		424,343	-	424,343	52,157
Personal services - benefits	142,600	119,100		117,588	-	117,588	1,512
Other expenditures	31,400	41,400		15,723	-	15,723	25,677
Total Business and Community Development	692,000	637,000	1,2	557,654	-	557,654	79,346
TOTAL URBAN AND ECONOMIC DEVELOPMENT	1,333,700	1,368,500		1,259,652	5,000	1,264,652	103,848

(continued)

CITY OF DULUTH MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified	Note	Expended	Encumbered	Totals	
TRANSFERS AND OTHER FUNCTIONS:							
Business improvement district	300,000	322,190	4	322,180	-	322,180	10
Capital improvements/lease purchase	180,900	180,900		180,750	-	180,750	150
Capital maintenance/lease purchase	50,000	197,210	2	157,713	6,006	163,719	33,491
Facilities Maintenance Program	230,000	230,000		114,070	-	114,070	115,930
Flexible benefits	50,000	110,000	1,2	96,360	-	96,360	13,640
Parking fine administration	150,000	-	1	-	-	-	-
Public access television	162,000	162,000		162,000	-	162,000	-
Retiree insurance	7,800,000	7,650,000	1	7,641,560	-	7,641,560	8,440
Self insurance	1,100,000	1,100,000		1,100,000	-	1,100,000	-
State sales tax administration	125,000	133,400	1	133,370	-	133,370	30
Transfers and accruals	380,000	-	1	-	-	-	-
Other functions	589,000	551,803	1,2	461,214	-	461,214	90,589
TOTAL TRANSFERS AND OTHER FUNCTIONS	<u>11,116,900</u>	<u>10,637,503</u>		<u>10,369,217</u>	<u>6,006</u>	<u>10,375,223</u>	<u>262,280</u>
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>\$ 74,830,000</u>	<u>\$ 76,399,732</u>		<u>\$ 75,297,426</u>	<u>\$ 133,777</u>	<u>\$ 75,431,203</u>	<u>\$ 968,529</u>

RECONCILIATION:

Original budget as approved by Duluth City Council	\$ 74,830,000	
Adjustments made in accordance with Budget Ordinance		
Note 1	-	Departmental transfers made in accordance with budget ordinance
Note 2	453,763	Encumbrance, contract, restricted, or assigned carryovers from prior year
Note 3	906,236	Grants, gifts, and donations in accordance with budget ordinance
Note 4	<u>209,733</u>	Other allowable additions made in accordance with budget ordinance
Total adjustments	<u>1,569,732</u>	
Modified budget as reported above	<u>\$ 76,399,732</u>	

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
GENERAL GOVERNMENT:						
Legislative and Executive						
City Council	\$ 90,364	\$ 6,521	\$ 21,342	\$ -	\$ -	\$ 118,227
Mayor's Office	178,637	55,109	20,395	-	-	254,141
Chief Administrative Officer	193,620	74,781	10,672	-	-	279,073
City Attorney and Human Rights	1,374,940	430,870	36,933	1,259	-	1,844,002
Human Resources	715,257	249,295	32,368	-	-	996,920
Total Legislative and Executive	2,552,818	816,576	121,710	1,259	-	3,492,363
Management Information Services						
Management Information Services	1,189,214	387,609	617,479	-	-	2,194,302
Total Management Information Services	1,189,214	387,609	617,479	-	-	2,194,302
Public Administration						
Clerk	506,681	163,782	41,729	-	-	712,192
Maintenance Operations	4,790,538	1,767,406	7,486,198	14,809	-	14,058,951
Other functions	-	722,652	1,491,793	94,036	-	2,308,481
Total Public Administration	5,297,219	2,653,840	9,019,720	108,845	-	17,079,624
Finance						
Budget	332,395	90,274	4,540	-	-	427,209
Assessor	599,507	218,797	43,970	-	-	862,274
Auditor	822,293	293,594	254,784	-	-	1,370,671
Purchasing	124,781	52,401	3,798	-	-	180,980
Treasurer	286,711	65,155	31,448	-	-	383,314
Total Finance	2,165,687	720,221	338,540	-	-	3,224,448
Benefits						
Flexible Benefits	-	96,360	-	-	-	96,360
Retiree Insurance	-	7,641,560	-	-	-	7,641,560
Total Benefits	-	7,737,920	-	-	-	7,737,920
TOTAL GENERAL GOVERNMENT	11,204,938	12,316,166	10,097,449	110,104	-	33,728,657
PUBLIC SAFETY:						
Fire						
Administration	281,973	74,097	69,028	-	-	425,098
Operations	8,795,824	3,093,507	532,132	-	-	12,421,463
Life Safety	673,104	254,674	151,261	-	-	1,079,039
Building Safety	985,609	342,192	109,094	-	-	1,436,895
Hazardous Materials (HAZMAT)	-	-	16,885	-	-	16,885
Total Fire	10,736,510	3,764,470	878,400	-	-	15,379,380
Police						
Administration and Investigation	5,567,016	1,868,879	1,495,959	-	-	8,931,854
Patrol	7,253,493	2,517,659	116,879	-	-	9,888,031
Police Special Accounts	-	-	127,538	-	-	127,538
Total Police	12,820,509	4,386,538	1,740,376	-	-	18,947,423
TOTAL PUBLIC SAFETY	23,557,019	8,151,008	2,618,776	-	-	34,326,803

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
YEAR ENDED DECEMBER 31, 2012

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
PUBLIC WORKS:						
Public Works						
Public Works Director's Office	37,569	9,222	221	-	-	47,012
Engineering	1,068,408	373,846	144,457	-	-	1,586,711
Total Public Works	1,105,977	383,068	144,678	-	-	1,633,723
TOTAL PUBLIC WORKS	1,105,977	383,068	144,678	-	-	1,633,723
CULTURE AND RECREATION:						
Culture and Recreation						
Library Services	2,542,101	833,640	339,096	314,502	-	4,029,339
Parks and Recreation	-	-	-	12,194	-	12,194
Total Culture and Recreation	2,542,101	833,640	339,096	326,696	-	4,041,533
TOTAL CULTURE AND RECREATION	2,542,101	833,640	339,096	326,696	-	4,041,533
URBAN AND ECONOMIC DEVELOPMENT:						
Planning and Development						
Planning	415,439	145,458	141,101	-	-	701,998
Business and Development Resources	424,343	117,588	15,723	-	-	557,654
Total Planning and Development	839,782	263,046	156,824	-	-	1,259,652
TOTAL URBAN AND ECONOMIC DEVELOPMENT	839,782	263,046	156,824	-	-	1,259,652
TRANSFERS:						
Capital Improvements	-	-	-	-	126,308	126,308
TOTAL TRANSFERS	-	-	-	-	126,308	126,308
DEBT SERVICE:						
Capital Lease Obligation - Principal	-	-	-	150,000	-	150,000
Capital Lease Obligation - Interest	-	-	-	30,750	-	30,750
TOTAL DEBT SERVICE	-	-	-	180,750	-	180,750
TOTAL EXPENDITURES/TRANSFERS OUT	\$ 39,249,817	\$ 21,946,928	\$ 13,356,823	\$ 617,550	\$ 126,308	\$ 75,297,426

Proprietary Funds

**CITY OF DULUTH, MINNESOTA
NON-MAJOR PROPRIETARY FUNDS
DECEMBER 31, 2012**

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 #1 -** to account for the generation and distribution of steam in the downtown area.
- Stormwater Utility -** to account for the operation and maintenance of the storm water 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, judgements 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 POSITION
NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2012

	Street Lighting	Steam District #1	Stormwater	Golf	Total Nonmajor Enterprise Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,243,250	\$ 1,657,962	\$ 2,379,526	\$ -	\$ 5,280,738
Receivables, net:					
Accounts receivable	240,394	991,651	464,520	8,368	1,704,933
Assessments	-	-	22,399	-	22,399
Due from other funds	-	25,192	21,186	-	46,378
Inventories	-	299,412	69,037	46,411	414,860
Prepays	-	48,745	-	365	49,110
	<u>1,483,644</u>	<u>3,022,962</u>	<u>2,956,668</u>	<u>55,144</u>	<u>7,518,418</u>
Noncurrent assets:					
Issuance costs	-	65,544	24,270	-	89,814
Capital assets, net	1,800,240	8,600,614	13,719,388	2,149,988	26,270,230
	<u>1,800,240</u>	<u>8,666,158</u>	<u>13,743,658</u>	<u>2,149,988</u>	<u>26,360,044</u>
Total assets	<u>3,283,884</u>	<u>11,689,120</u>	<u>16,700,326</u>	<u>2,205,132</u>	<u>33,878,462</u>
LIABILITIES					
Current liabilities:					
Accounts payable	73,096	733,343	45,116	4,673	856,228
Contracts payable	-	-	114,304	-	114,304
Leases payable	-	-	-	110,718	110,718
Due to other funds	4,704	104	62,137	400	67,345
Interfund loan payable	-	-	-	1,249,116	1,249,116
Due to other governments	62	23,916	5,000	136	29,114
Accrued interest payable	-	6,519	26,986	11,953	45,458
Accrued salaries payable	14,564	-	65,242	-	79,806
Compensated absences	7,277	-	91,520	-	98,797
Unearned revenue	4,696	-	14,142	40,008	58,846
Revenue bonds payable	-	-	204,552	-	204,552
	<u>104,399</u>	<u>763,882</u>	<u>628,999</u>	<u>1,417,004</u>	<u>2,914,284</u>
Noncurrent liabilities:					
Compensated absences	-	-	17,594	-	17,594
Leases payable	-	-	-	236,105	236,105
Net other postemployment benefits payable	-	-	71,327	-	71,327
Revenue bonds payable	-	5,475,000	1,703,610	-	7,178,610
Less unamortized bond premium (discount)	-	(317,083)	5,594	-	(311,489)
	<u>-</u>	<u>5,157,917</u>	<u>1,798,125</u>	<u>236,105</u>	<u>7,192,147</u>
Total liabilities	<u>104,399</u>	<u>5,921,799</u>	<u>2,427,124</u>	<u>1,653,109</u>	<u>10,106,431</u>
NET POSITION					
Net investment in capital assets	1,800,240	3,508,241	11,829,902	1,803,165	18,941,548
Unrestricted	1,379,245	2,259,080	2,443,300	(1,251,142)	4,830,483
Total net position	<u>\$ 3,179,485</u>	<u>\$ 5,767,321</u>	<u>\$ 14,273,202</u>	<u>\$ 552,023</u>	<u>\$ 23,772,031</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Street Lighting</u>	<u>Steam Dist #1</u>	<u>Stormwater</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
OPERATING REVENUES					
Sales	\$ -	\$ -	\$ -	\$ 506,965	\$ 506,965
Charges for services	2,140,481	7,129,125	4,777,794	1,419,429	15,466,829
Miscellaneous revenues	131,914	110,078	20,372	535	262,899
Total operating revenues	<u>2,272,395</u>	<u>7,239,203</u>	<u>4,798,166</u>	<u>1,926,929</u>	<u>16,236,693</u>
OPERATING EXPENSES					
Cost of sales and services	-	-	-	298,639	298,639
Personal services	389,757	-	2,001,315	86	2,391,158
Supplies	175,779	3,006,123	325,930	72,434	3,580,266
Utilities	669,240	437,900	17,936	40,130	1,165,206
Other services and charges	125,926	2,414,685	549,355	1,536,226	4,626,192
Amortization	-	8,901	3,189	5,363	17,453
Depreciation	224,421	998,705	477,970	218,571	1,919,667
Total operating expenses	<u>1,585,123</u>	<u>6,866,314</u>	<u>3,375,695</u>	<u>2,171,449</u>	<u>13,998,581</u>
Operating income	<u>687,272</u>	<u>372,889</u>	<u>1,422,471</u>	<u>(244,520)</u>	<u>2,238,112</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	-	751	22,463	7	23,221
Intergovernmental revenue	-	-	2,705	-	2,705
Gain (loss) on sale or disposition of capital assets	-	-	50,000	-	50,000
Interest expense	-	(217,509)	(65,101)	(21,111)	(303,721)
Total non-operating revenue (expenses)	<u>-</u>	<u>(216,758)</u>	<u>10,067</u>	<u>(21,104)</u>	<u>(227,795)</u>
Income before transfers	687,272	156,131	1,432,538	(265,624)	2,010,317
Capital contributions	-	-	9,894	-	9,894
Transfers in	-	-	4,920	-	4,920
Transfers out	(41,000)	(140,389)	(519,522)	-	(700,911)
Change in net position	646,272	15,742	927,830	(265,624)	1,324,220
Total net position - January 1, 2012	<u>2,533,213</u>	<u>5,751,579</u>	<u>13,345,372</u>	<u>817,647</u>	<u>22,447,811</u>
Total net position - December 31, 2012	<u>\$ 3,179,485</u>	<u>\$ 5,767,321</u>	<u>\$ 14,273,202</u>	<u>\$ 552,023</u>	<u>\$ 23,772,031</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Street Lighting</u>	<u>Steam District #1</u>	<u>Stormwater</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,121,291	\$ 7,347,968	\$ 4,821,538	\$ 1,923,631	\$ 16,214,428
Cash paid to suppliers	(967,180)	(5,919,572)	(811,343)	(1,960,610)	(9,658,705)
Cash paid to employees	(386,618)	-	(1,705,045)	(86)	(2,091,749)
Other operating revenues	122,077	9,906	7,706	-	139,689
Net cash provided (used) by operating activities	<u>889,570</u>	<u>1,438,302</u>	<u>2,312,856</u>	<u>(37,065)</u>	<u>4,603,663</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	-	4,920	-	4,920
Transfers to other funds	(41,000)	(189,092)	(519,522)	-	(749,614)
Operating grants	-	-	2,705	-	2,705
Interfund financing	-	-	-	245,500	245,500
Net cash provided (used) by noncapital financing activities	<u>(41,000)</u>	<u>(189,092)</u>	<u>(511,897)</u>	<u>245,500</u>	<u>(496,489)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants and contributions	-	-	17,620	-	17,620
Issuance of revenue bonds and notes	-	48,106	-	-	48,106
Principal paid on bonds, notes and capitalized leases	-	(965,000)	(196,838)	(106,099)	(1,267,937)
Interest paid on bonds, notes and capitalized leases	-	(357,090)	(68,296)	(19,716)	(445,102)
Transfer to trustee debt service account	-	-	-	(46,492)	(46,492)
Payment of bond issuance costs	-	(41,568)	-	-	(41,568)
Sale of capital assets	-	-	50,000	-	50,000
Acquisition or construction of capital assets	(119,913)	(399,242)	(895,076)	(36,128)	(1,450,359)
Net cash provided (used) by capital and related financing activities	<u>(119,913)</u>	<u>(1,714,794)</u>	<u>(1,092,590)</u>	<u>(208,435)</u>	<u>(3,135,732)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment interest	-	751	21,820	-	22,571
Net increase (decrease) in cash and cash equivalents	728,657	(464,833)	730,189	-	994,013
Cash and cash equivalents - January 1, 2012	514,593	2,122,795	1,649,337	-	4,286,725
Cash and cash equivalents - December 31, 2012	<u>\$ 1,243,250</u>	<u>\$ 1,657,962</u>	<u>\$ 2,379,526</u>	<u>\$ -</u>	<u>\$ 5,280,738</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	<u>\$ 687,272</u>	<u>\$ 372,889</u>	<u>\$ 1,422,471</u>	<u>\$ (244,520)</u>	<u>\$ 2,238,112</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	224,421	1,007,606	481,159	223,934	1,937,120
Change in assets and liabilities:					
Decrease (increase) in receivables	(21,967)	121,071	262,712	(8,323)	353,493
Decrease (increase) in inventory	-	(21,790)	68,804	(1,943)	45,071
Decrease (increase) in prepaid items	-	(48,745)	-	188	(48,557)
Increase (decrease) in payables	675	7,271	79,698	(11,426)	76,218
Increase (decrease) in deferred revenues	(831)	-	(1,988)	5,025	2,206
Total adjustments	<u>202,298</u>	<u>1,065,413</u>	<u>890,385</u>	<u>207,455</u>	<u>2,365,551</u>
Net cash provided (used) by operating activities	<u>\$ 889,570</u>	<u>\$ 1,438,302</u>	<u>\$ 2,312,856</u>	<u>\$ (37,065)</u>	<u>\$ 4,603,663</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Steam District #1

Refunding bond proceeds totaling \$6,024,448 were deposited with a trustee and used to advance refund \$5,650,000 of bonds and pay issuance costs of \$24,732.

Stormwater

Capital contributions are reported net of timing differences totaling \$7,083 due to receivables.

