

THE CITY OF DULUTH, MINNESOTA
COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

City of Duluth Minnesota

Comprehensive Annual Financial Report
for the Fiscal Year Ending
December 31, 2004



Department of Finance

*Genevieve A. Stark, Director
Wayne W. Parson, CPA, City Auditor*

Introductory Section

CITY OF DULUTH, MINNESOTA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
December 31, 2004

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FRONT COVER:

Lake Superior is known for its beauty in the spring, summer and fall, but the lake's majesty in late winter can also be breathtaking. Photographer Steve Forslund captures lake ice collecting in the harbor on a windy March day in 2004.

CITY OF DULUTH

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Genevieve A. Stark
Director of Finance

June 17, 2005

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

The Comprehensive Annual Financial Report of the City of Duluth, Minnesota, for the fiscal year ended December 31, 2004 is hereby submitted. This report was prepared by the City Auditor's Office, Department of Finance, in compliance with Governmental Accounting Standards Board Statement No. 34. This report has been prepared pursuant to, and to demonstrate compliance with, the City Charter and Minnesota Statute Section 471.697, and in recognition of the City's past and present practices of full financial disclosure.

Responsibility for the accuracy, completeness and fairness of the data presented herein, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material aspects; that it is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City; and that all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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.

INDEPENDENT AUDIT

Minnesota State Law requires the State Auditor to perform an annual audit of the City of Duluth, as well as other cities of the first class in Minnesota. This requirement has been met, and the independent auditor's report by the State Auditor is included. As part of the State Auditor's examination, a management and compliance report will be issued covering the review of the City's system of internal control and compliance with applicable legal provisions. The management and compliance report will not modify or affect this report in any way.

SINGLE AUDIT

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit will be included in the management and compliance report described above.

As a recipient of federal, state and county financial assistance, the City is responsible for maintaining adequate internal controls to ensure compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by management. Also, as a part of the City's single audit, tests are made to determine the adequacy of the internal controls, including that portion related to federal financial assistance programs, as well as to determine that the City has complied with all applicable laws and regulations.

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

GOVERNMENT PROFILE (continued)

square miles of water. Situated on a hillside along Lake Superior's north shore, Duluth is 23 miles long and eight miles wide at its broadest point. Duluth's population exceeds 85,000 and contributes to a market area of more than 500,000 from northern Minnesota, northwest Wisconsin, the Upper Peninsula of Michigan, and lower Ontario. Duluth and its neighbor, Superior, Wisconsin, share the Great Lakes' largest port and the largest freshwater harbor in the world.

As one of only three first class cities in the state, Duluth operates under a Home Rule Charter granted by the constitution and laws of the State of Minnesota. The city has operated under a mayor-council form of government since 1956. The Mayor is the chief executive officer of the city, and is aided by an Administrative Assistant who is chosen by, and is responsible to the Mayor. All executive and administrative powers are vested in the mayor, administrative assistant, and other officers authorized by 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 recreation facilities. The city also operates several utilities and two municipal golf courses as enterprise funds, along with an airport, economic development authority, convention center, transit services and a ski hill, as legally separate component units. Additional information regarding the component units is provided in Note 1 in the notes to the financial statements.

The City of Duluth's budget process begins internally in late spring, when each department is asked to review current operations and begin formulating future needs. Over the course of the summer, based on departmental requests and city-wide needs and priorities, both an annual operating budget and a five-year capital plan are drafted. By mid-September, the Mayor must submit a proposed budget to the City Council for its consideration and approval, and the Council must adopt a resolution of intent and certify the city's proposed tax levy and budget to the St. Louis County Auditor. During the fall, the Council Finance Committee 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 and certify a final tax levy by December 28. By state law, if the final tax levy is changed from the estimated amount, it may only be decreased, not increased.

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, Administrative Assistant, 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. A budget and actual statement of the General Fund's revenues, expenditures, and changes in fund balance is included in the basic financial statements section of this report; while several detailed budget to actual schedules for the General Fund are included in the governmental fund subsection.

FACTORS AFFECTING FINANCIAL CONDITION

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, and aviation. According to the Minnesota Department of Economic Security, Duluth had 54,504 non-agricultural jobs in December 1994. In December 2004, Duluth had 63,064 non-agricultural jobs. Despite the recent economic downturn in the past year and several major layoffs by some Duluth employers, the City has managed to not only maintain its employment level, but has posted a modest 0.6% increase.

Duluth also showed improvement in its signature industry, shipping. The Seaway Port Authority of Duluth reports that 1,089 ships used the port last year, an increase from 1,006 ships in 2003. But more importantly, the tonnage carried by those vessels was up a healthy 18.9 percent, to 41,396,415 tons. These numbers include 111 foreign-flag vessels, 250 Canadian-flag vessels and 728 U.S.-flag vessels.

Duluth continues to do very well in the key industry of tourism. Duluth's efforts in this area resulted in 44 conventions hosted by the Duluth Entertainment Convention Center (DECC), an increase of over fifteen percent from a year ago. Over 32,000 people attended these conventions, an increase of over 40 percent from a year ago, placing over \$25 million directly into the economy. The DECC remains in the top twenty in terms of convention center business nationwide. According to survey results from the Minnesota Board of Trade and

FACTORS AFFECTING FINANCIAL CONDITION (continued)

Economic Development and the Minnesota Office of Tourism, visitors to Duluth contribute over \$400 million to the local and regional economy.

Enrollment at Duluth's three institutions of higher learning, the University of Minnesota-Duluth, the College of St. Scholastica, and Lake Superior College, has never been higher. The College of St. Scholastica had to cap enrollment a year ago for the first time in the history of the school. These schools not only provide well-trained future workers for the region, but also contribute to the economic well-being of the city. Lake Superior College is also expected to be named in the 2005 state bonding bill which will allow for an \$11 million expansion to that facility.

Increased opportunities for growth also exist during 2005. Plans are underway for construction of a new parking ramp on First Street this summer. The City is also working to finance an extension of the Skywalk system from St. Mary's/Duluth Clinic to the downtown area. Additional projects include the new Sherman Hotel and a new parking ramp in the Canal Park area. The City continues to market the former Universal Atlas Cement Plant site as well as space in the Duluth Technology Village, which has been near capacity for several years.

Projects such as the ongoing St. Mary's/Duluth Clinic (SMDC) expansion are expected to bring a new influx of high-quality, good-paying jobs to Duluth and its surrounding communities. SMDC and St. Luke's, another medical facility located in Duluth, are investing over \$100 million in new construction.

Duluth continues to expand its job diversification in the aviation industry as well. The \$6 million manufacturing facility that opened adjacent to Cirrus Design at the Duluth International Airport in 2002 continues to pay dividends in the form of growth for Cirrus and other business that are affiliated with it. In March 2004, Cirrus set an all-time record for monthly sales. Cirrus is now the world's second-largest manufacturer of single-engine, piston-powered aircraft, trailing only Cessna.

Over the past several years, Duluth has been experiencing very low vacancy rates and rapidly increasing prices in the housing market, leading to the need for more affordable housing units. Work on a major HOPE-VI restoration project will greatly increase the quality of affordable housing in Duluth, and the city's "Housing 1000" initiative may bring as much as \$100 million of new construction to the city in this area.

Work is continuing to add to construction of single-family units, town homes and senior apartments. These projects should provide economic benefits related to jobs created, building materials purchased, and new properties added to the tax rolls.

CASH MANAGEMENT

City cash balances are monitored and evaluated daily for the purpose of maximizing investment earnings. Available cash is optimized by accelerating cash receipt activity while using discipline and control over the cash disbursement function. City demand deposits are held at designated depositories and are collateralized to 110% of the uninsured amount as required by state statute. All collateral on deposits is held by the pledging financial institution's agent on behalf of the City.

All available cash during the year was pooled and invested in certificates of deposit, obligations of the U.S. Government and its agencies, commercial paper, bankers' acceptances, and repurchase agreements. City investment guidelines stress safety of principal, followed by cash flow considerations and market rates. The City's average yield on investments for fiscal year 2004 was 2.62%. This yield compares favorably to other short-term rates such as the annualized return of 1.88% for the auction average of one year U.S. Treasury bills. Before fair market value adjustments made in accordance with Governmental Accounting Standards Board Statement No. 31, the City earned interest revenue of \$2,867,315 on its investment pool in 2004.

RISK MANAGEMENT

In the course of its operations, the City is exposed to various types and levels of risk. The Self-Insurance Fund, an internal service fund, was established to report all risk management activities, except for employee health and dental. The Human Resources Division of the Administrative Services Department, in conjunction with the City Attorney's Office, administers the City's risk management program. All risk, except some small losses incurred by various funds, fire and related damage to property, and workers compensation expense over \$720,000, per single occurrence, is assumed.

RISK MANAGEMENT (continued)

The Group Health Fund, also an internal service fund, was established to pay employee and retiree medical and employee dental claims. The City has established, through employee bargaining unit agreements, a joint Labor-Management Health Insurance Committee to oversee the City's health insurance plans. The City has contracted with outside vendors to provide claim processing services.