Golf

The trustee debt service account paid \$145,000 and \$5,510 for principal and interest payments, respectively, and earned \$7 in interest.

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
DECEMBER 31, 2012

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 5,157,737	\$ -	\$ -	\$ 3,453,263	\$ 8,611,000
Restricted assets held by trustee	-	6,688,986	-	-	6,688,986
Accounts receivable, net	-	185,737	-	-	185,737
Due from other funds	-	1,058	338,640	-	339,698
Due from component units	9,877	-	-	-	9,877
Inventories	-	-	293,060	-	293,060
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	5,167,614	6,875,781	631,700	3,453,263	16,128,358
Capital assets, net	-	-	454,791	-	454,791
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	5,167,614	6,875,781	1,086,491	3,453,263	16,583,149
LIABILITIES					
Current liabilities:					
Accounts payable	4,488	-	197,791	-	202,279
Claims payable	236,855	2,272,700	-	-	2,509,555
Due to other funds	60,725	-	-	123,554	184,279
Interfund loan payable	-	-	377,928	-	377,928
Due to other governments	11,490	-	2,376	-	13,866
Accrued salaries payable	731	-	45,639	-	46,370
Compensated absences	-	-	64,176	2,537,551	2,601,727
Unearned revenue	-	69,206	-	-	69,206
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	314,289	2,341,906	687,910	2,661,105	6,005,210
Noncurrent liabilities:					
Claims payable	1,256,377	-	-	-	1,256,377
Compensated absences	-	-	21,835	792,158	813,993
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total noncurrent liabilities	1,256,377	-	21,835	792,158	2,070,370
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	1,570,666	2,341,906	709,745	3,453,263	8,075,580
NET POSITION					
Net investment in capital assets	-	-	454,791	-	454,791
Restricted for health insurance trust	-	4,533,875	-	-	4,533,875
Unrestricted	3,596,948	-	(78,045)	-	3,518,903
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total net position	\$ 3,596,948	\$ 4,533,875	\$ 376,746	\$ -	\$ 8,507,569

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
OPERATING REVENUES					
Sales	\$ -	\$ -	\$ 2,880,079	\$ -	\$ 2,880,079
Charges for services	1,662,266	11,372,080	1,562,937	3,329,709	17,926,992
Miscellaneous revenues	188,146	1,101,914	3,750	-	1,293,810
Total operating revenues	<u>1,850,412</u>	<u>12,473,994</u>	<u>4,446,766</u>	<u>3,329,709</u>	<u>22,100,881</u>
OPERATING EXPENSES					
Cost of sales and services	-	-	2,560,124	-	2,560,124
Personal services	325,059	-	1,318,660	3,329,709	4,973,428
Supplies	-	-	53,676	-	53,676
Other services and charges	572,237	1,652,876	303,578	-	2,528,691
Depreciation	-	-	65,099	-	65,099
Medical and insurance	520,608	11,592,684	-	-	12,113,292
Total operating expenses	<u>1,417,904</u>	<u>13,245,560</u>	<u>4,301,137</u>	<u>3,329,709</u>	<u>22,294,310</u>
Operating income	<u>432,508</u>	<u>(771,566)</u>	<u>145,629</u>	<u>-</u>	<u>(193,429)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	20,783	25,424	-	29,905	76,112
Intergovernmental revenue	-	-	5,835	-	5,835
Interest expense	-	-	(398)	-	(398)
Total non-operating revenue (expenses)	<u>20,783</u>	<u>25,424</u>	<u>5,437</u>	<u>29,905</u>	<u>81,549</u>
Income before transfers	453,291	(746,142)	151,066	29,905	(111,880)
Transfers out	<u>(20,783)</u>	<u>-</u>	<u>-</u>	<u>(29,905)</u>	<u>(50,688)</u>
Change in net position	432,508	(746,142)	151,066	-	(162,568)
Total net position - January 1, 2012	<u>3,164,440</u>	<u>5,280,017</u>	<u>225,680</u>	<u>-</u>	<u>8,670,137</u>
Total net position - December 31, 2012	<u>\$ 3,596,948</u>	<u>\$ 4,533,875</u>	<u>\$ 376,746</u>	<u>\$ -</u>	<u>\$ 8,507,569</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 1,851,078	\$ 12,327,161	\$ 4,415,684	\$ 3,518,800	\$ 22,112,723
Cash paid to suppliers	(1,346,168)	(12,958,647)	(2,942,116)	-	(17,246,931)
Cash paid to employees	-	-	(1,322,155)	(3,453,263)	(4,775,418)
Other operating revenues	-	-	3,750	-	3,750
Net cash provided (used) by operating activities	504,910	(631,486)	155,163	65,537	94,124
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(20,783)	-	-	(29,905)	(50,688)
Operating grants	-	-	5,835	-	5,835
Interfund financing	-	-	(130,246)	-	(130,246)
Net cash provided (used) by noncapital	(20,783)	-	(124,411)	(29,905)	(175,099)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on bonds, notes and capitalized leases	-	-	(23,887)	-	(23,887)
Interest paid on bonds, notes and capitalized leases	-	-	(597)	-	(597)
Acquisition or construction of capital assets	-	-	(6,268)	-	(6,268)
Net cash provided (used) by capital and related financing activities	-	-	(30,752)	-	(30,752)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment interest	20,783	25,424	-	29,905	76,112
Net increase (decrease) in cash and cash equivalents	504,910	(606,062)	-	65,537	(35,615)
Cash and cash equivalents - January 1, 2012	4,652,827	7,295,048	-	3,387,726	15,335,601
Cash and cash equivalents - December 31, 2012	<u>\$ 5,157,737</u>	<u>\$ 6,688,986</u>	<u>\$ -</u>	<u>\$ 3,453,263</u>	<u>\$ 15,299,986</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	\$ 432,508	\$ (771,566)	\$ 145,629	\$ -	\$ (193,429)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	-	-	65,099	-	65,099
Change in assets and liabilities:					
Decrease (increase) in receivables	666	(155,627)	(27,332)	73,866	(108,427)
Decrease (increase) in inventory	-	-	(34,204)	-	(34,204)
Decrease (increase) in prepaid items	-	9,154	-	-	9,154
Increase (decrease) in payables	71,736	277,760	5,971	(8,329)	347,138
Increase (decrease) in deferred revenues	-	8,793	-	-	8,793
Total adjustments	72,402	140,080	9,534	65,537	287,553
Net cash provided (used) by operating activities	<u>\$ 504,910</u>	<u>\$ (631,486)</u>	<u>\$ 155,163</u>	<u>\$ 65,537</u>	<u>\$ 94,124</u>

Fiduciary Funds

**CITY OF DULUTH, MINNESOTA
FIDUCIARY FUNDS
AGENCY FUNDS
DECEMBER 31, 2012**

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.

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Balance</u> <u>01/01/12</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/12</u>
<u>DULUTH 1200 FUND</u>				
ASSETS				
Cash and cash equivalents	\$ 2,295,111	\$ 82,899	\$ 59,936	\$ 2,318,074
Loans receivable	1,097,130	97,731	103,242	1,091,619
Other assets	1,680	1,443	1,920	1,203
Total assets	<u>\$ 3,393,921</u>	<u>\$ 182,073</u>	<u>\$ 165,098</u>	<u>\$ 3,410,896</u>
LIABILITIES				
Accounts payable	\$ 1,626	\$ 90,190	\$ 60,502	\$ 31,314
Due to agency	3,392,295	20,575	33,288	3,379,582
Total liabilities	<u>\$ 3,393,921</u>	<u>\$ 110,765</u>	<u>\$ 93,790</u>	<u>\$ 3,410,896</u>
<u>DULUTH PUBLIC ARTS</u>				
ASSETS				
Cash and cash equivalents	\$ 66,863	\$ 76,035	\$ 71,888	\$ 71,010
Total assets	<u>\$ 66,863</u>	<u>\$ 76,035</u>	<u>\$ 71,888</u>	<u>\$ 71,010</u>
LIABILITIES				
Accounts payable	\$ -	\$ 74,248	\$ 71,888	\$ 2,360
Due to agency	66,863	76,035	74,248	68,650
Total liabilities	<u>\$ 66,863</u>	<u>\$ 150,283</u>	<u>\$ 146,136</u>	<u>\$ 71,010</u>
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 2,361,974	\$ 158,934	\$ 131,824	\$ 2,389,084
Loans receivable	1,097,130	97,731	103,242	1,091,619
Other assets	1,680	1,443	1,920	1,203
Total assets	<u>\$ 3,460,784</u>	<u>\$ 258,108</u>	<u>\$ 236,986</u>	<u>\$ 3,481,906</u>
LIABILITIES				
Accounts payable	\$ 1,626	\$ 164,438	\$ 132,390	\$ 33,674
Due to agency	3,459,158	96,610	107,536	3,448,232
Total liabilities	<u>\$ 3,460,784</u>	<u>\$ 261,048</u>	<u>\$ 239,926</u>	<u>\$ 3,481,906</u>

Supplementary
Information

**CITY OF DULUTH, MINNESOTA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY SOURCE*
 DECEMBER 31, 2012**

Governmental funds capital assets:

Land	\$	20,682,040
Buildings and structures		66,261,290
Equipment		30,238,594
Infrastructure		272,871,919
Construction in Progress		<u>46,227,062</u>

Total governmental funds capital assets	\$	<u>436,280,905</u>
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Investments in governmental funds capital assets by source:

General fund	\$	12,868,114
Special revenue fund		25,063,194
Capital projects fund		396,168,428
Donations		<u>2,181,169</u>

Total governmental funds capital assets	\$	<u>436,280,905</u>
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** 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 position.*

CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY*
DECEMBER 31, 2012

	<u>Land</u>	<u>Buildings and Structures</u>	<u>Equipment</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
Function and Activity						
General Government						
Legislative and Executive	\$ -	\$ -	\$ 6,319	\$ -	\$ -	\$ 6,319
Planning and Development	1,097,030	-	332,921	-	-	1,429,951
Finance	-	-	457,981	-	-	457,981
Administrative Services	-	-	256,338	-	2,325,308	2,581,646
Management Information Systems	-	-	3,425,507	-	-	3,425,507
Maintenance Operations	6,836,374	15,375,277	11,567,764	14,390,994	1,023,453	49,193,862
Total General Government	<u>7,933,404</u>	<u>15,375,277</u>	<u>16,046,830</u>	<u>14,390,994</u>	<u>3,348,761</u>	<u>57,095,266</u>
Public Safety						
Police	2,000	16,627,234	4,119,252	562,251	-	21,310,737
Fire	83,006	2,932,502	8,597,424	-	-	11,612,932
Total Public Safety	<u>85,006</u>	<u>19,559,736</u>	<u>12,716,676</u>	<u>562,251</u>	<u>-</u>	<u>32,923,669</u>
Public Works						
Street Construction	-	-	-	255,728,571	39,559,021	295,287,592
Engineering	-	-	713,652	-	-	713,652
Total Public Works	<u>-</u>	<u>-</u>	<u>713,652</u>	<u>255,728,571</u>	<u>39,559,021</u>	<u>296,001,244</u>
Culture and Recreation						
Libraries	51,585	7,545,987	198,538	-	-	7,796,110
Parks and Recreation	12,612,045	23,780,290	562,898	2,190,103	3,319,280	42,464,616
Total Culture and Recreation	<u>12,663,630</u>	<u>31,326,277</u>	<u>761,436</u>	<u>2,190,103</u>	<u>3,319,280</u>	<u>50,260,726</u>
Total Governmental Funds Capital Assets	<u>\$ 20,682,040</u>	<u>\$ 66,261,290</u>	<u>\$ 30,238,594</u>	<u>\$ 272,871,919</u>	<u>\$ 46,227,062</u>	<u>\$ 436,280,905</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 position.

CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY*
YEAR ENDED DECEMBER 31, 2012

Function and Activity	Governmental Funds Capital Assets 01/01/12	Additions	Deductions	Governmental Funds Capital Assets 12/31/12
General Government				
Legislative and Executive	\$ 6,319	\$ -	\$ -	\$ 6,319
Planning and Development	1,463,863	-	33,912	1,429,951
Finance	392,011	65,970	-	457,981
Administrative Services	1,739,400	842,246	-	2,581,646
Management Information Systems	3,133,614	291,893	-	3,425,507
Maintenance Operations	47,945,849	1,851,777	603,764	49,193,862
Total General Government	54,681,056	3,051,886	637,676	57,095,266
Public Safety				
Police	18,838,655	17,170,673	14,698,591	21,310,737
Fire	9,341,854	2,374,098	103,020	11,612,932
Total Public Safety	28,180,509	19,544,771	14,801,611	32,923,669
Public Works				
Street Construction	286,622,897	10,485,761	1,821,066	295,287,592
Engineering	686,786	48,148	21,282	713,652
Total Public Works	287,309,683	10,533,909	1,842,348	296,001,244
Culture and Recreation				
Libraries	7,788,847	7,263	-	7,796,110
Parks and Recreation	41,394,015	1,780,277	709,676	42,464,616
Total Culture and Recreation	49,182,862	1,787,540	709,676	50,260,726
Total Governmental Funds Capital Assets	\$ 419,354,110	\$ 34,918,106	\$ 17,991,311	\$ 436,280,905

** 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 position.*

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2012

	Issue Amount	Issue Date	Final Maturity	Jan 1 Balance
Governmental Activities:				
General Obligation Bonds Payable				
General Obligation				
Bayfront Festival Park Improvement	\$ 425,000	12/1/2003	2/1/2012	\$ 60,000
Capital Improvement	800,000	3/1/2004	2/1/2014	290,000
Airpark Improvement	945,000	9/1/2004	2/1/2020	640,000
Capital Improvement	1,255,000	6/1/2005	2/1/2015	615,000
Lake Superior Center Refunding	1,765,000	12/19/2005	2/1/2017	1,060,000
Zoo Refunding Issue	1,485,000	12/19/2005	2/1/2012	245,000
Capital Improvement	895,000	9/7/2006	2/1/2016	540,000
Capital Improvement	1,240,000	12/13/2007	2/1/2017	870,000
Duluth Entertainment and Convention Center Authority Refunding	3,760,000	12/13/2007	2/1/2014	2,010,000
Aerial Lift Bridge Improvement	1,475,000	8/7/2008	2/1/2019	1,220,000
Duluth Entertainment and Convention Center Improvement	40,635,000	8/7/2008	2/1/2034	40,515,000
Capital Improvement	1,600,000	12/9/2008	2/1/2018	1,295,000
Capital Improvement	7,085,000	12/17/2009	2/1/2020	6,945,000
Capital Improvement - Law Enforcement Center	11,905,000	12/17/2009	2/1/2032	11,900,000
West Michigan Street Improvements Refunding	589,118	12/17/2009	2/1/2018	456,023
Capital Improvements	2,175,000	11/23/2010	2/1/2021	2,175,000
Airport Improvement Refunding	1,850,000	11/23/2010	2/1/2017	1,850,000
Capital Improvement	1,870,000	11/29/2011	2/1/2022	1,870,000
Airport Improvement	7,650,000	5/24/2012	12/31/2028	-
Total General Obligation				<u>\$ 74,561,023</u>
General Obligation - Tax Abatement				
Lake Walk Homes Tax Abatement Bonds	\$ 310,000	10/1/2005	2/1/2021	\$ 285,000
Spirit Mountain Tax Abatement Bonds	7,055,000	2/23/2012	2/1/2030	-
Total General Obligation - Tax Abatement				<u>\$ 285,000</u>
Total General Obligation Bonds Payable				<u>\$ 74,846,023</u>
Revenue Bonds Payable				
Lease Revenue Bonds Payable				
Artspace Community Center Refunding	\$ 1,380,000	2/7/2007	8/1/2014	\$ 715,000
Total Revenue Bonds Payable				<u>\$ 715,000</u>
Special Assessment Debt with Government Commitment				
Street Improvement	\$ 5,035,000	9/1/2003	2/1/2019	\$ 3,030,000
General Obligation Improvement	2,010,000	12/1/2003	2/1/2019	130,000
Street Improvement	4,785,000	9/1/2004	2/1/2020	3,200,000
General Obligation Improvement	2,275,000	6/1/2005	2/1/2020	1,610,000
Street Improvement	4,260,000	10/1/2005	2/1/2021	3,120,000
Street Improvement Refunding	2,820,000	12/19/2005	2/1/2012	520,000
General Obligation Improvement	1,985,000	9/7/2006	2/1/2021	1,535,000
Street Improvement	3,355,000	9/7/2006	2/1/2022	2,670,000
Street Improvement Refunding	2,395,000	12/19/2006	2/1/2012	525,000
Street Improvement Refunding	3,445,000	12/19/2006	2/1/2014	1,605,000
Street Improvement Refunding	3,190,000	12/19/2006	2/1/2016	1,900,000
Street Improvement	2,285,000	12/13/2007	2/1/2023	1,935,000
Street Improvement	2,320,000	8/7/2008	2/1/2024	2,070,000
Street Improvement Refunding	3,055,000	12/9/2008	2/1/2015	2,105,000
General Obligation Improvement Refunding	397,780	12/17/2009	2/1/2015	307,912
General Obligation Improvement Refunding	506,415	12/17/2009	2/1/2015	413,082
General Obligation Improvement Refunding	656,687	12/17/2009	2/1/2016	552,983
General Obligation Improvement Refunding	1,205,000	11/23/2010	2/1/2019	1,205,000
General Obligation Improvement Refunding	1,135,000	11/23/2010	2/1/2019	1,135,000
Street Improvement Refunding	6,905,000	11/27/2012	2/1/2021	-
Total Special Assessment Debt with Government Commitment				<u>\$ 29,568,977</u>
General Obligation Certificates Payable				
Equipment	\$ 1,785,000	12/19/2006	2/1/2012	\$ 385,000
Equipment	1,985,000	12/13/2007	2/1/2013	840,000
Equipment	2,515,000	12/9/2008	2/1/2014	1,575,000
Equipment	2,570,000	12/17/2009	2/1/2015	2,085,000
Equipment	2,295,000	11/23/2010	2/1/2016	2,295,000
Equipment	3,095,000	11/29/2011	2/1/2017	3,095,000
Equipment	3,275,000	11/27/2012	2/1/2018	-
Total General Obligation Certificates Payable				<u>\$ 10,275,000</u>
Total Governmental Activities Bonds and Certificates Payable				<u>\$ 115,405,000</u>

(Continued)

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2012

	Issued	Retired	Dec 31 Balance	Principal Due in 2013	Interest Due in 2013
Governmental Activities:					
General Obligation Bonds Payable					
General Obligation					
Bayfront Festival Park Improvement	-	60,000	-	-	-
Capital Improvement	-	95,000	195,000	95,000	4,920
Airpark Improvement	-	60,000	580,000	60,000	21,775
Capital Improvement	-	145,000	470,000	150,000	14,310
Lake Superior Center Refunding	-	1,060,000	-	-	-
Zoo Refunding Issue	-	245,000	-	-	-
Capital Improvement	-	100,000	440,000	105,000	15,500
Capital Improvement	-	130,000	740,000	135,000	26,900
Duluth Entertainment and Convention Center Authority Refunding	-	2,010,000	-	-	-
Aerial Lift Bridge Improvement	-	135,000	1,085,000	140,000	41,250
Duluth Entertainment and Convention Center Improvement	-	100,000	40,415,000	410,000	1,918,738
Capital Improvement	-	165,000	1,130,000	170,000	40,350
Capital Improvement	-	365,000	6,580,000	765,000	201,569
Capital Improvement - Law Enforcement Center	-	-	11,905,000	-	682,283
West Michigan Street Improvements Refunding	-	139,052	316,971	143,265	5,775
Capital Improvements	-	185,000	1,990,000	200,000	51,525
Airport Improvement Refunding	-	290,000	1,560,000	300,000	25,265
Capital Improvement	-	-	1,870,000	155,000	53,775
Airport Improvement	7,650,000	-	7,650,000	-	221,781
Total General Obligation	\$ 7,650,000	\$ 5,284,052	\$ 76,926,971	\$ 2,828,265	\$ 3,325,716
General Obligation - Tax Abatement					
Lake Walk Homes Tax Abatement Bonds	\$ -	\$ 25,000	\$ 260,000	\$ 25,000	\$ 9,980
Spirit Mountain Tax Abatement Bonds	7,055,000	-	7,055,000	-	167,919
Total General Obligation - Tax Abatement	\$ 7,055,000	\$ 25,000	\$ 7,315,000	\$ 25,000	\$ 177,899
Total General Obligation Bonds Payable	\$ 14,705,000	\$ 5,309,052	\$ 84,241,971	\$ 2,853,265	\$ 3,503,615
Revenue Bonds Payable					
Lease Revenue Bonds Payable					
Artspace Community Center Refunding	\$ -	\$ 150,000	\$ 565,000	\$ 150,000	\$ 22,600
	\$ -	\$ 150,000	\$ 565,000	\$ 150,000	\$ 22,600
Special Assessment Debt with Government Commitment					
Street Improvement	-	3,030,000	-	-	-
General Obligation Improvement	-	130,000	-	-	-
Street Improvement	-	3,200,000	-	-	-
General Obligation Improvement	-	150,000	1,460,000	155,000	54,706
Street Improvement	-	2,570,000	550,000	270,000	16,600
Street Improvement Refunding	-	520,000	-	-	-
General Obligation Improvement	-	125,000	1,410,000	130,000	53,800
Street Improvement	-	190,000	2,480,000	200,000	95,200
Street Improvement Refunding	-	525,000	-	-	-
Street Improvement Refunding	-	515,000	1,090,000	535,000	32,900
Street Improvement Refunding	-	355,000	1,545,000	365,000	54,500
Street Improvement	-	130,000	1,805,000	135,000	69,106
Street Improvement	-	130,000	1,940,000	130,000	80,783
Street Improvement Refunding	-	500,000	1,605,000	515,000	51,275
General Obligation Improvement Refunding	-	93,889	214,023	96,735	3,900
General Obligation Improvement Refunding	-	98,353	314,729	100,000	7,960
General Obligation Improvement Refunding	-	108,706	444,277	105,000	8,515
General Obligation Improvement Refunding	-	82,400	1,122,600	157,075	23,633
General Obligation Improvement Refunding	-	77,600	1,057,400	147,925	22,256
Street Improvement Refunding	6,905,000	-	6,905,000	-	129,524
Total Special Assessment Debt with Government Commitment	\$ 6,905,000	\$ 12,530,948	\$ 23,943,029	\$ 3,041,735	\$ 704,658
General Obligation Certificates Payable					
Equipment	\$ -	\$ 385,000	\$ -	\$ -	\$ -
Equipment	-	410,000	430,000	430,000	10,750
Equipment	-	505,000	1,070,000	525,000	34,319
Equipment	-	505,000	1,580,000	515,000	37,100
Equipment	-	445,000	1,850,000	455,000	19,404
Equipment	-	-	3,095,000	585,000	56,050
Equipment	3,275,000	-	3,275,000	-	66,592
Total General Obligation Certificates Payable	\$ 3,275,000	\$ 2,250,000	\$ 11,300,000	\$ 2,510,000	\$ 224,215
Total Governmental Activities Bonds and Certificates Payable	\$ 24,885,000	\$ 20,240,000	\$ 120,050,000	\$ 8,555,000	\$ 4,455,088

(Continued)

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2012

	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	\$ 145,000
Revenue and General Obligation Bonds Payable				
Parking Fund				
Parking Improvement Tax Increment	\$ 12,785,000	12/16/2005	2/1/2026	\$ 11,020,000
Technology Village & Parking Improvement	1,965,000	12/9/2008	2/1/2015	1,355,000
Parking Improvement Tax Increment Refunding	10,270,000	11/27/2012	2/1/2026	-
Total Parking Fund				\$ 12,375,000
Water Fund				
Water Utility Revenue and General Obligation	\$ 1,120,000	12/19/2006	2/1/2022	\$ 885,000
Water Utility Revenue and General Obligation Refunding	950,000	12/13/2007	2/1/2016	630,000
Water Utility Revenue and General Obligation	196,000	2/19/2009	2/1/2024	175,000
Water Utility Revenue and General Obligation Refunding	1,625,000	11/23/2010	2/1/2018	1,625,000
Total Water Fund				\$ 3,315,000
Gas Fund				
Gas Utility Revenue and General Obligation	\$ 1,190,000	12/19/2006	2/1/2022	\$ 945,000
Gas Utility Revenue and General Obligation Refunding	2,846,814	12/17/2009	2/1/2017	2,470,814
Gas Utility Revenue and General Obligation Refunding	3,125,000	11/29/2011	2/1/2019	3,125,000
Total Gas Fund				\$ 6,540,814
Steam District #1 Fund				
Steam Utility Revenue and General Obligation	\$ 345,000	12/1/2002	2/1/2012	\$ 45,000
Steam Utility Revenue and General Obligation	2,250,000	9/1/2003	2/1/2023	1,640,000
Steam Utility Revenue and General Obligation	1,250,000	6/1/2005	2/1/2020	880,000
Steam Utility Revenue and General Obligation	4,525,000	12/19/2006	2/1/2022	3,580,000
Steam Utility Revenue and General Obligation Refunding	5,475,000	11/27/2012	2/1/2022	-
Total Steam District # 1 Fund				\$ 6,145,000
Sewer Fund				
Sewer Utility Revenue and General Obligation	\$ 4,045,000	12/1/2004	2/1/2020	\$ 520,000
Sewer Utility Revenue and General Obligation	3,515,000	12/19/2005	2/1/2021	2,580,000
Sewer Utility Revenue and General Obligation	945,000	12/19/2006	2/1/2022	745,000
Sewer Utility Revenue and General Obligation	2,120,000	12/13/2007	2/1/2023	1,795,000
Sewer Utility Revenue and General Obligation Refunding	1,325,000	12/13/2007	2/1/2016	825,000
Sewer Utility Revenue and General Obligation	1,444,000	2/19/2009	2/1/2024	1,290,000
Sewer Utility Revenue and General Obligation Refunding	713,186	12/17/2009	2/1/2017	619,185
Sewer Utility Revenue and General Obligation	905,000	12/17/2009	2/1/2025	860,000
Sewer Utility Revenue and General Obligation Refunding	2,025,000	11/23/2010	2/1/2018	2,025,000
Sewer Utility Revenue and General Obligation Refunding	2,265,000	11/29/2011	2/1/2020	2,265,000
Sewer Utility Revenue and General Obligation Refunding	2,000,000	11/27/2012	2/1/2020	-
Total Sewer Fund				\$ 13,524,185
Stormwater Fund				
Stormwater Utility Revenue and General Obligation	\$ 1,705,000	9/7/2006	2/1/2022	\$ 1,350,000
Stormwater Utility Revenue and General Obligation Refunding	755,000	11/23/2010	2/1/2018	755,000
Total Stormwater Fund				\$ 2,105,000
Total Revenue and General Obligation Bonds Payable				\$ 44,004,999
Total Business-type Activities Bonds Payable				\$ 44,149,999
Component Units:				
Duluth Economic Development Authority				
Tax Increment Revenue Bonds Payable -				
Cirrus Tax Increment Revenue	\$ 645,000	3/1/1994	2/1/2012	\$ 45,000
Spirit Mountain Recreation Area				
Revenue Bonds Payable				
Spirit Mountain Recreation Area	\$ 1,646,750	3/31/2003	12/1/2012	\$ 420,809
Total Component Units Bonds Payable				\$ 465,809

(Continued)

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2012

	Issued	Retired	Dec 31 Balance	Principal Due in 2013	Interest Due in 2013
Business-type Activities:					
Revenue Bonds Payable					
Golf Fund					
Revenue Recreation Facility Refunding	\$ -	\$ 145,000	\$ -	\$ -	\$ -
Revenue and General Obligation Bonds Payable					
Parking Fund					
Parking Improvement Tax Increment	\$ -	\$ 9,940,000	\$ 1,080,000	\$ 525,000	\$ 42,919
Technology Village & Parking Improvement	-	325,000	1,030,000	335,000	32,813
Parking Improvement Tax Increment Refunding	10,270,000	-	10,270,000	-	135,534
Total Parking Fund	\$ 10,270,000	\$ 10,265,000	\$ 12,380,000	\$ 860,000	\$ 211,266
Water Fund					
Water Utility Revenue and General Obligation	\$ -	\$ 65,000	\$ 820,000	\$ 70,000	\$ 30,678
Water Utility Revenue and General Obligation Refunding	-	115,000	515,000	120,000	18,200
Water Utility Revenue and General Obligation	-	11,000	164,000	12,000	5,390
Water Utility Revenue and General Obligation Refunding	-	208,428	1,416,572	225,028	31,117
Total Water Fund	\$ -	\$ 399,428	\$ 2,915,572	\$ 427,028	\$ 85,385
Gas Fund					
Gas Utility Revenue and General Obligation	\$ -	\$ 70,000	\$ 875,000	\$ 75,000	\$ 32,733
Gas Utility Revenue and General Obligation Refunding	-	390,957	2,079,857	402,980	50,241
Gas Utility Revenue and General Obligation Refunding	-	-	3,125,000	380,000	102,600
Total Gas Fund	\$ -	\$ 460,957	\$ 6,079,857	\$ 857,980	\$ 185,574
Steam District #1 Fund					
Steam Utility Revenue and General Obligation	\$ -	\$ 45,000	\$ -	\$ -	\$ -
Steam Utility Revenue and General Obligation	-	1,640,000	-	-	-
Steam Utility Revenue and General Obligation	-	880,000	-	-	-
Steam Utility Revenue and General Obligation	-	3,580,000	-	-	-
Steam Utility Revenue and General Obligation Refunding	5,475,000	-	5,475,000	-	52,148
Total Steam District # 1 Fund	\$ 5,475,000	\$ 6,145,000	\$ 5,475,000	\$ -	\$ 52,148
Sewer Fund					
Sewer Utility Revenue and General Obligation	\$ -	\$ 255,000	\$ 265,000	\$ 265,000	\$ 5,300
Sewer Utility Revenue and General Obligation	-	2,130,000	450,000	220,000	12,865
Sewer Utility Revenue and General Obligation	-	55,000	690,000	60,000	25,798
Sewer Utility Revenue and General Obligation	-	120,000	1,675,000	125,000	64,124
Sewer Utility Revenue and General Obligation Refunding	-	185,000	640,000	185,000	21,900
Sewer Utility Revenue and General Obligation	-	84,000	1,206,000	83,000	39,710
Sewer Utility Revenue and General Obligation Refunding	-	99,043	520,142	102,020	26,912
Sewer Utility Revenue and General Obligation	-	50,000	810,000	50,000	13,771
Sewer Utility Revenue and General Obligation Refunding	-	259,733	1,765,267	280,420	38,686
Sewer Utility Revenue and General Obligation Refunding	-	-	2,265,000	20,000	48,750
Sewer Utility Revenue and General Obligation Refunding	2,000,000	-	2,000,000	-	27,111
Total Sewer Fund	\$ 2,000,000	\$ 3,237,776	\$ 12,286,409	\$ 1,390,440	\$ 324,927
Stormwater Fund					
Stormwater Utility Revenue and General Obligation	\$ -	\$ 100,000	\$ 1,250,000	\$ 100,000	\$ 48,000
Stormwater Utility Revenue and General Obligation Refunding	-	96,838	658,162	104,552	14,297
Total Stormwater Fund	\$ -	\$ 196,838	\$ 1,908,162	\$ 204,552	\$ 62,297
Total Revenue and General Obligation Bonds Payable	\$ 17,745,000	\$ 20,704,999	\$ 41,045,000	\$ 3,740,000	\$ 921,597
Total Business-type Activities Bonds Payable	\$ 17,745,000	\$ 20,849,999	\$ 41,045,000	\$ 3,740,000	\$ 921,597
Component Units:					
Duluth Economic Development Authority					
Tax Increment Revenue Bonds Payable -					
Cirrus Tax Increment Revenue	\$ -	\$ 45,000	\$ -	\$ -	\$ -
Spirit Mountain Recreation Area					
Revenue Bonds Payable					
Spirit Mountain Recreation Area	\$ -	\$ 208,364	\$ 212,445	\$ 212,445	\$ 7,154
Total Component Units Bonds Payable	\$ -	\$ 253,364	\$ 212,445	\$ 212,445	\$ 7,154

**CITY OF DULUTH
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2012**

	<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	8/8/2002	8/20/2018	\$ 180,000
Revenue Note				
U.S. Dept. of Housing and Urban Development	\$ 7,876,000	8/1/2005	8/1/2025	\$ 2,906,000
Total Governmental Activities				<u>\$ 3,086,000</u>
Business-type Activities:				
General Obligation				
Water Fund -				
Public Facilities Authority Note	\$ 870,000	8/25/2003	8/20/2018	\$ 458,320
Public Facilities Authority Note	1,971,532	7/23/2004	8/20/2018	1,027,000
Public Facilities Authority Note (Note 1)	1,698,450	10/28/2009	8/20/2019	1,344,363
Public Facilities Authority Note (Note 2)	1,371,653	7/28/2010	8/20/2025	1,102,705
Public Facilities Authority Note (Note 3)	3,534,265	12/7/2010	8/20/2025	2,577,433
Public Facilities Authority Note (Note 4)	1,605,655	11/18/2011	8/20/2026	<u>119,535</u>
Total Water Fund				<u>\$ 6,629,356</u>
Sewer Fund -				
Public Facilities Authority Note	\$ 100,000	8/25/2003	8/20/2018	\$ 52,681
Public Facilities Authority Note	1,179,115	12/12/2003	8/20/2018	626,000
Public Facilities Authority Note	1,973,033	7/12/2007	8/20/2022	1,629,000
Public Facilities Authority Note	796,835	8/20/2009	8/20/2024	574,726
Public Facilities Authority Note	2,414,150	11/25/2009	8/20/2024	2,239,000
Public Facilities Authority Note	3,753,059	7/28/2010	8/20/2025	1,510,682
Public Facilities Authority Note (Note 5)	9,087,385	7/28/2010	8/20/2025	7,110,446
Public Facilities Authority Note (Note 6)	354,551	11/18/2011	8/20/2021	108,000
Public Facilities Authority Note (Note 7)	282,620	11/30/2011	8/20/2021	81,741
Public Facilities Authority Note (Note 8)	278,149	11/18/2011	8/20/2021	-
Public Facilities Authority Note (Note 9)	600,175	9/10/2012	8/20/2022	<u>-</u>
Total Sewer Fund				<u>\$ 13,932,276</u>
Total Business-type Activities				<u>\$ 20,561,632</u>
Component Units:				
Duluth Economic Development Authority				
Fremont Tax Increment Limited Revenue	\$ 650,000	7/1/1997	2/1/2012	\$ 50,000
Duluth Airport Authority				
Revenue Note	\$ 497,379	11/1/2005	6/1/2019	\$ 404,817
Total Component Units				<u>\$ 454,817</u>

Note 1: Only \$ 1,668,813 has been drawn on the Public Facilities Authority Note dated 10/28/2009.