The City hired a firm in 2002 to provide an actuarial valuation of the City's Retiree Medical Plan. Several employee bargaining unit contracts that were settled in April 2004 for fiscal years 2004-2006 include language changes related to retiree health insurance benefits. The City Administration, City Council, and employee bargaining units will continue to explore various options to manage the liability that will need to be reported in future City financial statements based on a recently adopted statement of the Governmental Accounting Standards Board for Postemployment Benefits Other than Pension Plans.

For further risk management information, including estimated liability based on the requirements of Governmental Accounting Standards Board Statement No. 10, please refer to Note 8 in the Notes to the Financial Statements.

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 the fiscal year ended December 31, 2003. In order to be awarded such a Certificate, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is the highest form of recognition in the area of governmental financial reporting, and its attainment represents a significant accomplishment by a governmental unit. A Certificate is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement for Excellence in Financial Reporting requirements, and we are submitting it to GFOA to determine the eligibility for another certificate. The City of Duluth has received a Certificate for each of its reports since calendar year 1975.

In addition, the City of Duluth also received the GFOA's Award for Distinguished Budget Presentation for its annual budget for calendar year 2004. In order to qualify for such an award, a governmental unit's budget must be judged to be proficient in several categories, including policy documentation, financial planning and organization. The City has submitted its 2005 budget to GFOA to determine its eligibility for another award. The City of Duluth has received an award for each of its budgets since fiscal year 1985.

When looking at a report such as this CAFR, it is sometimes difficult to comprehend how much time and effort is devoted by employees in many departments from the beginning of the audit to the completion of the finished product. As the requirements and demands of generally accepted accounting principles in government increase, so too must the knowledge, effort and skills of a government's accounting staff; we wish to acknowledge the Financial Analysts in the Finance Department who continue to meet this challenge.

Finally, we wish to express our appreciation to the Duluth-based staff of the Office of the State Auditor for their guidance and assistance.

Respectfully submitted,

Genevieve A. Stark

Genevieve A. Stark
Finance Director

Wayne Parson

Wayne W. Parson, CPA
City Auditor

GAS:WWP:trg

ELECTED AND APPOINTED OFFICIALS
CITY OF DULUTH, MINNESOTA
2004

ELECTED POSITIONS	DISTRICT	TERM EXPIRES
Mayor Herb W. Bergson, Jr.		2008
City Council		
Timothy Little	At large	2008
Donald P. Ness	At large	2008
Roger Reinert	At large	2006
James Stauber	At large	2006
Laurie Johnson	1	2008
Greg C. Gilbert	2	2006
Russell R. Stewart	3	2008
Neill A. Atkins	4	2006
Russel W. Stover	5	2008

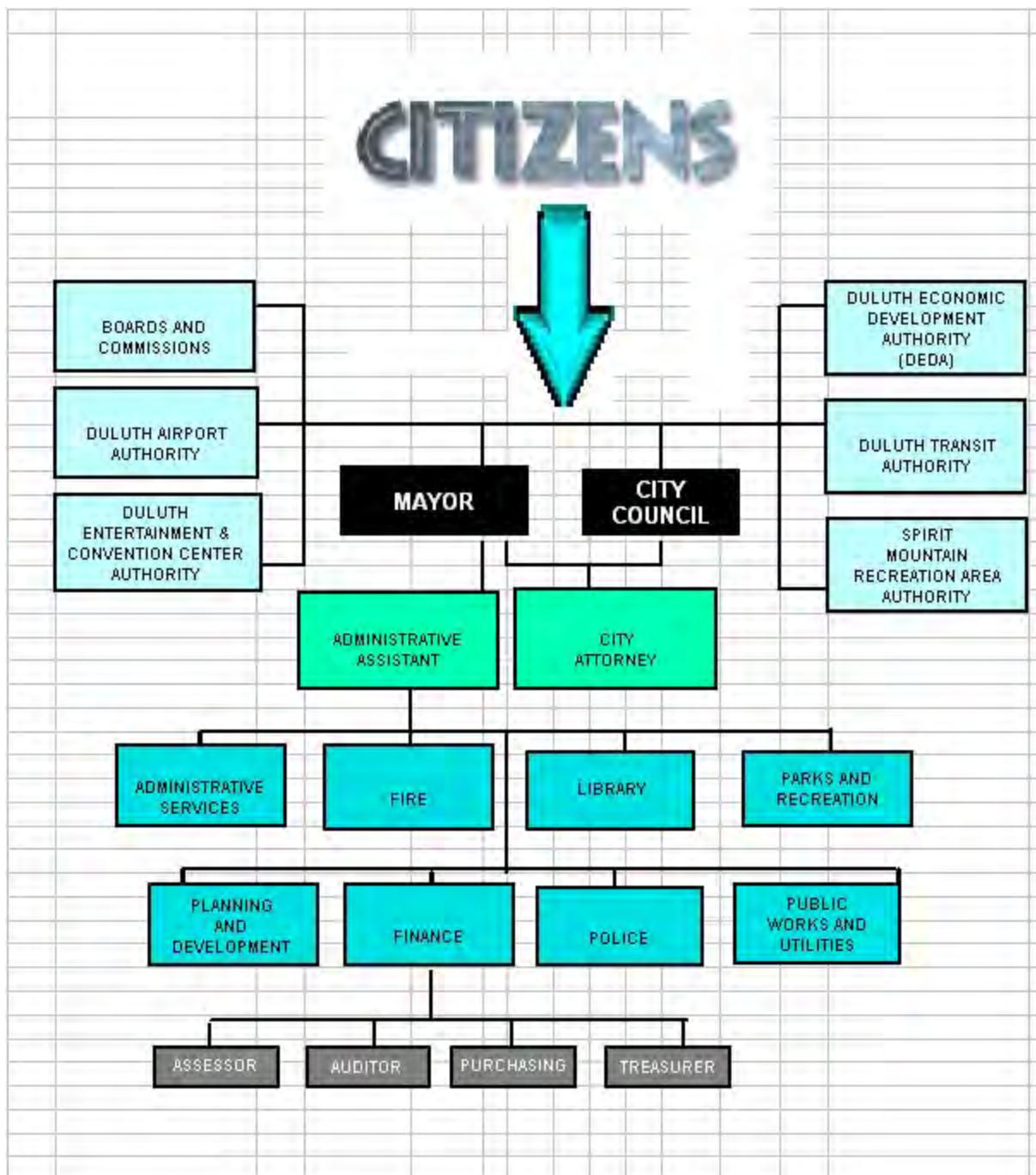
*All terms expire in January

APPOINTED POSITIONS

Administrative Assistant	Mark A. Winson
Director, Finance (retired 4/29/05)	Leslie W. Bass
Director, Finance (appointed 4/30/05)	Genevieve A. Stark
Director, Administrative Services	Mark C. McShane
Fire Chief	John Strongitharm
Police Chief	Roger J. Waller
Director, Public Libraries	Elizabeth A. Kelly
Director, Parks & Recreation	Carl R. Seehus
Director, Public Works and Utilities	Richard J. Larson
Assessor	M. Lynn Duncan
Auditor (appointed 5/3/05)	Wayne W. Parson
City Clerk	Jeffrey J. Cox
Treasurer	Larry A. Jeneson

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CITIZENS



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, 2003

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 employer retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziebell

President

Jeffrey P. Evans

Executive Director

Financial Section



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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(651) 296-4755 (Fax)
State.auditor@state.mn.us (E-Mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

The Honorable Herb W. Bergson, Jr., Mayor,
and Members of the City Council
City of Duluth, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. The financial statements include the Spirit Mountain Recreation Area Authority's activities as of and for the year ended April 30, 2004. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Steam District #2 Enterprise Fund, which statements represent seven percent of the assets and seven percent of the operating revenues of the total enterprise funds. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Steam District #2 Enterprise Fund, is based solely upon the report of the other auditors.

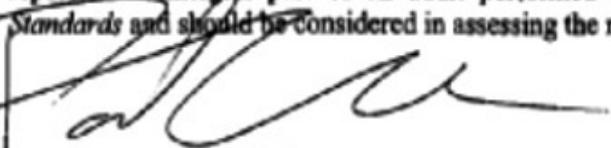
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Steam District #2 Enterprise Fund were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of others auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the City of Duluth as of December 31, 2004, including the Spirit Mountain Recreation Area Authority as of April 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

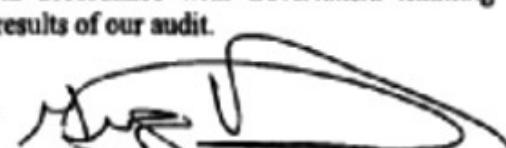
The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2005, on our consideration of the City of Duluth's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



PATRICIA ANDERSON
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 17, 2005

Management's Discussion and Analysis (MD & A)

CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004

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, 2004 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, 2004 by \$341.5 million; this amount is identified as net assets. Of this amount, \$74.4 million is unrestricted and may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$31.9 million. The increase was the result of the continued accumulation of assets in the Community Investment Fund and a significant increase in the City's investment in capital assets.
- As of December 31, 2004, the City's governmental funds reported combined ending fund balances of \$98.7 million, an increase of \$5.8 million compared to 2003. Although \$58.3 million is reported as unreserved-undesignated fund balance, which is considered available for spending at the City's discretion, 84% of that amount is in the Community Investment Fund, which is for the financing of future capital improvements of the City. Any different use of those monies, requires a "super-majority" vote of the City Council, or seven of nine votes.
- As of December 31, 2004, the General Fund's undesignated, unreserved balance was \$4.2 million, or 6.5% of total General Fund expenditures.
- Effective March 22, 2004, the Duluth City Council became the governing board of the Duluth Economic Development Authority (DEDA). Although legally separate, DEDA is, in substance, part of City operations. DEDA funds are now reported as governmental funds. Previously, DEDA was reported as a discretely presented component unit.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004

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 stormwater utilities, as well as the municipal golf courses.

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004

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

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

Fiduciary Funds

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

Notes to the Financial Statements

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

Other information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net assets may serve as a useful indicator of the City's financial position. The largest portion of the City's net assets (68 percent) is invested in capital assets (land, buildings, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to its citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it is important to realize that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (10 percent) represents resources that are subject to external restrictions on how they may be used, with the largest amount set aside for debt service. The remaining balance of net assets (22 percent) is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. At the end of the past two fiscal years, all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities, had positive balances. The following table presents a summary of the City's net assets at December 31 for the past two fiscal years (dollars in thousands):

CITY OF DULUTH, MINNESOTA
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	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$134,414	\$131,435	\$41,181	\$40,275	\$175,595	\$171,710
Capital assets	243,381	232,653	129,387	123,328	372,768	355,981
Total assets	\$377,795	\$364,088	\$170,568	\$163,603	\$548,363	\$527,691
Long-term liabilities outstanding	\$140,589	\$147,621	\$40,761	\$37,608	\$181,350	\$185,229
Other liabilities	11,818	20,231	13,676	12,605	25,494	32,836
Total liabilities	\$152,407	\$167,852	\$54,437	\$50,213	\$206,844	\$218,065
Net assets:						
Invested in capital assets net of related debt	\$146,522	\$134,824	\$87,721	\$83,950	\$234,243	\$218,774
Restricted	30,712	28,244	2,182	2,206	32,894	30,450
Unrestricted	48,154	33,168	26,228	27,234	74,382	60,402
Total net assets	\$225,388	\$196,236	\$116,131	\$113,390	\$341,519	\$309,626

The City's net assets grew by \$31.9 million, an increase of 10.3%. This increase was due primarily to an increase in the City's investment in capital assets and an increase in the City's unrestricted net assets. The City's investment in capital assets, net of debt, increased by \$15.5 million and was the result of the City's ongoing street improvement program. The City's unrestricted net assets increase of \$14 million was caused primarily by the continued accumulation of assets in the Community Investment Fund.

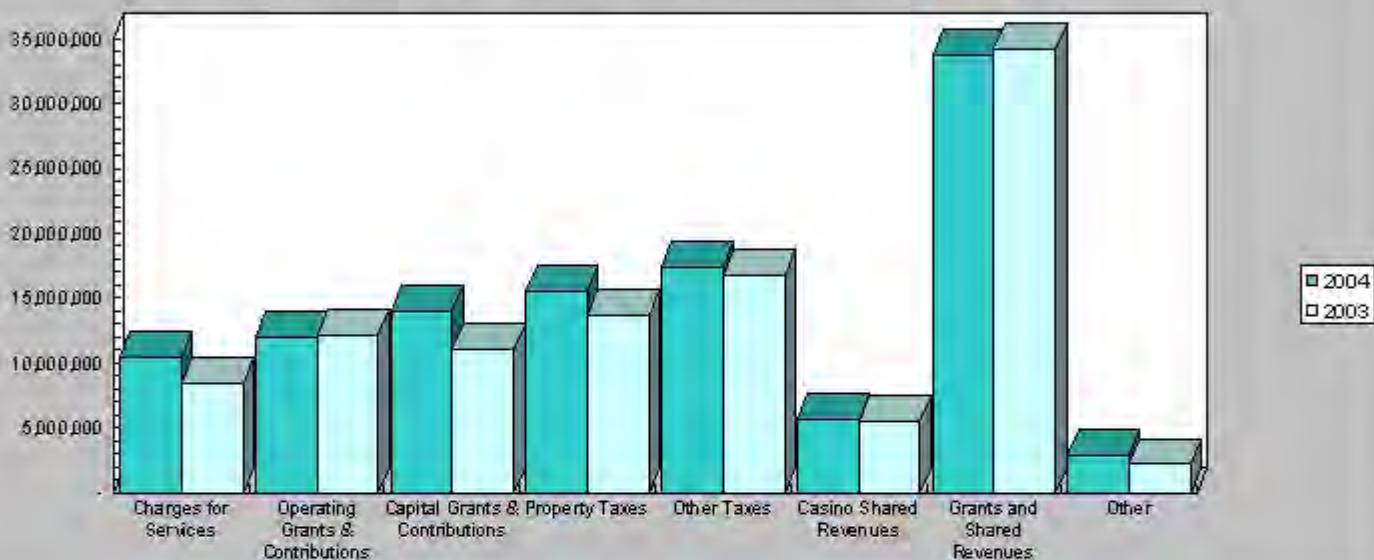
To give users a better understanding of the sources and uses of the City's net assets, the following table presents a summary of revenues, expenses, and changes in net assets for the past two fiscal years ending December 31 (dollars in thousands):

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$10,450	\$8,366	\$86,691	\$83,146	\$97,141	\$91,512
Operating grants and contributions	11,944	12,071	-	-	11,944	12,071
Capital grants and contributions	13,955	11,074	943	1,762	14,898	12,836
General Revenues:						
Property taxes	15,479	13,728	-	-	15,479	13,728
Other taxes	17,404	16,841	-	-	17,404	16,841
Casino shared revenues	5,654	5,440	-	-	5,654	5,440
Grants and shared revenues not restricted to specific programs	33,699	34,168	-	-	33,699	34,168
Other	2,885	2,187	597	278	3,482	2,465
Total revenues	111,470	103,875	88,231	85,186	199,701	189,061
Expenses:						
General government	20,670	19,069	-	-	20,670	19,069
Public safety	25,286	25,164	-	-	25,286	25,164
Public works	12,580	14,061	-	-	12,580	14,061
Culture and recreation	6,386	7,494	-	-	6,386	7,494
Urban and economic development	14,173	13,381	-	-	14,173	13,381
Interest	6,918	7,202	-	-	6,918	7,202
Water	-	-	8,465	8,946	8,465	8,946
Gas	-	-	41,884	38,806	41,884	38,806
Sewer	-	-	14,611	15,241	14,611	15,241
Stormwater	-	-	2,471	2,355	2,471	2,355
Steam District #1	-	-	3,894	3,598	3,894	3,598
Steam District #2	-	-	8,708	8,497	8,708	8,497
Golf	-	-	1,762	1,754	1,762	1,754
Total expenses	86,013	86,371	81,795	79,197	167,808	165,568
Increase in net assets before transfers	25,457	17,504	6,436	5,989	31,893	23,493
Transfers	3,695	3,215	(3,695)	(3,215)	-	-
Increase in net assets	29,152	20,719	2,741	2,774	31,893	23,493
Net assets, January 1, restated	196,236	175,517	113,390	110,616	309,626	286,133
Net assets, December 31	\$225,388	\$196,236	\$116,131	\$113,390	\$341,519	\$309,626