Note 2: Only \$ 1,187,567 has been drawn on the Public Facilities Authority Note dated 7/28/2010.

Note 3: Only \$ 3,314,813 has been drawn on the Public Facilities Authority Note dated 12/7/2010.

Note 4: Only \$ 697,919 has been drawn on the Public Facilities Authority Note dated 11/18/2011.

Note 5: Only \$ 8,492,720 has been drawn on the Public Facilities Authority Note dated 7/28/2010.

Note 6: Only \$ 108,000 has been drawn on the Public Facilities Authority Note dated 11/18/2011.

Note 7: Only \$ 100,033 has been drawn on the Public Facilities Authority Note dated 11/30/2011.

Note 8: Only \$ 171,935 has been drawn on the Public Facilities Authority Note dated 11/18/2011.

Note 9: Only \$ 72,331 has been drawn on the Public Facilities Authority Note dated 9/10/2012.

CITY OF DULUTH
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2012

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2013</u>	<u>Interest Due in 2013</u>
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	\$ -	\$ 25,000	\$ 155,000	\$ 25,000	\$ 1,550
Revenue Note					
U.S. Dept. of Housing and Urban Development	\$ -	\$ 65,000	\$ 2,841,000	\$ 75,000	\$ 161,580
Total Governmental Activities	\$ -	\$ 90,000	\$ 2,996,000	\$ 100,000	\$ 163,130
Business-type Activities:					
General Obligation					
Water Fund -					
Public Facilities Authority Note	\$ -	\$ 60,093	\$ 398,227	\$ 61,887	\$ 11,226
Public Facilities Authority Note	-	136,000	891,000	139,000	22,542
Public Facilities Authority Note	-	165,000	1,179,363	167,000	12,829
Public Facilities Authority Note	2,209	85,000	1,019,914	86,000	13,577
Public Facilities Authority Note	632,115	228,000	2,981,548	231,000	30,193
Public Facilities Authority Note	578,384	15,655	682,264	110,000	10,508
Total Water Fund	\$ 1,212,708	\$ 689,748	\$ 7,152,316	\$ 794,887	\$ 100,875
Sewer Fund -					
Public Facilities Authority Note	\$ -	\$ 6,908	\$ 45,773	\$ 7,113	\$ 1,290
Public Facilities Authority Note	-	86,000	540,000	87,000	7,236
Public Facilities Authority Note	-	140,000	1,489,000	141,000	17,123
Public Facilities Authority Note	143,274	49,000	669,000	50,000	13,173
Public Facilities Authority Note	-	152,000	2,087,000	155,000	42,095
Public Facilities Authority Note	2,016,318	232,000	3,295,000	235,000	40,974
Public Facilities Authority Note	834,888	562,000	7,383,334	569,000	93,562
Public Facilities Authority Note	-	5,551	102,449	38,000	1,819
Public Facilities Authority Note	18,292	12,620	87,413	29,000	1,535
Public Facilities Authority Note	171,935	11,149	160,786	29,000	1,692
Public Facilities Authority Note	72,331	-	72,331	40,175	2,169
Total Sewer Fund	\$ 3,257,038	\$ 1,257,228	\$ 15,932,086	\$ 1,380,288	\$ 222,668
Total Business-type Activities	\$ 4,469,746	\$ 1,946,976	\$ 23,084,402	\$ 2,175,175	\$ 323,543
Component Units:					
Duluth Economic Development Authority					
Fremont Tax Increment Limited Revenue	\$ -	\$ 50,000	\$ -	\$ -	\$ -
Duluth Airport Authority					
Revenue Note	\$ -	\$ 40,040	\$ 364,777	\$ 43,662	\$ 31,338
Total Component Units	\$ -	\$ 90,040	\$ 364,777	\$ 43,662	\$ 31,338

CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNIT - GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General Operating</u>	<u>Loan Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 1,985	\$ 1,533,189	\$ 1,117,238	\$ 4,018,559	\$ 6,670,971
Taxes receivable, net	-	-	90,813	-	90,813
Accounts receivable, net	237,069	-	-	1,824	238,893
Assessments receivable, net	59,652	-	-	-	59,652
Loans receivable, net	272,581	1,880,956	-	1,514,043	3,667,580
Deposits receivable	-	250,000	-	-	250,000
Due from other funds	175,860	157,792	-	1,068,695	1,402,347
Due from primary government	556,322	-	-	-	556,322
Due from other governments	658,875	-	-	-	658,875
Prepays	-	-	-	161,629	161,629
Capital assets held for resale	192,500	-	-	-	192,500
Total Assets	<u>\$ 2,154,844</u>	<u>\$ 3,821,937</u>	<u>\$ 1,208,051</u>	<u>\$ 6,764,750</u>	<u>\$ 13,949,582</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 153,158	\$ -	\$ -	\$ 2,626	\$ 155,784
Contracts payable	137,120	-	-	-	137,120
Loans payable	308,004	-	-	-	308,004
Due to other funds	158,935	-	1,067,552	175,860	1,402,347
Due to primary government	634,333	-	-	-	634,333
Due to other governments	5,491	-	10,198	56,296	71,985
Deferred revenues	463,222	-	78,579	1,487,472	2,029,273
Total Liabilities	<u>1,860,263</u>	<u>-</u>	<u>1,156,329</u>	<u>1,722,254</u>	<u>4,738,846</u>
FUND BALANCES:					
Non-Spendable	192,500	1,967,756	-	-	2,160,256
Restricted	-	-	51,722	5,042,496	5,094,218
Committed	-	1,000,000	-	-	1,000,000
Assigned	-	854,181	-	-	854,181
Unassigned	102,081	-	-	-	102,081
Total Fund Balances	<u>294,581</u>	<u>3,821,937</u>	<u>51,722</u>	<u>5,042,496</u>	<u>9,210,736</u>
Total Liabilities and Fund Balances	<u>\$ 2,154,844</u>	<u>\$ 3,821,937</u>	<u>\$ 1,208,051</u>	<u>\$ 6,764,750</u>	

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

Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds.	20,653,476
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,740,184
Other assets that are not available to pay for current period expenditures, and therefore, are not reported in the funds.	3,826
Net position of governmental activities	<u>\$ 31,608,222</u>

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNIT - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	General Operating	Loan Programs	Debt Service	Capital Projects	Total
REVENUES:					
Taxes					
Tax increments	\$ -	\$ -	\$ 2,067,683	\$ -	\$ 2,067,683
Intergovernmental revenues					
Federal government	23,081	-	-	-	23,081
State of Minnesota grants	638,683	-	-	-	638,683
Charges for services					
Parking meters	313,685	-	-	-	313,685
Other	36,750	-	-	-	36,750
Miscellaneous revenues					
Earnings on investments	408	1,038	394	46,707	48,547
Interest	-	61,051	-	1,755	62,806
Building Rent	386,756	-	-	-	386,756
Other	834,466	-	324,649	87,958	1,247,073
Total Revenues	2,233,829	62,089	2,392,726	136,420	4,825,064
EXPENDITURES:					
Current					
Urban and economic development					
Other services and charges	-	-	-	600,385	600,385
Economic development projects	1,856,167	-	578,750	1,621,619	4,056,536
Capital Outlay					
Urban and economic development					
Improvements other than buildings	1,622,002	-	-	-	1,622,002
Debt Service					
Principal retirement	-	-	95,000	-	95,000
Interest and fiscal fees	-	-	373,984	-	373,984
Total Expenditures	3,478,169	-	1,047,734	2,222,004	6,747,907
Excess of Revenues Over (Under) Expenditures	(1,244,340)	62,089	1,344,992	(2,085,584)	(1,922,843)
OTHER FINANCING SOURCES/USES:					
Operating transfer in					
DEDA Capital Projects	175,860	-	-	-	175,860
DEDA Debt Service	332,958	-	-	-	332,958
DEDA Loan Programs	558,000	-	-	1,067,552	1,625,552
Total Operating Transfer In	1,066,818	-	-	1,067,552	2,134,370
Operating transfers out					
DEDA General Operating	-	(558,000)	(332,958)	(175,860)	(1,066,818)
DEDA Capital Projects	-	-	(1,067,552)	-	(1,067,552)
Total Operating Transfers Out	-	(558,000)	(1,400,510)	(175,860)	(2,134,370)
Total Other Financing Sources (Uses)	1,066,818	(558,000)	(1,400,510)	891,692	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(177,522)	(495,911)	(55,518)	(1,193,892)	(1,922,843)
FUND BALANCES:					
Fund Balance - January 1, 2012	472,103	4,317,848	107,240	6,236,388	11,133,579
Fund Balance - December 31, 2012	<u>\$ 294,581</u>	<u>\$ 3,821,937</u>	<u>\$ 51,722</u>	<u>\$ 5,042,496</u>	<u>\$ 9,210,736</u>

**CITY OF DULUTH, MINNESOTA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 DULUTH ECONOMIC DEVELOPMENT AUTHORITY
 COMPONENT UNIT - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - total governmental funds	\$ (1,922,843)
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. This is the amount by which capital outlays exceeded depreciation in the current period.	592,421
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, some revenues provide current financial resources to governmental funds but do not have any effect on net position. This amount is the net effect of these differences.	96,197
The issuance of long-term debt (i.e., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	97,704
Change in net position of governmental activities	<u>\$ (1,136,521)</u>

DULUTH JPE TRUST
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012

	<u>Health Fund</u>	<u>Dental Fund</u>	<u>JPE Trust Total</u>
ASSETS			
Investments:			
Money market	\$ 2,268,119	\$ 217,615	\$ 2,485,734
US government treasury securities	325,520	-	325,520
US government agency securities	3,549,736	327,996	3,877,732
Receivables:			
Stop loss insurance reimbursements	112,760	-	112,760
Other	61,187	12,848	74,035
	<u>\$ 6,317,322</u>	<u>\$ 558,459</u>	<u>\$ 6,875,781</u>
LIABILITIES			
Claims payable	\$ 2,209,142	\$ 63,558	\$ 2,272,700
Premiums received in advance	66,345	2,861	69,206
	<u>\$ 2,275,487</u>	<u>\$ 66,419</u>	<u>\$ 2,341,906</u>
NET POSITION			
Held in trust	<u>\$ 4,041,835</u>	<u>\$ 492,040</u>	<u>\$ 4,533,875</u>

DULUTH JPE TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	Health Fund	Dental Fund	JPE Trust Total
ADDITIONS			
Health premiums:			
Active employees	\$ 10,576,641	\$ -	\$ 10,576,641
Inactive employees	9,672,355	-	9,672,355
Dental premiums	-	778,697	778,697
Refunds and reimbursements:			
Stop loss reimbursements	547,716	-	547,716
Prescription drug rebates	127,553	-	127,553
Medicare D reimbursement	374,566	-	374,566
Flexible benefit forfeitures	22,574	-	22,574
Miscellaneous	29,505	-	29,505
Investment earnings	23,639	1,785	25,424
Total additions	<u>21,374,549</u>	<u>780,482</u>	<u>22,155,031</u>
DEDUCTIONS			
Medical and drug claims:			
Active employees	11,132,935	-	11,132,935
Inactive employees	9,475,945	-	9,475,945
Dental claims	-	639,417	639,417
Administrative fees:			
Health Partners	682,322	-	682,322
Clearscript	58,974	-	58,974
Delta Dental	-	51,265	51,265
City of Duluth	255,000	-	255,000
Stop loss insurance	483,349	-	483,349
Other professional services	120,517	1,449	121,966
Total deductions	<u>22,209,042</u>	<u>692,131</u>	<u>22,901,173</u>
Change in net position	(834,493)	88,351	(746,142)
Net Position- January 1, 2012	<u>4,876,328</u>	<u>403,689</u>	<u>5,280,017</u>
Net Position- December 31, 2012	<u>\$ 4,041,835</u>	<u>\$ 492,040</u>	<u>\$ 4,533,875</u>

CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUES
YEAR ENDED DECEMBER 31, 2012

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary & Internal Service Funds	Totals
SHARED REVENUE:						
State of Minnesota						
Local Government Aid	\$ 27,449,555	\$ -	\$ -	\$ -	\$ -	\$ 27,449,555
Property Tax Aid	-	-	3,402	73	-	3,475
PERA Aid	124,428	-	-	-	54,402	178,830
Insurance Premium	1,574,915	-	-	-	-	1,574,915
TOTAL SHARED REVENUE	29,148,898	-	3,402	73	54,402	29,206,775
STATE GRANTS:						
State of Minnesota, Department of Commerce						
Auto Theft Prevention Program	-	68,408	-	-	-	68,408
Education						
Minnesota Library Information Network (MnLink)	4,672	-	-	-	-	4,672
Opportunity Online Hardware	-	4,584	-	-	-	4,584
Education Total	4,672	4,584	-	-	-	9,256
Employment and Economic Development						
Atlas Industrial Park Grant	-	500,000	-	-	-	500,000
Contamination Cleanup Program	-	390,057	-	-	-	390,057
Dislocated Workers	-	207,446	-	-	-	207,446
MIF AAR Grant	-	200,000	-	-	-	200,000
Wastewater Infrastructure Grant Fund	-	-	-	-	1,726,678	1,726,678
Youth Program	-	87,097	-	-	-	87,097
Employment and Economic Development Total	-	1,384,600	-	-	1,726,678	3,111,278
Historical Society						
Historical and Cultural Preservation Project	-	168,525	-	-	-	168,525
Natural Resources						
Lake Superior Zoo	-	350,882	-	-	-	350,882
Snowmobile Trail	26,348	-	-	-	-	26,348
Solar Energy Legacy Grant	-	41,159	-	-	-	41,159
Natural Resources Total	26,348	392,041	-	-	-	418,389
Peace Officers Board						
Post Training Reimbursement	46,160	-	-	-	-	46,160
Public Safety						
ARMER Radio Infrastructure Grant	-	334,800	-	-	-	334,800
Crime Victims Emergency Fund	-	800	-	-	-	800
Financial Crimes Task Force	-	52,500	-	-	-	52,500
Fire Department Chemical Assessment Team Training	-	872	-	-	-	872
Firefighter Education Reimbursement	-	4,152	-	-	-	4,152
HAZMAT Regional Response Team	30,019	-	-	-	-	30,019
Bulletproof Vests	14,522	-	-	-	-	14,522
Narcotic/Gang Strike Force	-	310,807	-	-	-	310,807
State of Minnesota Disaster Funds	-	616,540	-	-	-	616,540
Public Safety Total	44,541	1,320,471	-	-	-	1,365,012
Revenue						
Market Value Credit	6,284	-	-	-	-	6,284
Transportation						
Bridge Bonding	-	-	-	553,102	-	553,102
Detour Agreement	-	-	-	17,141	-	17,141
Emergency Flood Repairs on Trunk Highway	-	10,056	-	-	-	10,056
MSA Street Construction Allotment	-	-	-	3,062,041	-	3,062,041
MSA Street Maintenance Allotment	1,487,672	-	-	-	-	1,487,672
Municipal Turnback	-	-	-	56,555	-	56,555
Transportation Total	1,487,672	10,056	-	3,688,839	-	5,186,567
TOTAL STATE GRANTS	1,615,677	3,348,685	-	3,688,839	1,726,678	10,379,879
OTHER GRANTS:						
St. Louis County						
Job Training Services	-	965,265	-	-	-	965,265
Other	165,604	23,240	-	1,750	-	190,594
St. Louis County Total	165,604	988,505	-	1,750	-	1,155,859
Housing and Redevelopment Authority						
Independent School District #709	44,423	57,358	-	-	-	101,781
Other	211,476	-	-	-	-	211,476
Other	4,000	-	-	-	-	4,000
TOTAL OTHER GRANTS	425,503	1,045,863	-	1,750	-	1,473,116