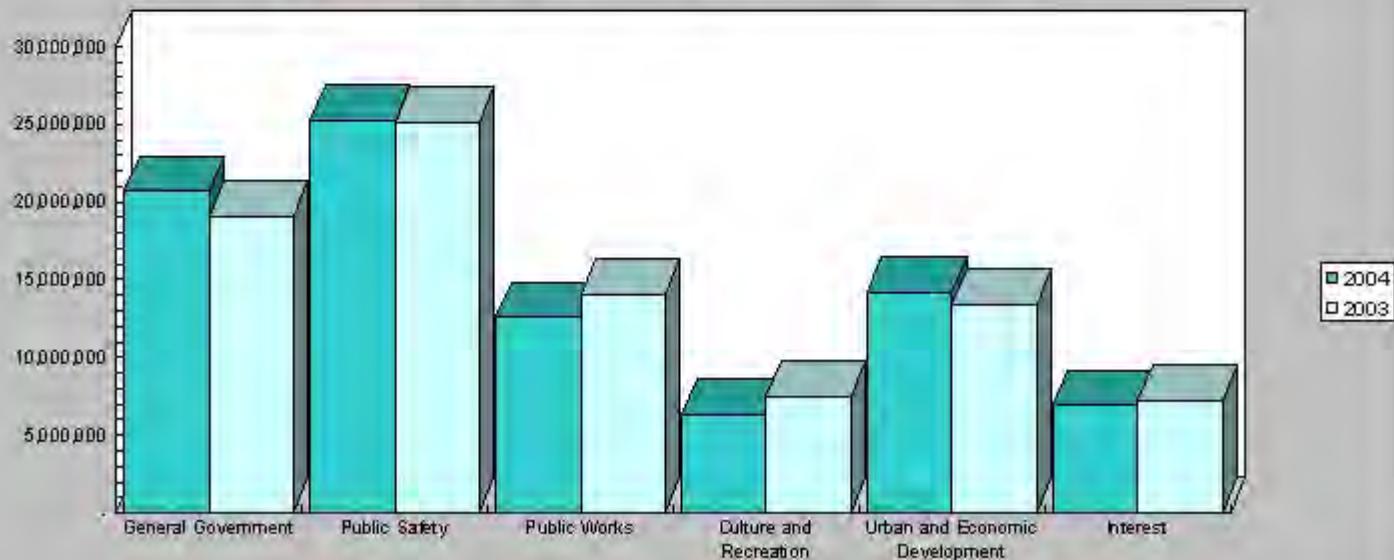
Revenues increased by \$3 million for business-type activities, with the majority of the increase occurring in the Gas Enterprise Fund due to increased rates. Governmental activities revenues increased by \$7.6 million due to several factors including increases in the following revenues: captured tax increment collections, sales tax collections, building inspection fees, assessments for street projects, investment income, and insurance proceeds.

Expenses increased by \$2.6 million for business-type activities, with the majority of the increase occurring in the Gas Enterprise Fund due to increased costs of natural gas. Governmental activities expenses decreased slightly due primarily to a hiring freeze instituted during 2004.

Revenues by Source - Governmental Activities



Expenses By Function - Governmental Activities



**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004**

FUND FINANCIAL ANALYSIS

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

GOVERNMENTAL FUNDS

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

As of December 31, 2004, the City's governmental funds reported combined ending fund balances of \$98.7 million, an increase of \$5.8 million from 2003. Of the total fund balance amount, \$79.1 million, or 80%, is reported as unreserved fund balance, which is available for spending at the City's discretion. Of the unreserved amount, \$20.8 million is already designated for specific purposes, with the largest amount, \$13.2 million, set aside for debt service. Of the \$58.3 million reported as unreserved, undesignated fund balance, 84% of it is in the Community Investment Special Revenue Fund, which is to be used to finance future capital improvements of the City. The remaining \$19.6 million of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate existing contracts and purchase orders totaling \$3.3 million; 2) to pay \$11.1 million for debt service; and 3) \$5.2 million for a variety of other restricted purposes.

The General Fund is the main operating fund of the City of Duluth. At December 31, 2004, fund balance of the General Fund was \$6 million, with \$5.4 million, or 90% reported as unreserved. The undesignated portion of unreserved fund balance was \$4.2 million. As a measure of the General Fund's liquidity, it may be useful to compare both undesignated, unreserved fund balance and total fund balance to total fund expenditures. Undesignated, unreserved fund balance is 6.5% and total fund balance is 9.2% of total General Fund expenditures. The fund balance of the General Fund increased by \$1 million during 2004. The \$1 million increase is explained primarily by expenditures being under budget due to a hiring freeze instituted during 2004.

The Community Investment Special Revenue fund balance increased by \$5.2 million in 2004, in accordance with the City's policy of retaining the revenues received from the operations of the Fond du Luth Casino for future capital improvement needs, and only transferring the annual investment earnings to the General Fund.

PROPRIETARY FUNDS

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

	Unrestricted Net Assets		Increase (Decrease) Net Assets	
	December 31		December 31	
	2004	2003	2004	2003
Water	\$ 6,096	\$ 5,993	\$ 1,228	\$ 1,376
Gas	12,117	14,174	93	424
Sewer	5,009	4,528	2,312	1,955

CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2004

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$2,056,925 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$700,000 supplemental appropriation for unbudgeted unemployment contract settlements.
- \$400,000 supplemental appropriation for self insurance costs due to an unusual amount of claims.
- \$671,884 appropriation increase for prior year carryovers.
- \$124,638 appropriation for grants, gifts and donations.

The increase was possible due to additional anticipated revenues including grants, state aids, earnings on investments, building inspection services and other miscellaneous sources.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City of Duluth's investment in capital assets for its governmental and business-type activities as of December 31, 2004 was \$372.8 million, net of accumulated depreciation. This investment includes land and improvements, buildings, equipment, roads and bridges, traffic signals, and utility-related infrastructure. The City's total investment in capital assets, net of accumulated depreciation, increased by \$16.8 million during 2004. Capital assets related to governmental activities increased by \$10.7 million and was due primarily to the City's ongoing street improvement program. Capital assets related to business-type activities increased by \$6.1 million and was due primarily to completion of a gas supply line project, replacement of water and sewer lines in Morgan Park, and work on a sanitary system overflow storage project. Additional information related to the City's capital assets can be found in Note 6 of the notes to the financial statements. The following table shows the City's investment in capital assets, net of accumulated depreciation at December 31 for the past two fiscal years (dollars in thousands):

	Governmental Activities		Business-type Activities	
	2004	2003	2004	2003
Capital Assets:				
Land and improvements	\$24,646	\$24,424	\$853	\$820
Buildings	53,561	54,438	20,050	13,474
Equipment	5,612	6,487	15,864	17,578
Infrastructure	130,304	128,369	71,641	62,078
Construction in progress	29,258	18,935	20,979	29,378
Total	\$243,381	\$232,653	\$129,387	\$123,328

LONG-TERM DEBT

The City of Duluth had \$140 million of bonded debt outstanding as of December 31, 2004. Of this amount, \$31.3 million is debt backed by the full faith and credit of the City. \$53 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 \$38.2 million outstanding revenue and general obligation bonds if income from various utility 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, 2003 and 2004 (dollars in thousands).

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December 31, 2004

	Balance <u>12/31/04</u>	Balance <u>12/31/03</u>
Governmental Activities:		
General Obligation Bonds	\$ 26,974	\$ 28,208
General Obligation Tax Increment Bonds	4,348	5,222
Tax Increment Revenue Bonds	10,167	13,390
Lease Revenue Bonds	1,890	2,005
Special Assessment Debt with		
Government Commitment	53,018	52,555
General Obligation Certificates	<u>4,310</u>	<u>4,590</u>
 Total Governmental Activities Bonded Debt	 <u>\$100,707</u>	 <u>\$105,970</u>
 Business-type Activities:		
Revenue Bonds	\$ 1,040	\$ 1,490
Revenue and General Obligation Bonds	<u>38,210</u>	<u>36,380</u>
 Total Business-type Activities Bonded Debt	 <u>\$ 39,250</u>	 <u>\$ 37,870</u>

During 2004, the City's total debt decreased by \$2.7 million, or 1.6%. In 2004, the City issued \$1.7 million of general obligation bonds, \$4.8 million special assessment debt with government commitment, \$1.4 million of general obligation certificates, and \$5.1 million utility revenue and general obligation bonds. The City also issued \$2.2 million of general obligation notes. The City has an "Aa3" rating from Moody's Investors Service and an "AA-" rating from Standard and Poors.

State statutes limit the amount of general obligation debt the City can incur to no more than 2% of the market value of taxable property in the City. The City's current legal debt margin is \$85.4 million, which is significantly higher than the City's net debt of \$22.5 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 2005 General Fund budget increased 3.3% over 2004 or \$2,256,500. Additional revenues funding this increase include amortization aid, an increase in the transfer from tourism taxes, new and increased fees citywide, and modest increases in sales tax and earnings on investments. These increases were offset by a reduction in Local Government Aid (LGA). In 2003, the State Legislature reduced LGA to cities across the state as part of the solution to the State's \$4 billion budget deficit. For Duluth, that meant a decrease of \$3.7 million in LGA over what had been certified for 2003, with the same reduction carried over to the 2004 LGA allocation. The State Legislature also enacted significant changes to the LGA program for 2005 and beyond. First, the amount of dollars allocated to the program has been reduced. Under the old LGA law, the program would have distributed \$608 million to cities. The new allocation is \$437 million or 28% less. The Legislature also eliminated the automatic inflationary increase that has been in place since 1993. Secondly, a new formula was adopted measuring each city's expenditure need based on a number of statistical variables. Once a city's need is calculated, it is compared to a city's ability to pay or revenue raising capacity. Cities that have spending needs that exceed their ability to pay receive a share of the local government aid distribution. The impact of these two factors, amount to an additional decrease of \$1.02 million in the City's 2005 LGA allocation for a certified total of \$25.65 million. At the time this report is being prepared, the State Legislature is in special session working on major tax and budget legislation, including the allocation of local government aid. Their actions may once again negatively impact the City, making mid year adjustments necessary.

REQUESTS FOR INFORMATION

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

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Basic Financial Statements

CITY OF DULUTH, MINNESOTA
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 95,096,813	\$ 14,691,382	\$ 109,788,195	\$ 4,455,429
Assets held by trustee	7,477,409	-	7,477,409	-
Receivables, net	25,172,400	13,387,088	38,559,488	862,135
Due from primary government	-	-	-	358,999
Internal balances	1,361,718	(1,361,718)	-	-
Due from component units	120,441	-	120,441	-
Due from other governments	3,460,678	743,555	4,204,233	261,083
Inventories	162,164	1,509,973	1,672,137	439,835
Prepays	963,785	2,987,292	3,951,077	103,954
Restricted assets:				
Cash and cash equivalents	-	6,898,947	6,898,947	1,283,860
Accounts receivable	-	-	-	22,850
Loans receivable	-	2,015,631	2,015,631	-
Interest receivable	-	4,302	4,302	-
Grants receivable	-	-	-	1,023,412
Capital assets:				
Assets held by trustee	-	110,103	110,103	80,417
Deferred charges	598,695	195,205	793,900	395,110
Capital assets (Note 6):				
Non-depreciable	53,904,039	21,832,454	75,736,493	13,922,390
Depreciable, net	189,477,173	107,554,293	297,031,466	83,325,995
Total assets	<u>377,795,315</u>	<u>170,568,507</u>	<u>548,363,822</u>	<u>106,535,469</u>
LIABILITIES				
Accounts payable and other short-term liabilities	4,563,804	8,548,787	13,112,591	1,226,749
Accrued interest payable	5,267,290	606,793	5,874,083	72,354
Due to component units	358,999	-	358,999	-
Due to primary government	-	-	-	250,560
Due to other government	311,078	750,223	1,061,301	47,006
Unearned revenues	1,036,580	1,270,419	2,306,999	447,328
Liabilities payable from restricted assets	-	-	-	1,829,808
Noncurrent liabilities (Note 11):				
Due within one year	18,140,695	3,140,691	21,281,386	1,609,817
Due in more than one year	122,729,168	40,120,520	162,849,688	6,847,455
Total liabilities	<u>152,407,614</u>	<u>54,437,433</u>	<u>206,845,047</u>	<u>12,331,077</u>
NET ASSETS				
Investment in capital assets, net of related debt	146,521,749	87,721,493	234,243,242	89,939,536
Restricted for:				
Debt service	27,211,502	-	27,211,502	80,417
Capital projects	792,143	258,529	1,050,672	1,530,612
Special projects	1,908,278	-	1,908,278	-
Loans	741,519	1,922,800	2,664,319	-
Other	58,852	-	58,852	192,848
Unrestricted	<u>48,153,658</u>	<u>26,228,252</u>	<u>74,381,910</u>	<u>2,460,979</u>
Total net assets	<u>\$ 225,387,701</u>	<u>\$ 116,131,074</u>	<u>\$ 341,518,775</u>	<u>\$ 94,204,392</u>

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, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 20,669,584	\$ 4,935,952	\$ 93,563	\$ 29,134
Public safety	25,285,634	2,555,502	742,447	-
Public works	12,580,602	364,600	1,177,589	12,730,103
Culture and recreation	6,385,653	679,580	578,333	822,423
Urban and economic development	14,173,566	1,914,397	9,352,211	373,753
Interest	6,917,787	-	-	-
Total governmental activities	<u>86,012,826</u>	<u>10,450,031</u>	<u>11,944,143</u>	<u>13,955,413</u>
Business-type activities:				
Water	8,465,593	9,884,976	-	114,469
Gas	41,883,691	45,110,428	-	16,826
Sewer	14,610,838	16,639,746	-	246,908
Stormwater	2,470,513	2,924,170	-	-
Steam district #1	3,893,705	4,016,386	-	-
Steam district #2	8,677,762	6,383,327	-	565,362
Golf	1,762,485	1,732,131	-	-
Total business-type activities	<u>81,764,587</u>	<u>86,691,164</u>	<u>-</u>	<u>943,565</u>
Total primary government	<u>\$ 167,777,413</u>	<u>\$ 97,141,195</u>	<u>\$ 11,944,143</u>	<u>\$ 14,898,978</u>
Component units :				
Duluth Entertainment and Convention Center Authority	\$ 9,614,823	\$ 6,857,927	\$ -	\$ -
Duluth Airport Authority	5,869,616	3,411,304	971,050	6,785,900
Duluth Transit Authority	11,964,061	1,833,538	6,149,540	3,063,859
Spirit Mountain Recreation Area Authority	3,741,239	3,593,980	-	-
Total component units	<u>\$ 31,189,739</u>	<u>\$ 15,696,749</u>	<u>\$ 7,120,590</u>	<u>\$ 9,849,759</u>

(continued)

CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Primary Government:				
Governmental activities:				
General government	\$ (15,610,935)	\$ -	\$ (15,610,935)	\$ -
Public safety	(21,987,685)	-	(21,987,685)	-
Public works	1,691,690	-	1,691,690	-
Culture and recreation	(4,305,317)	-	(4,305,317)	-
Urban and economic development	(2,533,205)	-	(2,533,205)	-
Interest	(6,917,787)	-	(6,917,787)	-
Total governmental activities	(49,663,239)	-	(49,663,239)	-
Business-type activities:				
Water	-	1,533,852	1,533,852	-
Gas	-	3,243,563	3,243,563	-
Sewer	-	2,275,816	2,275,816	-
Stormwater	-	453,657	453,657	-
Steam district #1	-	122,681	122,681	-
Steam district #2	-	(1,729,073)	(1,729,073)	-
Golf	-	(30,354)	(30,354)	-
Total business-type activities	-	5,870,142	5,870,142	-
Total primary government	(49,663,239)	5,870,142	(43,793,097)	-
Component units:				
Duluth Entertainment and Convention Center Authority	-	-	-	(2,756,896)
Duluth Airport Authority	-	-	-	5,298,638
Duluth Transit Authority	-	-	-	(917,124)
Spirit Mountain Recreation Area Authority	-	-	-	(147,259)
Total component units	-	-	-	1,477,359
General Revenues:				
Property taxes	15,478,942	-	15,478,942	1,063,100
Market value credit aid	1,196,015	-	1,196,015	-
Donated capital assets	-	-	-	2,533,873
Sales taxes	15,478,954	-	15,478,954	-
Other taxes	1,924,690	-	1,924,690	-
Casino shared revenues	5,653,523	-	5,653,523	-
Grants and shared revenues not restricted to specific programs	32,502,413	-	32,502,413	2,503,401
Investment income	2,243,381	485,428	2,728,809	66,942
Gain on sale or disposition of capital assets	-	81,140	81,140	132,981
Miscellaneous	641,584	-	641,584	178,415
Transfers	3,695,422	(3,695,422)	-	-
Total general revenues and transfers	78,814,924	(3,128,854)	75,686,070	6,478,712
Change in net assets	29,151,685	2,741,288	31,892,973	7,956,071
Net assets- beginning, as restated (Note 1)	196,236,016	113,389,786	309,625,802	86,248,321
Net assets- ending	\$ 225,387,701	\$ 116,131,074	\$ 341,518,775	\$ 94,204,392

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

CITY OF DULUTH, MINNESOTA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2004

	General Fund	Community Investment	Special Assessment Debt Service	Street Improvement Debt Service
ASSETS				
Cash and cash equivalents	\$ 3,495,052	\$ 47,025,669	\$ 361,903	\$ 8,711,203
Assets held by trustee	469,011	-	-	-
Receivables, net:				
Taxes	1,416,834	-	-	-
Accounts	272,858	1,381,434	-	-
Assessments	1,041,161	-	7,043,361	3,705,143
Loans	254,135	-	-	-
Grants	-	-	-	-
Accrued interest	186,029	399,759	-	-
Deposits	-	-	-	-
Due from other funds	1,345,205	-	-	74,000
Due from component units	120,441	-	-	-
Interfund loan receivable	1,134,750	-	-	-
Due from other governments	479,284	-	13,876	5,077
Prepays	-	-	-	-
Total assets	<u>\$ 10,214,760</u>	<u>\$ 48,806,862</u>	<u>\$ 7,419,140</u>	<u>\$ 12,495,423</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,170,641	\$ -	\$ 793	\$ -
Contracts payable	111,499	-	-	-
Due to other funds	737,967	2,530	-	102
Due to component units	-	-	-	-
Interfund loan payable	-	-	-	-
Due to other governments	95,215	-	-	-
Accrued salaries payable	548,554	-	-	-
Deferred revenue	<u>1,535,342</u>	<u>-</u>	<u>7,043,361</u>	<u>3,705,143</u>
Total liabilities	<u>4,199,218</u>	<u>2,530</u>	<u>7,044,154</u>	<u>3,705,245</u>
Fund balances:				
Reserved for:				
Encumbrances	24,817	-	-	-
Debt service	-	-	-	-
Special accounts	551,175	-	-	-
Unreserved:				
Designated for, reported in:				
Debt service	-	-	374,986	8,790,178
Capital improvements	543,918	-	-	-
Special accounts	732,188	-	-	-
Special revenue funds	-	-	-	-
Debt service funds	-	-	-	-
Capital project funds	-	-	-	-
Undesignated, reported in:				
General fund	4,163,444	-	-	-
Special revenue funds	-	48,804,332	-	-
Capital project funds	-	-	-	-
Total fund balances	<u>6,015,542</u>	<u>48,804,332</u>	<u>374,986</u>	<u>8,790,178</u>
Total liabilities and fund balances	<u>\$ 10,214,760</u>	<u>\$ 48,806,862</u>	<u>\$ 7,419,140</u>	<u>\$ 12,495,423</u>