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUES
YEAR ENDED DECEMBER 31, 2012

	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 Grant	-	-	-	-	4,271	4,271
Broadband Technology Opportunities Program	-	3,999	-	-	-	3,999
Commerce Total	-	3,999	-	-	4,271	8,270
Energy						
Duluth Energy Efficiency Program	-	584,486	-	-	-	584,486
Environmental Protection Agency						
Hazardous Substances Contamination	-	14,522	-	-	-	14,522
Petroleum Brownfields Assessment	-	23,331	-	-	-	23,331
Wastewater Infrastructure Fund Grant	-	-	-	-	1,050,680	1,050,680
Environmental Protection Agency Total	-	37,853	-	-	1,050,680	1,088,533
Homeland Security						
Assistance to Firefighters	-	211,973	-	-	-	211,973
FEMA Disaster Assistance	-	1,851,308	-	-	-	1,851,308
Homeland Security Grant Program	-	51,306	-	-	-	51,306
Port Security Grant Program	-	1,113,643	-	-	-	1,113,643
Homeland Security Total	-	3,228,230	-	-	-	3,228,230
Housing and Urban Development						
Climate Showcase Communities Grant	-	218,957	-	-	-	218,957
Community Development Block Grant	-	2,211,512	-	-	-	2,211,512
Emergency Shelter	-	100,355	-	-	-	100,355
Fair Housing Enforcement	16,000	-	-	-	-	16,000
HOME Investment Partnership	-	548,356	-	-	-	548,356
Homelessness Prevention and Rapid Rehousing	-	37,004	-	-	-	37,004
Lead-Based Paint Hazard Control Grant Program	-	173,242	-	-	-	173,242
Neighborhood Stabilization Program	-	61,946	-	-	-	61,946
Housing and Urban Development Total	16,000	3,351,372	-	-	-	3,367,372
Interior						
Historical Resources Survey of East End	-	30,165	-	-	-	30,165
Justice						
ATF (Alcohol Tobacco Firearms) Task Force	1,429	11,932	-	-	-	13,361
Blueprint for Safety	-	67,455	-	-	-	67,455
Bulletproof Vest Partnership Program	19,383	-	-	-	-	19,383
Community Policing Development	-	141,303	-	-	-	141,303
Edward Bryne Memorial Formula Grant	-	77,533	-	-	-	77,533
Forensic Crime	-	59,172	-	-	-	59,172
Grants to Encourage Arrest Policies	-	172,433	-	-	-	172,433
Organized Crime Drug Enforcement Task Force	28,043	-	-	-	-	28,043
Justice Total	48,855	529,828	-	-	-	578,683
Labor						
Dislocated Workers	-	137,969	-	-	-	137,969
Senior Community Service Employment	-	482,115	-	-	-	482,115
Temporary Assistance to Needy Families	-	17,652	-	-	-	17,652
Workforce Investment Act	-	661,772	-	-	-	661,772
Labor Total	-	1,299,508	-	-	-	1,299,508
Transportation						
Federal Highway Assistance	-	167,522	-	-	-	167,522
Hazardous Material Response Training	-	4,760	-	-	-	4,760
Highway Planning and Construction	-	-	-	108,828	-	108,828
Safe Routes to School	-	-	-	427,279	-	427,279
2012 Toward Zero Deaths Enforcement Program	-	59,653	-	-	-	59,653
2013 Toward Zero Deaths Law Enforcement Grant	-	54,024	-	-	-	54,024
Transportation Total	-	285,959	-	536,107	-	822,066
TOTAL FEDERAL GRANTS	64,855	9,351,400	-	536,107	1,054,951	11,007,313
OTHER FEDERAL						
Health and Human Services						
Medicare D Reimbursement	-	-	-	-	374,566	374,566
Treasury						
Build America Interest Rebate	-	-	238,799	-	-	238,799
TOTAL OTHER FEDERAL GRANTS	-	-	238,799	-	374,566	613,365
TOTAL INTERGOVERNMENTAL REVENUE	\$ 31,254,933	\$ 13,745,948	\$ 242,201	\$ 4,226,769	\$ 3,210,597	\$ 52,680,448

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Commerce			
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	Various	11.419	\$ 27,352
Passed Through Minnesota Department of Employment and Economic Development Broadband Technology Opportunities Program - ARRA	0045000	11.557	3,999
Total U.S. Department of Commerce			\$ 31,351
U.S. Department of Housing and Urban Development			
Direct			
Community Development Block Grants/Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants		14.218	\$ 2,293,553
Community Development Block Grants/Entitlement Grants - ARRA		14.253	79,376
Emergency Solutions Grant Program		14.231	134,740
Home Investment Partnerships Program		14.239	628,257
Homelessness Prevention and Rapid Re-Housing Program - ARRA		14.257	37,004
Fair Housing Assistance Program - State and Local		14.401	16,000
Lead-Based Paint Hazard Control in Privately-Owned Housing		14.900	173,242
Passed Through Minnesota Housing Finance Agency Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	02-2009-05-NSP	14.228	68,390
Total U.S. Department of Housing and Urban Development			\$ 3,430,562
U.S. Department of the Interior			
Passed Through Minnesota Historical Society Historic Preservation Fund Grants-In-Aid	28C6346	15.904	\$ 30,165
U.S. Department of Justice			
Direct			
Alcohol, Tobacco, and Firearms Training Assistance		16.012	\$ 13,361
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		16.590	239,888
Local Law Enforcement Block Grant		16.592	28,043
Bulletproof Vest Partnership Program		16.607	19,383
Edward Byrne Memorial Justice Assistance Grant Program Cluster Edward Byrne Memorial Justice Assistance Grant Program		16.738	10,278
Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government - ARRA		16.804	370
Edward Bryne Memorial Competitive Grant Program - ARRA		16.808	59,172
Passed Through the City of Chisholm Public Safety Partnership and Community Policing Grants		16.710	26,153
Passed Through the City of Superior Public Safety Partnership and Community Policing Grants		16.710	55,328
Passed Through the City of Virginia Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants 16.710 \$141,303)		16.710	59,822
Passed through the Minnesota Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program Cluster Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories - ARRA	2010-JAGR-00351	16.803	67,830
Total U.S. Department of Justice			\$ 579,628

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Labor			
Passed Through Senior Service America, Inc. Senior Community Service Employment Program		17.235	\$ 278,477
Passed Through Minnesota Department of Employment and Economic Development			
Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$409,349)	1045100	17.235	130,872
Incentive Grants - WIA Section 503	1047800	17.267	43,029
Workforce Investment Act (WIA) National Emergency Grants	2041400	17.277	192,396
Workforce Investment Act (WIA) Cluster			
WIA Adult Program	PY10-004	17.258	293,668
WIA Youth Activities	PY10-004	17.259	366,170
WIA Dislocated Workers Formula Grant		17.278	133,709
Total U.S. Department of Labor			\$ 1,438,321
U.S. Department of Transportation			
Passed Through Minnesota Department of Transportation Highway Planning and Construction Cluster			
Highway Planning and Construction	Various	20.205	\$ 304,726
Highway Planning and Construction - ARRA	SP 118-140-030	20.205	27,160
Passed Through Minnesota Department of Public Safety Highway Planning and Construction Cluster			
Highway Planning and Construction - Emergency Relief Program (Total Highway Planning and Construction 20.205 \$499,408)	Various	20.205	167,522
Passed Through Minnesota Department of Public Safety Highway Safety Cluster			
State and Community Highway Safety	Various	20.600	24,300
Occupant Protection Incentive Grants	Various	20.602	5,048
Safety Belt Performance Grants	Various	20.609	19,784
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	Various	20.608	64,545
Interagency Hazardous Materials Public Sector Training and Planning Grants	2010-HMEP-00793	20.703	4,760
Total U.S. Department of Transportation			\$ 617,845
U.S. Environmental Protection Agency			
Direct			
Climate Showcase Communities Grant Program		66.041	\$ 218,957
Brownfields Assessment and Cleanup Cooperative Agreements		66.818	27,141
Passed through Minnesota Department of Employment and Economic Development			
Capitalization Grants for Clean Water State Revolving Funds Cluster			
Capitalization Grants for Clean Water State Revolving Funds	Various	66.458	3,113,764
Capitalization Grants for Clean Water State Revolving Funds with Principal Forgiveness	Various	66.458	1,050,680
Capitalization Grants for Clean Water State Revolving Funds - ARRA (Total Clean Water State Revolving Funds 66.458 \$4,307,718)	MPFA-08-0062-R-FY09	66.458	143,274
Capitalization Grants for Drinking Water State Revolving Funds	Various	66.468	1,212,708
Total U.S. Environmental Protection Agency			\$ 5,766,524

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures
U.S. Department of Energy			
Passed through the Minnesota Department of Commerce State Energy Program - ARRA	B49966	81.041	\$ 574,381
U.S. Department of Homeland Security			
Direct			
Assistance to Firefighters Grant		97.044	\$ 211,973
Port Security Grant Program		97.056	760,500
Passed Through Minnesota Department of Public Safety			
Emergency Management Performance Grants	A-EMPG-2011-DULUTHCI-00249	97.042	1,956
Port Security Grant Program (Total Port Security Grant Program 97.056 \$1,113,643)	2008-PSGP-00799	97.056	353,143
Homeland Security Grant Program	Various	97.067	6,265
Passed Through Minnesota Department of Transportation			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Various	97.036	2,970,175
Passed Through St. Louis County			
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$37,075)	2010-OSGP-00822	97.067	30,810
Total U.S. Department of Homeland Security			\$ 4,334,822
Total Federal Awards			\$ 16,803,599

CITY OF DULUTH, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Duluth. It does not include \$18,088,144 and \$2,054,691 in federal awards expended by the Duluth Airport Authority and Duluth Transit Authority, respectively, component units of the City, which had separate single audits. The City's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Duluth under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Duluth, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Duluth.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

4. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 11,007,313
Grants received more than 90 days after year-end, deferred in 2012	
Brownfields Assessment and Cleanup Cooperative Agreements	10,413
Community Development Block Grants	91,028
Disaster Grants - Public Assistance	1,118,868
Edward Byrne Memorial Justice Assistance Program	945
Emergency Solutions Grant Program	34,385
Highway Planning and Construction	10,414
Home Investment Partnerships Program	90,740
Homeland Security Grant Program	11,113
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	6,549
Deferred in 2011, recognized as revenue in 2012	
Brownfields Assessment and Cleanup Cooperative Agreements	(21,125)
Highway Planning and Construction	(214,637)
Home Investment Partnerships Program	(49,987)
Homeland Security Grant Program	(23,388)
Senior Community Service Employment Program	(72,079)
Workforce Investment Act - Youth Activities	(9,638)
Capital grants received in enterprise funds	
Capitalization Grants for Clean Water State Revolving Funds	3,113,764
Capitalization Grants for Clean Water State Revolving Funds - ARRA	143,274
Capitalization Grants for Drinking Water State Revolving Funds	1,212,708
Timing Differences Between Expenditures and Related Reimbursements	319,858
Grant received by Component Unit - DEDA	
Coastal Zone Management Administration Award	23,081
	<hr/>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 16,803,599</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

5. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Community Development Block Grants/Entitlements Grant Cluster	\$ 2,372,929
Edward Byrne Memorial Justice Assistance Grant Program Cluster	78,478
Workforce Investment Act (WIA) Cluster	793,547
Highway Planning and Construction Cluster	499,408
Highway Safety Cluster	49,132
Capitalization Grants for Clean Water State Revolving Funds Cluster	4,307,718

6. Subrecipients

Of the expenditures presented in the schedule, the City of Duluth provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 1,798,276
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	56,850
14.231	Emergency Solution Grant Program	126,687
14.239	Home Investment Partnerships Program	602,739
14.257	Homelessness Prevention and Rapid Re-Housing Program - ARRA	33,965
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	169,882
66.041	Climate Showcase Communities Grant Program	218,957
81.041	State Energy Program - ARRA	574,381
	Total	<u>\$ 3,581,737</u>

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.

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 146 - 153

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 154-156

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

Debt Capacity - Pages 156-160

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 - Page 161

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 162-167

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
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year				
	<u>2003</u>	<u>2004*</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses					
Governmental activities:					
General government	\$ 18,164,487	\$ 20,669,584	\$ 21,287,443	\$ 20,902,934	\$ 35,023,700
Public safety	25,163,652	25,285,634	28,069,291	28,480,845	30,350,398
Public works	14,061,511	12,580,602	13,720,883	13,823,001	15,232,820
Culture and recreation	7,493,744	6,385,653	7,400,480	9,107,022	6,851,355
Urban and economic development	11,081,790	14,173,566	23,676,985	12,773,203	13,178,400
Interest	<u>6,046,179</u>	<u>6,917,787</u>	<u>6,749,211</u>	<u>7,427,045</u>	<u>7,762,355</u>
Total governmental activities expenses	<u>82,011,363</u>	<u>86,012,826</u>	<u>100,904,293</u>	<u>92,514,050</u>	<u>108,399,028</u>
Business-type activities:					
Water	8,945,765	8,465,593	9,463,342	9,827,419	10,865,334
Gas	38,806,370	41,883,691	50,491,710	45,278,118	47,107,309
Sewer	15,240,922	14,610,838	13,454,790	14,928,433	15,023,848
Stormwater	2,354,872	2,470,513	2,508,496	2,776,726	2,865,872
Steam district #1	3,597,759	3,893,705	4,085,845	4,628,019	5,367,034
Steam district #2	8,497,270	8,677,762	8,919,977	9,314,893	11,397,738
Golf	1,754,734	1,762,485	1,908,334	1,889,657	1,887,795
Parking	-	-	-	-	1,871,344
Street Lighting	-	-	-	-	-
Total business-type activities expenses	<u>79,197,692</u>	<u>81,764,587</u>	<u>90,832,494</u>	<u>88,643,265</u>	<u>96,386,274</u>
Total primary government expenses	<u>\$ 161,209,055</u>	<u>\$ 167,777,413</u>	<u>\$ 191,736,787</u>	<u>\$ 181,157,315</u>	<u>\$ 204,785,302</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 4,307,134	\$ 4,935,952	\$ 1,434,650	\$ 1,804,560	\$ 4,008,714
Public safety	2,040,761	2,555,502	2,394,256	3,305,117	2,451,449
Public works	670,756	364,600	724,710	1,096,718	353,575
Culture and recreation	737,820	679,580	856,974	807,245	815,732
Urban and economic development	68,323	1,914,397	7,300,488	908,279	922,159
Operating grants and contributions	11,580,360	11,944,143	9,884,061	10,469,744	11,209,578
Capital grants and contributions	<u>11,074,089</u>	<u>13,955,413</u>	<u>11,565,853</u>	<u>12,445,080</u>	<u>13,674,386</u>
Total governmental activities program revenues	<u>30,479,243</u>	<u>36,349,587</u>	<u>34,160,992</u>	<u>30,836,743</u>	<u>33,435,593</u>
Business-type activities:					
Charges for services:					
Water	9,732,863	9,884,976	10,315,543	11,025,294	12,166,968
Gas	42,245,487	45,110,428	55,339,940	49,534,016	47,489,082
Sewer	16,872,231	16,639,746	14,347,815	15,507,006	15,771,516
Stormwater	2,904,443	2,924,170	2,982,846	3,098,403	3,916,525
Steam district #1	3,683,243	4,016,386	4,416,123	4,686,723	5,261,495
Steam district #2	6,136,880	6,383,327	6,584,168	6,959,000	8,985,844
Golf	1,570,600	1,732,131	1,699,090	1,893,564	1,887,737
Parking	-	-	-	-	2,138,316
Street Lighting	-	-	-	-	-
Capital grants and contributions	<u>1,762,519</u>	<u>943,565</u>	<u>2,179,046</u>	<u>2,960,981</u>	<u>4,468,083</u>
Total business-type activities program revenues	<u>84,908,266</u>	<u>87,634,729</u>	<u>97,864,571</u>	<u>95,664,987</u>	<u>102,085,566</u>
Total primary government program revenues	<u>\$ 115,387,509</u>	<u>\$ 123,984,316</u>	<u>\$ 132,025,563</u>	<u>\$ 126,501,730</u>	<u>\$ 135,521,159</u>