(continued)

CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 25,793,253	\$ 85,387,080
Assets held by trustee	-	7,008,398	7,477,409
Receivables, net:			
Taxes	16,235	866,635	2,299,704
Accounts	-	553,074	2,207,366
Assessments	-	-	11,789,665
Loans	-	5,616,472	5,870,607
Grants	-	1,388,250	1,388,250
Accrued interest	-	-	585,788
Deposits	-	250,000	250,000
Due from other funds	339,896	3,187,001	4,946,102
Due from component units	-	-	120,441
Interfund loan receivable	-	-	1,134,750
Due from other governments	1,268,018	1,680,978	3,447,233
Prepays	-	963,785	963,785
Total assets	<u>\$ 1,624,149</u>	<u>\$ 47,307,846</u>	<u>\$ 127,868,180</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 866,282	\$ 2,037,716
Contracts payable	183,546	1,393,135	1,688,180
Due to other funds	304,731	1,829,402	2,874,732
Due to component units	-	358,999	358,999
Interfund loan payable	140,821	639,503	780,324
Due to other governments	-	215,863	311,078
Accrued salaries payable	-	37,578	586,132
Deferred revenue	<u>1,035,332</u>	<u>7,173,183</u>	<u>20,492,361</u>
Total liabilities	<u>1,664,430</u>	<u>12,513,945</u>	<u>29,129,522</u>
Fund balances:			
Reserved for:			
Encumbrances	1,156,375	2,144,501	3,325,693
Debt service	-	11,127,243	11,127,243
Special accounts	-	4,604,903	5,156,078
Unreserved:			
Designated for, reported in:			
Debt service	-	-	9,165,164
Capital improvements	-	-	543,918
Special accounts	-	-	732,188
Special revenue funds	-	2,433,538	2,433,538
Debt service funds	-	4,000,615	4,000,615
Capital project funds	-	3,960,418	3,960,418
Undesignated, reported in:			
General fund	-	-	4,163,444
Special revenue funds	-	7,147,061	55,951,393
Capital project funds	<u>(1,196,656)</u>	<u>(624,378)</u>	<u>(1,821,034)</u>
Total fund balances	<u>(40,281)</u>	<u>34,793,901</u>	<u>98,738,658</u>
Total liabilities and fund balances	<u>\$ 1,624,149</u>	<u>\$ 47,307,846</u>	<u>\$ 127,868,180</u>

CITY OF DULUTH, MINNESOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2004

Fund Balance--total governmental funds	\$ 98,738,658
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds. The cost of the assets is \$344,623,493, and the accumulated depreciation is \$101,754,685.	242,868,808
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	19,238,691
Internal service funds are used by management to charge the costs of fleet services, group health insurance, loss control activities, and vacation benefits payable to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets for \$4,448,154 less \$831,608 attributed to business-type activities.	3,616,546
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 payable, net of issuance costs	101,587,117
Revenue pledge	17,180,000
Capital leases payable	165,550
PERA police and fire pension liability	15,069,787
Interest accrued on long-term debt	5,232,238
	<hr/>
	(139,234,692)
Other assets that are not available to pay for current period expenditures, and therefore, are not reported in the funds.	159,690
Net assets of governmental activities	<u>\$ 225,387,701</u>

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Community Investment	Special Assessment Debt Service	Street Improvement Debt Service
REVENUES				
Taxes:				
Property taxes	\$ 5,206,466	\$ -	\$ -	\$ -
Sales taxes	10,537,343	-	-	-
Other taxes	1,897,479	-	-	-
Licenses and permits	680,953	-	-	-
Intergovernmental revenues	34,972,626	-	-	-
Charges for services	6,549,128	-	-	-
Fines and forfeits	1,083,084	-	-	-
Special assessments	125,213	-	1,389,080	1,220,870
Investment income	261,734	1,355,137	385	112,194
Miscellaneous revenues	<u>2,203,234</u>	<u>5,653,523</u>	<u>-</u>	<u>483</u>
Total revenues	<u>63,517,260</u>	<u>7,008,660</u>	<u>1,389,465</u>	<u>1,333,547</u>
EXPENDITURES				
Current:				
General government	19,287,398	-	-	-
Public safety	28,704,510	-	-	-
Public works	9,386,636	-	-	-
Culture and recreation	6,627,232	-	-	-
Urban and economic development	576,830	-	-	-
Debt service:				
Principal retirement	271,253	-	1,254,595	3,083,600
Interest and fiscal fees	150,550	-	410,307	1,685,023
Bond issuance costs	-	-	-	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>65,004,409</u>	<u>-</u>	<u>1,664,902</u>	<u>4,768,623</u>
Excess (deficiency) of revenues over expenditures	<u>(1,487,149)</u>	<u>7,008,660</u>	<u>(275,437)</u>	<u>(3,435,076)</u>
OTHER FINANCING SOURCES (USES)				
Sale of bonds	-	-	-	-
Premium on sale of bonds	-	-	-	-
Sale of capital asset	-	-	-	-
Transfers in	6,711,076	-	150,835	3,375,784
Transfers out	<u>(4,214,297)</u>	<u>(1,778,247)</u>	<u>-</u>	<u>(69,049)</u>
Total other financing sources (uses)	<u>2,496,779</u>	<u>(1,778,247)</u>	<u>150,835</u>	<u>3,306,735</u>
Net change in fund balance	1,009,630	5,230,413	(124,602)	(128,341)
Fund balance - January 1, 2004, as restated (Note 1)	<u>5,005,912</u>	<u>43,573,919</u>	<u>499,588</u>	<u>8,918,519</u>
Fund balance - December 31, 2004	<u>\$ 6,015,542</u>	<u>\$ 48,804,332</u>	<u>\$ 374,986</u>	<u>\$ 8,790,178</u>

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

(continued)

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property taxes	\$ 260,151	\$ 10,055,717	\$ 15,522,334
Sales taxes	-	4,941,611	15,478,954
Other taxes	-	27,211	1,924,690
Licenses and permits	-	-	680,953
Intergovernmental revenues	4,471,867	12,613,269	52,057,762
Charges for services	-	-	6,549,128
Fines and forfeits	-	-	1,083,084
Special assessments	-	-	2,735,163
Investment income	-	314,885	2,044,335
Miscellaneous revenues	18,719	4,660,179	12,536,138
Total revenues	4,750,737	32,612,872	110,612,541
EXPENDITURES			
Current:			
General government	-	286,802	19,574,200
Public safety	-	378,438	29,082,948
Public works	524,112	36,644	9,947,392
Culture and recreation	-	318,085	6,945,317
Urban and economic development	-	14,934,419	15,511,249
Debt service:			
Principal retirement	-	9,001,165	13,610,613
Interest and fiscal fees	-	2,612,093	4,857,973
Bond issuance costs	-	180,618	180,618
Capital outlay	4,303,946	12,706,185	17,010,131
Total expenditures	4,828,058	40,454,449	116,720,441
Excess (deficiency) of revenues over expenditures	(77,321)	(7,841,577)	(6,107,900)
OTHER FINANCING SOURCES (USES)			
Sale of bonds	-	7,885,000	7,885,000
Premium on sale of bonds	-	159,777	159,777
Sale of capital asset	24,000	-	24,000
Transfers in	402,087	7,944,326	18,584,108
Transfers out	-	(8,711,693)	(14,773,286)
Total other financing sources (uses)	426,087	7,277,410	11,879,599
Net change in fund balance	348,766	(564,167)	5,771,699
Fund balance - January 1, 2004, as restated (Note 1)	(389,047)	35,358,068	92,966,959
Fund balance - December 31, 2004	\$ (40,281)	\$ 34,793,901	\$ 98,738,658

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, 2004

Net change in fund balances - total governmental funds	\$ 5,771,699
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	19,912,529
Depreciation expense	<u>(8,763,024)</u>
Excess of capital outlay over depreciation expense	11,149,505
Miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and other disposals) decreased net assets.	(452,060)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of \$1,529,716 from internal funds less \$411,124 attributed to business-type activities is reported with governmental activities.	1,118,592
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from bonds issued, including a bond premium of \$180,618 less deferred charges of \$159,777.	(7,864,159)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	13,834,360
Capital lease payments	156,253
PERA police and fire liability	<u>2,344,022</u>
Total long-term debt repayment	16,334,635
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.	2,632,574
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 increase in accrued interest	456,521
Amortization of deferred amounts:	
for bond premiums	99,121
for bond issuance costs	(53,121)
on refundings	<u>(41,622)</u>
Total additional expenditures	460,899
Change in net assets of governmental activities	<u>\$ 29,151,685</u>

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note 2)
	Original	Final	
REVENUES			
Taxes	\$ 18,464,600	\$ 18,514,600	\$ 17,641,288
Licenses and permits	756,500	756,500	680,953
Intergovernmental revenues	33,336,800	34,295,152	34,972,626
Charges for services	5,967,000	6,123,980	6,549,128
Fines and forfeits	1,092,000	1,131,842	1,083,084
Special assessments	135,500	135,500	125,213
Investment income	800,000	900,000	261,734
Miscellaneous revenues	2,247,300	2,291,836	2,203,234
Total revenues	<u>62,799,700</u>	<u>64,149,420</u>	<u>63,517,260</u>
EXPENDITURES			
Current:			
General government	20,761,800	21,515,952	20,196,996
Public safety	28,065,500	28,837,140	28,704,507
Public works	9,047,700	9,474,913	9,275,488
Culture and recreation	6,404,300	6,498,015	6,405,616
Urban and economic development	875,000	875,000	875,000
Debt service:			
Capital lease obligation - principal	266,500	273,800	271,253
Capital lease obligation - interest	148,300	149,805	150,550
Total expenditures	<u>65,569,100</u>	<u>67,624,625</u>	<u>65,879,410</u>
Excess (deficiency) of revenues over expenditures	<u>(2,769,400)</u>	<u>(3,475,205)</u>	<u>(2,362,150)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	5,840,300	5,937,537	6,711,076
Transfers out	<u>(3,070,900)</u>	<u>(3,072,300)</u>	<u>(3,339,296)</u>
Total other financing sources (uses)	<u>2,769,400</u>	<u>2,865,237</u>	<u>3,371,780</u>
Excess of revenues and other sources over (under) expenditures and other uses	-	(609,968)	1,009,630
Fund balance - January 1, 2004	<u>5,005,912</u>	<u>5,005,912</u>	<u>5,005,912</u>
Fund balance - December 31, 2004	<u>\$ 5,005,912</u>	<u>\$ 4,395,944</u>	<u>\$ 6,015,542</u>

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004

ASSETS

Current assets:

	Business-type Activities - Enterprise Funds		
	Water	Gas	Sewer
Cash and cash equivalents	\$ 4,626,422	\$ 4,031,178	\$ 3,621,836
Restricted cash and cash equivalents:			
Customer deposits	71,842	714,847	-
Construction	-	-	3,505,535
Loans	-	2,528,385	-
Restricted assets held by trustee	-	-	-
Receivables, net:			
Accounts	747,955	8,820,843	1,132,433
Restricted loans	-	159,877	-
Assessments	188,411	25,729	15,626
Due from other funds	60,734	97,423	129,341
Due from other governments	33,328	650	651,192
Inventories	648,697	695,836	-
Prepays	-	2,907,617	-
Total current assets	6,377,389	19,982,385	9,055,963
Capital assets, net	34,812,654	39,307,750	29,859,465
Noncurrent assets:			
Assessments receivable	902,650	144,844	153,583
Due from other governments	-	-	-
Restricted loans receivable	-	2,015,631	-
Issuance costs	9,791	-	15,098
Planning and development costs	9,524	-	9,472
Total other assets	921,965	2,160,475	178,153
Total noncurrent assets	35,734,619	41,468,225	30,037,618
Total assets	42,112,008	61,450,610	39,093,581

LIABILITIES

Current liabilities:

Accounts payable	183,252	5,283,359	139,270
Contracts payable	301,294	254,881	457,790
Claims payable	-	-	-
Notes payable	209,561	-	65,785
Leases payable	-	-	-
Due to other funds	1,321,207	171,417	294,390
Interfund loan payable	-	-	-
Due to other governments	127,696	85,186	522,194
Accrued interest payable	138,042	232,062	160,756
Accrued salaries payable	60,217	82,699	35,309
Compensated absences	18,231	35,722	-
Unearned revenue	10,887	1,150,370	-
Deposits	-	714,847	-
Revenue bonds payable	918,000	757,000	750,000
Total current liabilities	3,288,387	8,767,543	2,425,494

Noncurrent liabilities:

Notes payable	2,196,438	-	1,122,041
Claims payable	-	-	-
Compensated absences	285,483	330,582	162,574
Leases payable	-	-	-
Revenue bonds payable	5,985,000	13,500,000	11,994,000
Less unamortized bond discount	(126,876)	(181,503)	(204,200)
Total noncurrent liabilities	8,340,045	13,649,079	13,074,415
Total liabilities	11,628,432	22,416,622	15,499,909

NET ASSETS

Invested in capital assets, net of related debt	24,387,665	24,993,886	18,583,980
Restricted for capital projects	-	-	1,059
Restricted for loans	-	1,922,800	-
Unrestricted	6,095,911	12,117,302	5,008,633
Total net assets	\$ 30,483,576	\$ 39,033,988	\$ 23,593,672

(continued)

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

CITY OF DULUTH, MINNESOTA
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds		Governmental Activities - Internal Service Funds
	Other Enterprise Funds	Total Enterprise Funds	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,411,946	\$ 14,691,382	\$ 9,709,733
Restricted cash and cash equivalents:			
Customer deposits	-	786,689	-
Construction	78,338	3,583,873	-
Loans	-	2,528,385	-
Restricted assets held by trustee	110,103	110,103	-
Receivables, net:			
Accounts	1,098,997	11,800,228	887,011
Restricted loans	-	159,877	-
Assessments	442	230,208	-
Due from other funds	4,755	292,253	553,796
Due from other governments	33,385	718,555	13,445
Inventories	165,440	1,509,973	162,164
Prepays	79,675	2,987,292	-
Total current assets	3,983,081	39,398,818	11,326,149
Capital assets, net	25,406,878	129,386,747	512,404
Noncurrent assets:			
Assessments receivable	-	1,201,077	-
Due from other governments	25,000	25,000	-
Restricted loans receivable	-	2,015,631	-
Issuance costs	46,320	71,209	-
Planning and development costs	105,000	123,996	-
Total other assets	176,320	3,436,913	-
Total noncurrent assets	25,583,198	132,823,660	512,404
Total assets	29,566,279	172,222,478	11,838,553
LIABILITIES			
Current liabilities:			
Accounts payable	775,694	6,381,575	207,191
Contracts payable	231,151	1,245,116	18,762
Claims payable	-	-	1,477,260
Notes payable	13,448	288,794	-
Leases payable	42,944	42,944	33,133
Due to other funds	391,091	2,178,105	744,781
Interfund loan payable	307,474	307,474	46,952
Due to other governments	15,147	750,223	-
Accrued interest payable	75,933	606,793	35,052
Accrued salaries payable	29,024	207,249	20,356
Compensated absences	-	53,953	151,368
Unearned revenue	109,162	1,270,419	27,729
Deposits	-	714,847	-
Revenue bonds payable	330,000	2,755,000	-
Total current liabilities	2,321,068	16,802,492	2,762,584
Noncurrent liabilities:			
Notes payable	33,671	3,352,150	-
Claims payable	-	-	1,127,656
Compensated absences	132,198	910,837	3,219,029
Leases payable	36,744	36,744	260,268
Revenue bonds payable	5,016,000	36,495,000	-
Less unamortized bond discount	(161,632)	(674,211)	-
Total noncurrent liabilities	5,056,981	40,120,520	4,606,953
Total liabilities	7,378,049	56,923,012	7,369,537
NET ASSETS			
Invested in capital assets, net of related debt	19,755,962	87,721,493	219,003
Restricted for capital projects	257,470	258,529	-
Restricted for loans	-	1,922,800	-
Unrestricted	2,174,798	25,396,644	4,250,013
Total net assets	\$ 22,188,230	\$ 115,299,466	\$ 4,469,016