(continued)

CITY OF DULUTH, MINNESOTA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year				
	<u>2003</u>	<u>2004*</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net (expense)/revenue					
Governmental activities	\$ (51,532,120)	\$ (49,663,239)	\$ (66,743,301)	\$ (61,677,307)	\$ (74,963,435)
Business-type activities	<u>5,710,574</u>	<u>5,870,142</u>	<u>7,032,077</u>	<u>7,021,722</u>	<u>5,699,292</u>
Total primary government net expense	<u>\$ (45,821,546)</u>	<u>\$ (43,793,097)</u>	<u>\$ (59,711,224)</u>	<u>\$ (54,655,585)</u>	<u>\$ (69,264,143)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
General Revenues:					
Taxes	\$ 9,510,074	\$ 15,478,942	\$ 16,489,656	\$ 15,709,840	\$ 17,452,324
Market value credit aid	1,254,477	1,196,015	1,260,395	1,184,399	1,191,228
Sales taxes	14,903,251	15,478,954	15,963,891	16,860,351	17,509,877
Other taxes	1,937,557	1,924,690	1,945,956	2,006,659	2,051,173
Casino shared revenues	5,440,225	5,653,523	5,608,777	5,844,787	6,430,460
Grants and shared revenues not restricted to specific programs	32,840,817	32,502,413	31,443,085	32,249,900	31,725,087
Investment income	1,168,695	2,243,381	2,858,882	5,131,090	4,690,453
Gain on sale or disposition of capital assets	335,352	-	-	262,367	37,803
Miscellaneous	570,108	641,584	4,900,055	5,170,612	1,062,999
Special Items	-	-	-	-	12,708,044
Transfers	<u>3,214,912</u>	<u>3,695,422</u>	<u>4,070,710</u>	<u>5,616,094</u>	<u>(3,761,041)</u>
Total governmental activities	<u>71,175,468</u>	<u>78,814,924</u>	<u>84,541,407</u>	<u>90,036,099</u>	<u>91,098,407</u>
Business-type activities:					
General Revenues:					
Grants and shared revenues not restricted to specific programs	-	-	-	-	-
Investment income	244,231	485,428	715,342	824,428	878,763
Gain on sale or disposition of capital assets	33,514	81,140	1,834	30,268	22,127
Miscellaneous	-	-	-	-	-
Extraordinary items	-	-	-	-	-
Transfers	<u>(3,214,912)</u>	<u>(3,695,422)</u>	<u>(4,070,710)</u>	<u>(5,616,094)</u>	<u>3,761,041</u>
Total business-type activities	<u>(2,937,167)</u>	<u>(3,128,854)</u>	<u>(3,353,534)</u>	<u>(4,761,398)</u>	<u>4,661,931</u>
Total primary government	<u>\$ 68,238,301</u>	<u>\$ 75,686,070</u>	<u>\$ 81,187,873</u>	<u>\$ 85,274,701</u>	<u>\$ 95,760,338</u>
Change in Net Position					
Governmental activities	\$ 19,643,348	\$ 29,151,685	\$ 17,798,106	\$ 28,358,792	\$ 16,134,972
Business-type activities	<u>2,773,407</u>	<u>2,741,288</u>	<u>3,678,543</u>	<u>2,260,324</u>	<u>10,361,223</u>
Total primary government	<u>\$ 22,416,755</u>	<u>\$ 31,892,973</u>	<u>\$ 21,476,649</u>	<u>\$ 30,619,116</u>	<u>\$ 26,496,195</u>

*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 POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Expenses					
Governmental activities:					
General government	\$ 25,028,329	\$ 35,376,090	\$ 36,014,153	\$ 38,577,305	\$ 40,761,298
Public safety	36,478,984	36,397,795	38,100,958	37,895,850	38,190,780
Public works	15,817,121	7,616,214	13,657,626	9,040,308	12,320,891
Culture and recreation	13,962,001	24,655,278	25,434,289	7,986,366	15,125,570
Urban and economic development	18,180,805	15,722,245	14,549,117	15,446,838	13,275,120
Interest	<u>4,749,041</u>	<u>5,175,178</u>	<u>5,409,679</u>	<u>4,692,654</u>	<u>4,907,447</u>
Total governmental activities expenses	<u>114,216,281</u>	<u>124,942,800</u>	<u>133,165,822</u>	<u>113,639,321</u>	<u>124,581,106</u>
Business-type activities:					
Water	11,325,128	10,717,468	10,810,875	11,218,488	10,243,435
Gas	54,336,765	38,462,243	35,800,001	36,217,536	30,351,746
Sewer	16,747,150	17,569,046	16,259,669	17,291,803	18,216,008
Stormwater	2,876,181	3,308,604	3,333,875	3,474,137	3,447,389
Steam district #1	5,851,628	5,994,665	6,258,368	6,974,162	7,083,477
Steam district #2	10,024,789	9,031,530	-	-	-
Golf	1,886,874	1,895,162	2,006,633	2,056,166	2,192,560
Parking	2,030,206	1,881,852	1,957,414	1,939,941	2,923,741
Street Lighting	<u>309,920</u>	<u>1,391,981</u>	<u>1,557,525</u>	<u>1,480,674</u>	<u>1,583,897</u>
Total business-type activities expenses	<u>105,388,641</u>	<u>90,252,551</u>	<u>77,984,360</u>	<u>80,652,907</u>	<u>76,042,253</u>
Total primary government expenses	<u>\$ 219,604,922</u>	<u>\$ 215,195,351</u>	<u>\$ 211,150,182</u>	<u>\$ 194,292,228</u>	<u>\$ 200,623,359</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 3,846,472	\$ 4,514,042	\$ 4,619,911	\$ 4,673,037	\$ 4,415,328
Public safety	2,434,033	2,555,541	3,330,905	2,975,998	2,925,524
Public works	392,155	349,364	369,068	370,237	394,422
Culture and recreation	797,188	1,108,600	1,297,370	1,273,472	1,082,261
Urban and economic development	910,181	525,437	280,880	310,839	347,895
Operating grants and contributions	12,997,358	11,846,124	14,164,865	15,685,467	13,668,138
Capital grants and contributions	<u>8,200,343</u>	<u>7,095,416</u>	<u>17,075,628</u>	<u>13,067,199</u>	<u>12,230,295</u>
Total governmental activities program revenues	<u>29,577,730</u>	<u>27,994,524</u>	<u>41,138,627</u>	<u>38,356,249</u>	<u>35,063,863</u>
Business-type activities:					
Charges for services:					
Water	11,370,681	11,961,915	12,024,675	11,743,510	13,911,617
Gas	58,604,811	46,419,426	39,882,397	41,415,145	34,071,373
Sewer	17,224,701	20,320,378	20,347,330	20,040,992	20,350,506
Stormwater	4,563,498	5,222,917	4,730,608	4,632,541	4,798,166
Steam district #1	5,959,836	6,152,268	6,617,346	7,169,021	7,239,203
Steam district #2	8,834,290	8,384,720	-	-	-
Golf	1,879,530	1,945,446	1,967,401	1,872,577	1,926,929
Parking	4,136,535	2,524,682	2,563,215	2,567,703	3,185,152
Street Lighting	88,924	1,271,623	1,270,118	1,894,038	2,272,395
Capital grants and contributions	<u>1,970,497</u>	<u>3,836,174</u>	<u>9,104,643</u>	<u>5,135,700</u>	<u>3,366,852</u>
Total business-type activities program revenues	<u>114,633,303</u>	<u>108,039,549</u>	<u>98,507,733</u>	<u>96,471,227</u>	<u>91,122,193</u>
Total primary government program revenues	<u>\$ 144,211,033</u>	<u>\$ 136,034,073</u>	<u>\$ 139,646,360</u>	<u>\$ 134,827,476</u>	<u>\$ 126,186,056</u>

(continued)

CITY OF DULUTH, MINNESOTA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net (expense)/revenue					
Governmental activities	\$ (84,638,551)	\$ (96,948,276)	\$ (92,027,195)	\$ (75,283,072)	\$ (89,517,243)
Business-type activities	<u>9,244,662</u>	<u>17,786,998</u>	<u>20,523,373</u>	<u>15,818,320</u>	<u>15,079,940</u>
Total primary government net expense	<u>\$ (75,393,889)</u>	<u>\$ (79,161,278)</u>	<u>\$ (71,503,822)</u>	<u>\$ (59,464,752)</u>	<u>\$ (74,437,303)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
General Revenues:					
Taxes	\$ 18,170,135	\$ 18,125,284	\$ 16,001,873	\$ 16,718,385	\$ 21,379,384
Market value credit aid	1,086,482	1,147,029	33,675	34,071	9,759
Sales taxes	18,363,052	18,009,914	19,252,407	20,071,454	20,888,940
Other taxes	2,049,848	2,573,884	2,014,928	2,082,212	2,070,076
Casino shared revenues	6,156,767	5,963,162	6,258,727	2,096,800	579,478
Grants and shared revenues not restricted to specific programs	30,311,915	31,498,519	29,130,992	29,154,013	29,148,898
Investment income	4,058,373	4,034,753	2,307,506	2,934,301	506,168
Gain on sale or disposition of capital assets	136,787	84,278	19,174	169,695	19,124
Miscellaneous	3,623,533	1,031,930	13,584	1,157,996	1,172,063
Special Items	-	-	-	-	-
Transfers	<u>2,234,661</u>	<u>7,839,803</u>	<u>4,552,145</u>	<u>5,379,481</u>	<u>4,671,197</u>
Total governmental activities	<u>86,191,553</u>	<u>90,308,556</u>	<u>79,585,011</u>	<u>79,798,408</u>	<u>80,445,087</u>
Business-type activities:					
General Revenues:					
Grants and shared revenues not restricted to specific programs	-	-	-	48,567	51,272
Investment income	545,151	320,540	282,545	349,471	184,954
Gain on sale or disposition of capital assets	11,577	112,447	7,256	-	55,623
Miscellaneous	-	-	-	2,300,000	-
Extraordinary items	-	(5,441,237)	-	-	-
Transfers	<u>(2,234,661)</u>	<u>(7,839,803)</u>	<u>(4,552,145)</u>	<u>(5,379,481)</u>	<u>(4,671,197)</u>
Total business-type activities	<u>(1,677,933)</u>	<u>(12,848,053)</u>	<u>(4,262,344)</u>	<u>(2,681,443)</u>	<u>(4,379,348)</u>
Total primary government	<u>\$ 84,513,620</u>	<u>\$ 77,460,503</u>	<u>\$ 75,322,667</u>	<u>\$ 77,116,965</u>	<u>\$ 76,065,739</u>
Change in Net Position					
Governmental activities	\$ 1,553,002	\$ (6,639,720)	\$ (12,442,184)	\$ 4,515,336	\$ (9,072,156)
Business-type activities	<u>7,566,729</u>	<u>4,938,945</u>	<u>16,261,029</u>	<u>13,136,877</u>	<u>10,700,592</u>
Total primary government	<u>\$ 9,119,731</u>	<u>\$ (1,700,775)</u>	<u>\$ 3,818,845</u>	<u>\$ 17,652,213</u>	<u>\$ 1,628,436</u>

Unaudited

CITY OF DULUTH, MINNESOTA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General fund					
Reserved	\$ 518,339	\$ 575,992	\$ 650,718	\$ 816,458	\$ 190,911
Unreserved	4,487,573	5,439,550	4,224,264	4,237,396	1,423,116
Nonspendable*	-	-	-	-	-
Restricted*	-	-	-	-	-
Committed*	-	-	-	-	-
Assigned*	-	-	-	-	-
Unassigned*	-	-	-	-	-
Total general fund	<u>\$ 5,005,912</u>	<u>\$ 6,015,542</u>	<u>\$ 4,874,982</u>	<u>\$ 5,053,854</u>	<u>\$ 1,614,027</u>
All other governmental funds					
Reserved	\$ 13,621,208	\$ 19,033,022	\$ 34,078,985	\$ 23,363,256	\$ 14,628,923
Unreserved, reported in:					
Special revenue funds	47,128,380	58,384,931	61,376,988	65,770,619	63,097,631
Debt service funds	13,892,475	13,165,779	9,480,448	8,968,752	11,125,923
Capital projects funds	(4,241,951)	2,139,384	(4,653,373)	(2,523,300)	5,986,870
Restricted*	-	-	-	-	-
Committed*	-	-	-	-	-
Assigned*	-	-	-	-	-
Unassigned*	-	-	-	-	-
Total all other governmental funds	<u>\$ 70,400,112</u>	<u>\$ 92,723,116</u>	<u>\$ 100,283,048</u>	<u>\$ 95,579,327</u>	<u>\$ 94,839,347</u>

	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>	<u>2012</u>
General fund					
Reserved	\$ 325,430	\$ 436,860	\$ 368,134	\$ -	\$ -
Unreserved	(1,345,024)	1,962,587	5,579,282	-	-
Nonspendable*	-	-	-	138,012	431,795
Restricted*	-	-	-	120,766	97,811
Committed*	-	-	-	-	9,067
Assigned*	-	-	-	332,997	583,777
Unassigned*	-	-	-	7,664,417	7,587,726
Total general fund	<u>\$ (1,019,594)</u>	<u>\$ 2,399,447</u>	<u>\$ 5,947,416</u>	<u>\$ 8,256,192</u>	<u>\$ 8,710,176</u>
All other governmental funds					
Reserved	\$ 13,599,551	\$ 17,658,025	\$ 22,178,725	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	67,075,700	55,293,268	38,712,371	-	-
Debt service funds	11,201,667	12,384,602	13,496,346	-	-
Capital projects funds	48,030,782	45,990,283	10,263,175	-	-
Restricted*	-	-	-	36,801,571	29,787,935
Committed*	-	-	-	144,721	294,971
Assigned*	-	-	-	27,983,067	23,258,693
Unassigned*	-	-	-	(255,786)	(2,995,479)
Total all other governmental funds	<u>\$ 139,907,700</u>	<u>\$ 131,326,178</u>	<u>\$ 84,650,617</u>	<u>\$ 64,673,573</u>	<u>\$ 50,346,120</u>

*GASB Statement No. 54 changed fund balance classifications in 2011.

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>2003</u>	<u>2004*</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues					
Taxes:					
Property taxes	\$ 9,259,909	\$ 15,522,334	\$ 16,321,413	\$ 15,469,329	\$ 17,837,011
Sales taxes	14,903,251	15,478,954	15,963,891	16,860,351	17,509,877
Other taxes	1,937,557	1,924,690	1,945,956	2,006,659	2,051,173
Licenses and permits	658,314	680,953	853,927	987,464	1,111,727
Intergovernmental revenues	54,781,689	52,057,762	49,263,351	51,467,392	53,793,307
Charges for services	6,091,850	6,549,128	7,969,577	8,718,615	5,995,079
Fines and forfeits	994,710	1,083,084	1,002,752	905,324	1,086,304
Special assessments	2,671,352	2,735,163	3,237,809	2,964,983	2,941,244
Investment income	1,089,073	2,044,335	2,574,786	4,576,550	3,908,135
Miscellaneous revenues	<u>11,093,844</u>	<u>12,536,138</u>	<u>12,091,312</u>	<u>14,978,054</u>	<u>10,641,263</u>
Total revenues	<u>103,481,549</u>	<u>110,612,541</u>	<u>111,224,774</u>	<u>118,934,721</u>	<u>116,875,120</u>
Expenditures					
General government	19,040,102	19,574,200	19,885,273	21,248,502	32,109,525
Public safety	28,861,649	29,082,948	31,519,654	33,176,998	33,319,542
Public works	9,618,124	9,947,392	9,979,171	10,358,429	11,080,239
Culture and recreation	6,919,311	6,945,317	6,713,232	6,978,630	6,716,210
Urban and economic development	12,005,724	15,511,249	19,828,474	12,694,861	14,531,149
Debt service					
Principal retirement	11,107,478	13,610,613	16,956,649	15,175,505	11,454,452
Interest and fiscal fees	4,179,881	4,857,973	5,040,518	5,589,857	4,777,420
Revenue pledge	-	-	2,612,545	1,383,363	2,966,875
Bond issuance costs	148,000	180,618	407,773	269,189	205,336
Capital outlay	<u>18,671,264</u>	<u>17,010,131</u>	<u>23,478,917</u>	<u>30,731,546</u>	<u>13,496,052</u>
Total expenditures	<u>110,551,533</u>	<u>116,720,441</u>	<u>136,422,206</u>	<u>137,606,880</u>	<u>130,656,800</u>
Excess of revenues over (under) expenditures	<u>(7,069,984)</u>	<u>(6,107,900)</u>	<u>(25,197,432)</u>	<u>(18,672,159)</u>	<u>(13,781,680)</u>
Other financing sources (uses)					
Issuance of bonds	8,670,000	7,885,000	28,265,000	17,050,000	10,650,000
Proceeds from refundings	-	-	-	-	-
Premium on issuance of bonds	-	159,777	197,367	287,586	269,594
Issuance of refunding bonds	6,925,000	-	-	-	-
Sale of capital asset	335,352	24,000	-	-	-
Loan proceeds	-	-	6,594,000	1,482,000	-
Payment to refunded bond escrow agent	(6,965,522)	-	(7,690,417)	(10,626,155)	(5,827,735)
Transfers in	12,769,347	18,584,108	19,413,529	28,843,364	29,700,237
Transfers out	<u>(9,554,435)</u>	<u>(14,773,286)</u>	<u>(15,162,675)</u>	<u>(22,889,485)</u>	<u>(25,190,223)</u>
Total other financing sources (uses)	<u>12,179,742</u>	<u>11,879,599</u>	<u>31,616,804</u>	<u>14,147,310</u>	<u>9,601,873</u>
Net change in fund balances	<u>\$ 5,109,758</u>	<u>\$ 5,771,699</u>	<u>\$ 6,419,372</u>	<u>\$ (4,524,849)</u>	<u>\$ (4,179,807)</u>
Debt service as a percentage of noncapital expenditures	16.7%	19.1%	19.1%	19.9%	13.8%

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Revenues					
Taxes:					
Property taxes	\$ 17,776,235	\$ 17,859,578	\$ 15,953,934	\$ 16,581,461	\$ 21,336,285
Sales taxes	18,363,052	18,009,914	19,252,407	20,071,454	20,888,940
Other taxes	2,049,848	2,573,884	2,014,928	2,082,212	2,070,076
Licenses and permits	985,506	1,149,265	1,182,044	1,407,951	1,625,826
Intergovernmental revenues	50,315,079	50,047,221	55,756,919	56,211,950	49,469,851
Charges for services	5,802,260	6,348,063	6,902,683	6,453,510	5,891,728
Fines and forfeits	1,056,783	1,770,427	1,791,604	1,579,021	1,075,167
Special assessments	2,609,585	2,948,975	2,741,754	2,837,628	2,884,597
Investment income	3,364,141	3,691,734	2,051,772	2,669,071	430,056
Miscellaneous revenues	<u>12,202,008</u>	<u>6,321,696</u>	<u>3,285,276</u>	<u>3,956,649</u>	<u>4,124,685</u>
Total revenues	<u>114,524,497</u>	<u>110,720,757</u>	<u>110,933,321</u>	<u>113,850,907</u>	<u>109,797,211</u>
Expenditures					
General government	23,062,581	32,743,783	32,628,277	33,469,098	34,625,147
Public safety	35,661,590	36,718,739	33,901,872	34,606,780	36,476,109
Public works	12,106,097	1,872,986	7,164,216	2,081,437	6,046,513
Culture and recreation	8,037,797	6,095,879	6,570,834	6,865,686	7,761,926
Urban and economic development	16,515,445	14,059,428	14,177,365	15,251,986	20,203,006
Debt service					
Principal retirement	9,984,002	12,354,000	10,254,000	11,395,000	13,045,000
Interest and fiscal fees	4,377,160	5,264,029	5,441,345	4,989,456	5,097,486
Revenue pledge	-	-	-	-	-
Bond issuance costs	544,187	442,358	140,135	80,184	280,600
Capital outlay	<u>15,749,543</u>	<u>36,274,174</u>	<u>37,344,799</u>	<u>33,452,857</u>	<u>23,247,154</u>
Total expenditures	<u>126,038,402</u>	<u>145,825,376</u>	<u>147,622,843</u>	<u>142,192,484</u>	<u>146,782,941</u>
Excess of revenues over (under) expenditures	<u>(11,513,905)</u>	<u>(35,104,619)</u>	<u>(36,689,522)</u>	<u>(28,341,577)</u>	<u>(36,985,730)</u>
Other financing sources (uses)					
Issuance of bonds	51,600,000	21,560,000	4,470,000	4,965,000	17,980,000
Proceeds from refundings	-	2,150,000	4,190,000	-	6,905,000
Premium on issuance of bonds	383,591	578,200	109,851	138,232	868,419
Issuance of refunding bonds	-	-	-	-	-
Sale of capital asset	-	-	-	-	-
Loan proceeds	-	-	-	-	-
Payment to refunded bond escrow agent	(3,570,023)	(2,150,000)	(4,155,250)	-	(7,363,043)
Transfers in	25,900,738	37,591,473	26,903,985	23,957,020	19,166,548
Transfers out	<u>(20,365,669)</u>	<u>(29,787,535)</u>	<u>(22,207,637)</u>	<u>(18,386,943)</u>	<u>(14,444,663)</u>
Total other financing sources (uses)	<u>53,948,637</u>	<u>29,942,138</u>	<u>9,310,949</u>	<u>10,673,309</u>	<u>23,112,261</u>
Net change in fund balances	<u>\$ 42,434,732</u>	<u>\$ (5,162,481)</u>	<u>\$ (27,378,573)</u>	<u>\$ (17,668,268)</u>	<u>\$ (13,873,469)</u>
Debt service as a percentage of noncapital expenditures	12.8%	13.7%	12.3%	14.8%	14.0%

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
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	4,456,568,100	44,910,418	909,880,320	16,677,463
2009	4,617,041,700	46,697,414	1,009,119,300	18,491,015
2010	4,542,850,233	48,956,915	1,026,182,900	21,309,642
2011	4,407,742,000	47,423,816	1,024,073,000	21,384,017
2012	4,408,311,700	42,728,746	1,026,889,100	22,378,312

Fiscal Year Ended December 31	Personal Property			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
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
2009	28,544,000	284,456	75,270,300	1,435,859
2010	30,165,000	378,816	78,621,200	1,544,328
2011	28,403,100	369,643	84,724,000	1,637,265
2012	28,591,200	305,329	107,565,700	2,057,809

Fiscal Year Ended December 31	Total		Percentage of Total Tax Capacity to	
	Estimated Market Value	Tax Capacity	Total Estimated Market Value	Tax Rate
	2003	3,409,100,200	37,571,565	1.10%
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	5,486,922,320	63,346,912	1.15%	0.23259
2009	5,729,975,300	66,908,744	1.17%	0.25403
2010	5,677,819,333	72,189,701	1.27%	0.26331
2011	5,544,942,100	70,814,741	1.28%	0.27956
2012	5,571,357,700	67,470,196	1.21%	0.31597

Unaudited

CITY OF DULUTH, MINNESOTA
PROPERTY TAX RATES* AND PRINCIPAL PROPERTY TAXPAYERS

Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years

Fiscal Year	City			Overlapping Rates			Total Direct & Overlapping Rates
	Operations	Debt Service	Total Direct	Schools	County	Special	
2003	0.17070	0.11957	0.29027	0.14816	0.81464	0.05631	1.30938
2004	0.16861	0.10005	0.26866	0.11778	0.77282	0.06810	1.22736
2005	0.15770	0.08445	0.24215	0.11405	0.67545	0.06902	1.10067
2006	0.15126	0.07057	0.22183	0.10994	0.63330	0.06576	1.03083
2007	0.14780	0.08159	0.22939	0.10881	0.63013	0.06615	1.03448
2008	0.14743	0.08516	0.23259	0.20874	0.59190	0.06298	1.09621
2009	0.16193	0.09210	0.25403	0.20940	0.57645	0.06497	1.10485
2010	0.18050	0.08281	0.26331	0.20971	0.55365	0.05654	1.08321
2011	0.18686	0.09270	0.27956	0.23373	0.56011	0.05829	1.13169
2012	0.21847	0.09750	0.31597	0.27706	0.62325	0.05975	1.27603

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

Source: St. Louis County web site

Unaudited

Principal Property Tax Payers
Current and Nine Years Ago

Taxpayer	Type of Business	2012		Percentage of Total Estimated Market Value	2003		Percentage of Total Estimated Market Value
		Estimated Market Value	Rank		Estimated Market Value	Rank	
Minnesota Power	Electric utility	159,712,100	1	2.87%	78,241,250	1	2.30%
Bowman Properties	Apartments	56,581,800	2	1.02%	-	-	-
Simon Property, Inc.	Shopping mall	52,603,300	3	0.94%	27,793,500	3	0.82%
St. Mary's Med Center / Duluth Clinic	Healthcare / hospital	46,089,000	4	0.83%	25,433,800	4	0.75%
IRET Properties	Property management	23,145,900	5	0.42%	-	-	-
Melhus Management Company	Real estate investment	20,135,400	6	0.36%	-	-	-
Wisconsin Central LTD	Railway	18,441,000	7	0.33%	-	-	-
Riverland AG Corp	Grain elevators	18,334,000	8	0.33%	-	-	-
StoraEnso North America	Paper mill	18,281,000	9	0.33%	46,313,600	2	1.36%
US Bank	Bank/Office building	17,481,400	10	0.31%	9,012,300	6	0.26%
Northwest Air	Airbus maintenance	-	-	-	14,823,100	5	0.43%
Home Depot	Retail/Developer	-	-	-	8,168,200	7	0.24%
Tech Village	Office/Tech building	-	-	-	8,151,800	8	0.24%
Bradley Operating Limited	Strip mall	-	-	-	8,071,900	9	0.24%
Cirrus Design	Plane manufacturer	-	-	-	7,950,400	10	0.23%
		<u>\$ 430,804,900</u>		<u>7.74%</u>	<u>\$ 233,959,850</u>		<u>6.87%</u>

Unaudited

**CITY OF DULUTH, MINNESOTA
PROPERTY TAX LEVIES AND COLLECTIONS
AND RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

**Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended December 31	Net Tax ¹ 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
2003	9,679,200	9,511,986	98.3%	176,896	9,688,882	100.1%
2004	8,977,567	8,759,791	97.6%	160,632	8,920,423	99.4%
2005	9,580,872	9,336,284	97.4%	165,448	9,501,732	99.2%
2006	10,024,889	9,736,970	97.1%	216,488	9,953,458	99.3%
2007	11,124,247	10,799,240	97.1%	245,348	11,044,588	99.3%
2008	12,443,867	12,046,909	96.8%	294,696	12,341,605	99.2%
2009	14,366,814	13,790,094	96.0%	359,542	14,149,636	98.5%
2010	16,050,825	15,531,833	96.8%	317,905	15,849,738	98.7%
2011	16,648,242	16,102,214	96.7%	245,265	16,347,479	98.2%
2012	21,403,582	20,835,227	97.3%	-	20,835,227	97.3%

Unaudited

¹ Net tax levy is equal to the gross tax levy less state property tax aids.

**RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(amounts expressed in thousands, except per capita amount)**

Fiscal Year	Governmental Activities									
	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	Revenue and and General Obligation Notes	Capital Leases	
2004	** 26,974	4,348	-	10,167	1,890	53,018	4,310	1,418	459	
2005	33,813	7,282	310	3,919	1,770	53,919	3,915	7,780	260	
2006	32,439	6,381	310	2,543	1,640	53,600	4,395	4,167	227	
2007	19,502	23	310	1,240	1,250	52,060	5,270	3,743	193	
2008	60,815	-	310	175	1,125	48,845	6,715	3,544	155	
2009	76,699	-	310	135	995	41,106	8,065	3,415	114	
2010	*** 75,449	-	310	-	860	36,011	8,920	3,171	70	
2011	74,561	-	285	-	715	29,569	10,275	3,086	24	
2012	76,927	-	7,315	-	565	23,943	11,300	2,996	-	

Business-Type Activities

Fiscal Year	Revenue Bonds	Revenue and and General Obligation Bonds	General Obligation Notes	Capital Leases	Total Primary Government	Percentage of Personal Income*	Per Capita*
2003	1,490	36,380	1,435	121	134,295	6.81%	1,560
2004	1,040	38,210	3,594	80	145,508	7.02%	1,696
2005	920	40,340	3,790	37	158,055	7.59%	1,840
2006	800	46,815	3,517	369	157,203	7.14%	1,846
2007	675	60,595	4,946	282	150,089	6.44%	1,757
2008	550	56,315	4,892	8,999	192,440	8.05%	2,258
2009	420	54,505	5,906	9,120	200,790	8.78%	2,348
2010	285	47,900	10,766	8,725	192,467	8.51%	2,231
2011	145	44,005	20,562	8,672	191,899	8.20%	2,224
2012	-	41,045	23,084	8,041	195,216	8.34%	2,263

*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.

***In 2010, Duluth Economic Development Authority became a discretely presented component unit.

Unaudited

CITY OF DULUTH, MINNESOTA
RATIOS OF NET GENERAL OBLIGATION BONDED DEBT AND DIRECT AND
OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

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>
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	85,220	63,346,912	67,840,000	14,636,181	53,203,819	83.99%	624.31
2009	85,530	66,908,744	85,074,118	18,612,250	66,461,868	99.33%	777.06
2010***	86,265	72,189,701	84,679,118	19,144,190	65,534,928	90.78%	759.69
2011	86,277	70,814,741	85,121,023	18,629,920	66,491,103	93.89%	770.67
2012	86,277	67,470,196	95,541,971	17,742,090	77,799,881	115.31%	901.75

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.

***In 2010, Duluth Economic Development Authority became a discretely presented component unit.

Unaudited

Direct and Overlapping Governmental Activities Debt
As of December 31, 2012

<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	\$ 63,720,000	88.3%	\$ 56,271,132
Independent School District 704	12,790,000	6.2%	787,864
St. Louis County	31,900,000	35.8%	11,404,250
Subtotal, overlapping debt			68,463,246
City of Duluth direct debt			120,050,000
Total direct and overlapping debt			<u>\$ 188,513,246</u>

The overlapping debt chargeable to the City is based upon the taxable net tax capacity in the City as a percentage of the total taxable net tax capacity of the overlapping governmental unit.

Unaudited

**CITY OF DULUTH, MINNESOTA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Taxable market value	\$ 3,409,100,200	\$ 4,080,640,300	\$ 4,824,343,600	\$ 5,037,213,600	\$ 5,197,633,600
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 68,182,004</u>	<u>\$ 81,612,806</u>	<u>\$ 96,486,872</u>	<u>\$ 100,744,272</u>	<u>\$ 103,952,672</u>
Debt applicable to limit:					
Total bonds payable	\$ 131,728,000	\$ 139,957,491	\$ 146,189,413	\$ 148,923,488	\$ 140,925,002
Less: Deductions allowable	(107,309,600)	(117,408,091)	(116,546,513)	(119,604,288)	(121,323,002)
Total net debt applicable to limit	<u>\$ 24,418,400</u>	<u>\$ 22,549,400</u>	<u>\$ 29,642,900</u>	<u>\$ 29,319,200</u>	<u>\$ 19,602,000</u>
Total net debt applicable to the limit as a percentage of debt limit	35.81%	27.63%	30.72%	29.10%	18.86%
	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Taxable market value	\$ 5,486,922,320	\$ 5,729,975,300	\$ 5,677,819,333	\$ 5,557,887,100	\$ 5,571,357,700
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 109,738,446</u>	<u>\$ 114,599,506</u>	<u>\$ 113,556,387</u>	<u>\$ 111,157,742</u>	<u>\$ 111,427,154</u>
Debt applicable to limit:					
Total bonds payable	\$ 174,850,000	\$ 182,235,000	\$ 169,735,000	\$ 159,554,999	\$ 161,095,000
Less: Deductions allowable	(152,495,000)	(141,965,882)	(128,955,882)	(117,723,976)	(123,073,029)
Total net debt applicable to limit	<u>\$ 22,355,000</u>	<u>\$ 40,269,118</u>	<u>\$ 40,779,118</u>	<u>\$ 41,831,023</u>	<u>\$ 38,021,971</u>
Total net debt applicable to the limit as a percentage of debt limit	20.37%	35.14%	35.91%	37.63%	34.12%

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	
<u>WATER REVENUE BOND</u>							
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
2009	11,997,431	9,250,685	2,746,746	460,000	157,856	617,856	4.45
2010	12,045,133	9,275,099	2,770,034	186,000	94,605	280,605	9.87
2011	11,747,715	9,395,019	2,352,696	399,428	97,166	496,594	4.74
2012	13,928,511	8,897,762	5,030,749	427,028	85,385	512,413	9.82
<u>GAS REVENUE BOND</u>							
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
2009	46,526,246	36,939,946	9,586,300	652,000	341,269	993,269	9.65
2010	39,970,909	34,319,333	5,651,576	821,000	255,813	1,076,813	5.25
2011	41,552,067	34,549,583	7,002,484	855,957	305,411	1,161,368	6.03
2012	34,148,624	28,790,209	5,358,415	857,980	185,574	1,043,554	5.13
<u>SEWER REVENUE BOND</u>							
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
2009	20,344,639	15,900,214	4,444,425	1,274,000	567,498	1,841,498	2.41
2010	20,388,169	14,482,465	5,905,704	1,008,000	482,913	1,490,913	3.96
2011	20,130,587	15,215,558	4,915,029	1,317,776	404,300	1,722,076	2.85
2012	20,387,041	15,946,629	4,440,412	1,390,440	324,927	1,715,367	2.59
<u>STORMWATER REVENUE BOND</u>							
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
2009	5,187,017	2,862,787	2,324,230	179,000	96,730	275,730	8.43
2010	4,734,525	2,845,983	1,888,542	95,000	67,887	162,887	11.59
2011	4,672,485	2,868,448	1,804,037	196,839	68,295	265,134	6.80
2012	4,820,629	2,897,725	1,922,904	204,552	62,297	266,849	7.21

(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>STEAM DISTRICT #1 REVENUE BOND</u>							
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
2009	6,152,268	4,784,338	1,367,930	500,000	280,645	780,645	1.75
2010	6,497,846	5,032,398	1,465,448	515,000	260,912	775,912	1.89
2011	7,169,515	5,712,409	1,457,106	495,000	241,246	736,246	1.98
2012	7,239,954	5,867,609	1,372,345	-	52,148	52,148	26.32
<u>GOLF REVENUE BOND (3)</u>							
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
2009	1,945,535	1,723,055	222,480	135,000	15,210	150,210	1.48
2010	1,967,418	1,858,207	109,211	140,000	10,620	150,620	0.73
2011	1,872,594	1,789,906	82,688	145,000	5,510	150,510	0.55
<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
2009	2,592,185	693,301	1,898,884	745,000	692,013	1,437,013	1.32
2010	2,610,111	789,126	1,820,985	790,000	657,056	1,447,056	1.26
2011	2,645,997	800,256	1,845,741	825,000	620,263	1,445,263	1.28
2012	3,216,205	1,860,989	1,355,216	860,000	211,266	1,071,266	1.27

Notes:

- (1) Includes operating revenue and interest earnings.
(2) Includes operating expenses, excluding depreciation.
(3) Golf revenue bond was retired in 2012.

Unaudited

**CITY OF DULUTH, MINNESOTA
DEMOGRAPHIC AND ECONOMIC STATISTICS AND
PRINCIPAL EMPLOYERS**

**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>
2003	86,082	1,973,465,217	22,925	12,321	5.4%
2004	85,782	2,071,632,035	24,150	11,979	5.4%
2005	85,889	2,082,363,825	24,245	11,123	4.9%
2006	85,170	2,200,368,620	25,835	10,050	4.7%
2007	85,439	2,330,534,215	27,277	9,819	4.9%
2008	85,220	2,390,569,327	28,052	9,554	6.5%
2009	85,530	2,286,461,687	26,733	9,195	7.1%
2010	86,265	2,260,614,999	26,205	8,780	7.6%
2011	86,277	2,341,514,707	27,140	8,815	6.9%
2012	86,277 *	2,341,514,707 *	27,140	8,686	6.3%

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

**PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

<u>Employer</u>	<u>Type of Business</u>	<u>2012</u>			<u>2003</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>
Essentia Health (SMDC)	Healthcare / hospital	5,168	1	12.07%	5,726	1	13.41%
St. Louis County	Government	1,956	2	4.57%	1,389	5	3.25%
University of Minnesota - Duluth	Education	1,700	3	3.97%	1,800	3	4.22%
St. Luke's Hospital	Healthcare / hospital	1,602	4	3.74%	2,100	2	4.92%
Independent School District No. 709	Education	1,426	5	3.33%	1,578	4	3.70%
Allete (Minnesota Power)	Electric utility	1,419	6	3.31%	657	8	1.54%
Uniprise (United Health Care)	Insurance	1,368	7	3.19%	874	7	2.05%
Duluth Air National Guard Base	Military	1,068	8	2.49%			
City of Duluth	Government	850	9	1.98%	946	6	2.22%
US Government	Government	850	10	1.98%			
Cirrus Design	Aviation				644	9	1.51%
Duluth Missabe Iron Range Railway Co.	Railroad				480	10	1.12%
		<u>17,407</u>		<u>40.63%</u>	<u>16,194</u>		<u>37.94%</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				
	2003	2004	2005	2006	2007
General government	221.8	207.0	205.0	204.0	194.4
Public safety					
Police	179.0	171.0	169.0	173.0	174.0
Fire	162.0	159.0	154.0	159.0	158.0
Public works	34.8	31.4	30.4	30.4	29.2
Culture and recreation					
Parks and recreation	23.2	22.2	20.2	18.2	19.2
Zoo	13.0	12.0	11.0	11.0	12.0
Library	65.6	59.7	58.6	58.6	59.6
Urban and economic development	47.0	41.0	37.0	37.0	33.0
Water & Gas	139.9	135.5	135.2	131.9	124.9
Sewer	33.6	33.3	37.4	38.6	38.6
Stormwater	17.9	19.8	20.0	20.1	20.1
Golf	8.0	8.0	5.0	5.0	3.0
Parking	-	-	-	-	-
Street Lighting	-	-	-	-	-
Total	945.8	899.9	882.8	886.8	866.0

Function:	Full-time Equivalent Employees as of December 31				
	2008	2009	2010	2011	2012
General government	183.0	185.0	223.0	210.5	212.5
Public safety					
Police	179.0	182.0	187.0	185.0	185.0
Fire	157.0	159.0	158.0	159.0	156.0
Public works	28.4	22.4	21.2	22.0	17.0
Culture and recreation					
Parks and recreation	17.6	7.5	7.5	7.5	9.0
Zoo	11.0	-	-	-	-
Library	57.3	47.3	43.5	43.5	48.5
Urban and economic development	33.0	31.0	35.0	43.5	36.5
Water & Gas	122.5	120.5	124.8	128.2	131.0
Sewer	38.6	38.6	38.4	38.4	39.2
Stormwater	20.1	21.1	24.2	24.2	26.0
Golf	-	-	-	-	-
Parking	4.0	4.0	4.0	3.0	3.0
Street Lighting	-	4.0	4.0	5.0	5.0
Total	851.5	822.4	870.6	869.8	868.7

Note: Steam District #1 has 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				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Police					
Criminal offences	17,610	16,352	9,659	9,916	10,277
Adult and juvenile arrests	4,503	4,042	3,329	4,648	4,485
Traffic violations	7,290	5,978	3,752	6,184	3,344
Parking violations	68,721	69,906	66,555	76,095	62,556
Fire					
Number of calls answered	7,015	7,193	7,462	7,981	8,090
Number of inspections conducted	3,500	1,200	1,200	1,200	1,200
Public works					
Construction permits:					
Permits issued	2,659	2,456	2,400	2,080	3,117
Estimated cost of construction during year	\$ 101,287,887	\$ 175,360,742	\$ 121,160,329	\$ 194,794,123	\$ 93,080,667
Culture and recreation					
Parks and recreation department					
Participation in special events	43,825	53,330	58,492	48,510	47,143
Participation in recreation	287,127	253,496	129,000	129,998	117,118
Zoo regular customers	116,862	107,227	93,870	102,865	117,269
Library					
Registered borrowers	59,080	63,851	49,011	48,884	49,660
Items in collection*	341,119	341,034	354,480	355,668	359,805
Items loaned	972,650	970,342	969,186	969,972	969,756
Library visits	490,182	493,181	480,173	470,684	462,950
Internet uses	-	-	-	52,016	52,545
Reference/research questions answered**	230,310	237,517	226,222	231,445	194,604
Water					
Meters in service	27,572	27,696	27,809	27,948	28,087
Average number of gallons treated per month	562,962,000	537,703,000	514,360,000	518,865,000	527,489,906
Water pumped - million cubic feet	903.1	862.6	825.1	832.4	846.0
Water sold - million cubic feet	730.7	718.8	704.7	697.8	746.0
Daily average consumption in gallons	15,214,250	17,630,000	16,910,466	17,058,575	17,342,134
Gas					
Meters in service	24,857	24,970	25,085	25,278	25,642
MMBTU sold	5,289,874	5,066,848	4,777,330	4,285,167	4,808,178
Sewer					
Number of service connections	28,835	28,835	28,840	28,845	28,845
Daily average treatment in gallons	16,500,000	16,500,000	14,580,000	14,780,000	13,150,675
Stormwater					
Cleaning storm sewer pipe (in feet)	19,734	40,535	14,448	10,599	9,409
Steam District #1					
Steam sold (in 1,000 lbs)	363,175	353,808	376,485	422,651	436,966
Golf					
Season passes	1,231	1,159	1,037	1,046	1,005
Daily tickets	37,399	35,826	35,524	41,467	34,274
Carts	13,079	12,652	13,509	14,323	13,255
Rounds played	98,436	91,909	84,382	89,287	84,185

*Note: Prior to 2009, only cataloged items were included in the Library's "Items in collection."

**Note: Beginning in 2009, only actual reference questions are included in the Library's "Reference questions answered."
In prior years, directional questions were also included.

Sources: Various government departments

(continued)

**CITY OF DULUTH, MINNESOTA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

Function:	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police					
Criminal offences	10,376	10,452	10,187	10,930	10,177
Adult and juvenile arrests	4,312	4,759	4,484	4,370	4,091
Traffic violations	2,951	2,153	5,241	9,746	9,499
Parking violations	49,498	54,953	57,537	47,778	43,733
Fire					
Number of calls answered	8,552	9,319	8,484	9,262	9,540
Number of inspections conducted	1,200	1,200	1,200	1,200	1,200
Public works					
Construction permits:					
Permits issued	2,757	2,362	2,026	1,700	2,325
Estimated cost of construction during year	\$ 115,091,545	\$ 113,965,408	\$ 238,186,019	\$ 173,357,959	\$ 104,841,877
Culture and recreation					
Parks and recreation department					
Participation in special events	59,353	42,858	48,896	15,436	18,129
Participation in recreation	112,826	36,217	31,905	39,839	35,681
Zoo regular customers	92,218	91,606	102,986	93,705	71,842
Library					
Registered borrowers	49,233	47,662	46,592	47,965	50,171
Items in collection*	344,302	620,941	620,101	463,418	457,999
Items loaned	901,128	881,268	929,161	902,221	953,270
Library visits	404,724	362,719	380,982	376,817	460,918
Internet uses	40,187	43,907	62,379	66,394	89,070
Reference/research questions answered**	250,756	67,460	80,678	79,443	90,155
Water					
Meters in service	28,016	27,950	30,317	29,069	28,082
Average number of gallons treated per month	514,647,500	516,805,833	481,950,833	461,125,000	468,170,000
Water pumped - million cubic feet	826.0	829.1	773.1	739.8	756.1
Water sold - million cubic feet	601.0	658.0	665.5	589.6	644.4
Daily average consumption in gallons	16,919,918	16,973,333	15,844,958	15,160,274	13,206,643
Gas					
Meters in service	25,983	26,148	26,668	26,693	27,542
MMBTU sold	5,169,299	4,804,897	4,617,923	5,184,800	4,528,009
Sewer					
Number of service connections	28,845	28,845	28,845	28,845	27,250
Daily average treatment in gallons	15,249,900	13,740,000	14,859,000	13,284,575	12,137,000
Stormwater					
Cleaning storm sewer pipe (in feet)	21,254	23,358	14,734	14,750	230,165
Steam District #1					
Steam sold (in 1,000 lbs)	465,717	441,808	403,085	409,295	379,257
Golf					
Season passes	928	1,023	1,024	985	1,028
Daily tickets	35,230	33,815	32,252	32,101	35,121
Carts	12,811	11,128	10,670	12,553	14,751
Rounds played	83,390	80,987	79,430	75,480	84,740

Unaudited

**CITY OF DULUTH, MINNESOTA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

Function:	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Police					
Patrol units	81	75	92	87	96
Fire					
Fire stations	9	9	9	9	9
Public works					
Miles of streets and alleys:					
Miles of streets - paved	462.87	466.63	469.20	471.90	474.66
Miles of streets - unpaved	80.13	78.56	77.31	76.61	73.85
Miles of sidewalk	380.77	380.83	381.33	382.56	382.56
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,241	3,241	3,712	3,758	3,758
Overhead street lamps	3,740	3,740	3,727	3,732	3,732
Culture and recreation					
Parks and recreation department					
Number of parks	129	129	129	107	107
Park acreage	11,862	11,862	11,862	11,862	11,862
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	30	23	23	22	22
Community clubs/field houses operated	27	27	27	27	27
Number of athletic fields	39	39	39	36	36
Number of hiking trails	13	13	13	13	13
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	403.38	406.24	408.22	408.30	413.70
Number of hydrants	2,231	2,279	2,363	2,373	2,396
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	478.50	482.20	488.30	495.34	508.00
Sewer					
Miles of sanitary sewers	420.81	404.00	408.00	409.00	409.00
Stormwater					
Miles of storm sewers	262.48	311.00	349.00	351.00	288.00
Steam District #1					
Miles of line	10.00	10.50	11.00	11.00	11.00
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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police					
Patrol units	96	91	96	94	93
Fire					
Fire stations	9	9	9	9	8
Public works					
Miles of streets and alleys:					
Miles of streets - paved	476.30	476.30	469.00	470.23	470.43
Miles of streets - unpaved	73.11	73.11	48.02	48.02	48.02
Miles of sidewalk	382.56	382.56	277.00	409.00	409.90
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,758	3,930	3,930	3,930	3,930
Overhead street lamps	3,732	3,657	3,665	3,665	3,665
Culture and recreation					
Parks and recreation department					
Number of parks	111	145	127	127	128
Park acreage	13,490	11,880	15,255	15,255	12,000
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	22	15	17	17	17
Community clubs/field houses operated	27	22	22	22	21
Number of athletic fields	36	57	57	57	57
Number of hiking trails	13	13	13	14	14
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	413.79	414.59	424.10	426.30	426.74
Number of hydrants	2,500	2,506	2,535	2,583	2,597
Maximum daily capacity of plant in gallons	35,000,000	32,000,000	32,000,000	32,000,000	32,000,000
Gas					
Miles of gas mains	510.20	506.00	512.40	511.00	520.00
Sewer					
Miles of sanitary sewers	424.00	444.00	392.00	382.00	406.20
Stormwater					
Miles of storm sewers	431.00	431.00	431.00	431.00	431.00
Steam District #1					
Miles of line	11.00	11.00	11.00	11.00	11.00
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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
COMPONENT UNITS-					
Duluth Entertainment and Convention Center Authority (DECC) -					
Number of events	512	522	545	534	523
Number of conventions	38	44	43	43	45
Duluth Airport Authority -					
Number of passengers	253,454	316,912	305,750	290,421	349,447
Duluth Transit Authority -					
Number of buses	66	66	72	72	72
Number of routes	18	17	18	18	20
Number of passengers	2,771,990	2,647,051	2,709,249	2,692,931	2,854,467
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority -					
Skier visits	134,518	151,381	140,480	156,301	166,304
Season passes	11,129	9,385	8,630	9,209	8,920

	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
COMPONENT UNITS-					
Duluth Entertainment and Convention Center Authority (DECC) -					
Number of events	533	536	690	510	515
Number of conventions	57	48	49	46	45
Duluth Airport Authority -					
Number of passengers	303,163	257,561	306,330	295,212	322,208
Duluth Transit Authority -					
Number of buses	72	67	66	66	66
Number of routes	20	18	18	19	20
Number of passengers	3,219,758	3,173,485	3,171,087	3,264,479	3,278,682
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority -					
Skier visits	181,365	153,287	144,579	155,450	130,013
Season passes	8,028	8,123	7,728	7,835	6,915

Unaudited