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

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

831,608

Net assets of business-type activities

\$ 116,131,074

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

Business-type Activities - Enterprise Funds

	Water	Gas	Sewer
OPERATING REVENUES			
Sales	\$ -	\$ 44,231,835	\$ -
Charges for services	9,678,965	624,395	16,094,297
Miscellaneous revenues	206,011	254,198	195,449
Total operating revenues	<u>9,884,976</u>	<u>45,110,428</u>	<u>16,289,746</u>
OPERATING EXPENSES			
Cost of sales and services	-	32,396,692	-
Personal services	4,182,015	5,564,281	2,358,366
Supplies	657,255	628,539	256,674
Utilities	1,012,453	59,663	72,636
Other services and charges	1,313,687	1,926,576	11,018,104
Depreciation	1,066,639	908,136	598,039
Medical and insurance claims	-	-	-
Total operating expenses	<u>8,232,049</u>	<u>41,483,887</u>	<u>14,303,819</u>
Operating income	<u>1,652,927</u>	<u>3,626,541</u>	<u>1,985,927</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	156,297	161,661	117,676
Gain (Loss) on sale or disposition of capital assets	10,518	591	100,464
Interest expense	(352,113)	(572,282)	(385,516)
Intergovernmental revenue	-	-	350,000
Other expense	-	-	-
Total non-operating revenue (expenses)	<u>(185,298)</u>	<u>(410,030)</u>	<u>182,624</u>
Income before contributions and transfers	1,467,629	3,216,511	2,168,551
Capital contributions	114,469	16,826	246,908
Transfers out	(354,220)	(3,140,775)	(103,020)
Change in net assets	1,227,878	92,562	2,312,439
Total net assets - January 1, 2004	<u>29,255,698</u>	<u>38,941,426</u>	<u>21,281,233</u>
Total net assets - December 31, 2004	<u>\$ 30,483,576</u>	<u>\$ 39,033,988</u>	<u>\$ 23,593,672</u>

(continued)

CITY OF DULUTH, MINNESOTA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds		Governmental Activities - Internal Service Fund
	Other Enterprise Funds	Total Enterprise Funds	
OPERATING REVENUES			
Sales	\$ -	\$ 44,231,835	\$ 637,405
Charges for services	14,531,825	40,929,482	22,057,300
Miscellaneous revenues	464,887	1,120,545	1,190,011
Total operating revenues	14,996,712	86,281,862	23,884,716
OPERATING EXPENSES			
Cost of sales and services	-	32,396,692	592,250
Personal services	1,995,516	14,100,178	4,244,364
Supplies	2,875,441	4,417,909	696,485
Utilities	1,292,943	2,437,695	-
Other services and charges	7,249,892	21,508,259	2,329,961
Depreciation	3,112,852	5,685,666	31,198
Medical and insurance claims	-	-	14,474,571
Total operating expenses	16,526,644	80,546,399	22,368,829
Operating income	(1,529,932)	5,735,463	1,515,887
NONOPERATING REVENUES (EXPENSES)			
Investment income	49,794	485,428	144,824
Gain (Loss) on sale or disposition of capital assets	(30,433)	81,140	-
Interest expense	(291,203)	(1,601,114)	(15,595)
Intergovernmental revenue	59,302	409,302	-
Other expense	(28,198)	(28,198)	-
Total non-operating revenue (expenses)	(240,738)	(663,442)	129,229
Income before contributions and transfers	(1,770,670)	5,082,021	1,645,116
Capital contributions	565,362	943,565	-
Transfers out	(97,407)	(3,695,422)	(115,400)
Change in net assets	(1,302,715)	2,330,164	1,529,716
Total net assets - January 1, 2004	23,490,945	112,969,302	2,939,300
Total net assets - December 31, 2004	\$ 22,188,230	\$ 115,299,466	\$ 4,469,016
Amounts reported in business-type activities in the statement of activities are different because:			
Change in net assets	\$ 2,330,164		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		411,124	
Change in net assets of business-type activities		\$ 2,741,288	

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, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

	Business-type Activities - Enterprise Funds		
	Water	Gas	Sewer
Cash received from customers	\$ 9,725,090	\$ 43,025,793	\$ 16,502,231
Cash paid to suppliers	(3,011,954)	(34,176,546)	(10,832,379)
Cash paid to employees	(4,321,433)	(5,768,132)	(2,400,377)
Other operating revenues	160,326	144,153	42,768
Net cash provided (used) by operating activities	<u>2,552,029</u>	<u>3,225,268</u>	<u>3,312,243</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers from other funds			
Transfers to other funds	(264,902)	(3,176,627)	(114,970)
Operating grants	-	-	-
Interfund financing	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(264,902)</u>	<u>(3,176,627)</u>	<u>(114,970)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants and contributions	-	-	25,000
Interest received on capital	-	-	-
Issuance of revenue bond	1,545,034	-	4,801,071
Principal paid on bonds, notes and capitalized leases	(916,979)	(455,000)	(718,021)
Interest paid on bonds, notes and capitalized leases	(325,634)	(493,552)	(359,526)
Transfer to trustee debt service account	-	-	-
Payment of bond issuance costs	-	-	(50,513)
Special assessments received	310,350	64,245	68,557
Sale of capital assets	24,273	22,142	233,000
Acquisition or construction of capital assets	(2,835,314)	(2,705,870)	(3,230,079)
Other interest earnings	70,946	11,046	8,290
Net cash provided (used) by capital and related financing activities	<u>(2,127,324)</u>	<u>(3,556,989)</u>	<u>777,779</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment interest	85,426	150,615	109,386
Net increase (decrease) in cash and cash equivalents	245,229	(3,357,733)	4,084,438
Cash and cash equivalents - January 1, 2004	4,453,035	10,632,143	3,042,933
Cash and cash equivalents - December 31, 2004	<u>\$ 4,698,264</u>	<u>\$ 7,274,410</u>	<u>\$ 7,127,371</u>

Reconciliation of operating income to net cash provided (used) by operating activities:

Net operating income (loss)	\$ 1,652,927	\$ 3,626,541	\$ 1,985,927
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	1,066,639	908,136	598,039
Change in assets and liabilities:			
Decrease (increase) in receivables	(23,512)	(2,383,834)	510,731
Decrease (increase) in inventory	(9,743)	(24,313)	-
Decrease (increase) in prepaid items	-	(449,629)	-
Increase (decrease) in payables	(145,169)	1,527,180	217,546
Increase (decrease) in deferred revenues	10,887	21,187	-
Total adjustments	<u>899,102</u>	<u>(401,273)</u>	<u>1,326,316</u>
Net cash provided (used) by operating activities	<u>\$ 2,552,029</u>	<u>\$ 3,225,268</u>	<u>\$ 3,312,243</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, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

	Business-type Activities - Enterprise Funds	Governmental Activities - Internal Service Fund
	Other Enterprise Funds	Total Enterprise Funds
Cash received from customers	\$ 14,686,043	\$ 83,939,157
Cash paid to suppliers	(11,371,724)	(59,392,603)
Cash paid to employees	(2,022,418)	(14,512,360)
Other operating revenues	373,037	720,284
Net cash provided (used) by operating activities	<u>1,664,938</u>	<u>10,754,478</u>
		<u>1,858,459</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers from other funds	147,616	147,616	-
Transfers to other funds	(117,312)	(3,673,811)	-
Operating grants	68,764	68,764	-
Interfund financing	14,598	14,598	(68,448)
Net cash provided (used) by noncapital financing activities	<u>113,666</u>	<u>(3,442,833)</u>	<u>(68,448)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital grants and contributions	565,362	590,362	-
Interest received on capital	1,150	1,150	-
Issuance of revenue bond	-	6,346,105	-
Principal paid on bonds, notes and capitalized leases	(217,849)	(2,307,849)	(31,536)
Interest paid on bonds, notes and capitalized leases	(167,203)	(1,345,915)	(15,858)
Transfer to trustee debt service account	(521,956)	(521,956)	-
Payment of bond issuance costs	-	(50,513)	-
Special assessments received	-	443,152	-
Sale of capital assets	-	279,415	-
Acquisition or construction of capital assets	(3,205,327)	(11,976,590)	-
Other interest earnings	-	90,282	-
Net cash provided (used) by capital and related financing activities	<u>(3,545,823)</u>	<u>(8,452,357)</u>	<u>(47,394)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment interest	45,122	390,549	144,824
Net increase (decrease) in cash and cash equivalents	(1,722,097)	(750,163)	1,887,441
Cash and cash equivalents - January 1, 2004	<u>4,212,381</u>	<u>22,340,492</u>	<u>7,822,292</u>
Cash and cash equivalents - December 31, 2004	<u>\$ 2,490,284</u>	<u>\$ 21,590,329</u>	<u>\$ 9,709,733</u>

Reconciliation of operating income to net cash provided (used) by operating activities:

Net operating income (loss)	\$ (1,529,932)	\$ 5,735,463	1,515,887
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	3,112,852	5,685,666	31,198
Change in assets and liabilities:			
Decrease (increase) in receivables	(4,432)	(1,901,047)	(344,402)
Decrease (increase) in inventory	(12,471)	(46,527)	(23,930)
Decrease (increase) in prepaid items	(3,361)	(452,990)	-
Increase (decrease) in payables	36,093	1,635,650	755,329
Increase (decrease) in deferred revenues	66,189	98,263	(75,623)
Total adjustments	<u>3,194,870</u>	<u>5,019,015</u>	<u>342,572</u>
Net cash provided (used) by operating activities	<u>\$ 1,664,938</u>	<u>\$ 10,754,478</u>	<u>\$ 1,858,459</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Sewer

The special assessment debt service fund paid \$131,448 of the cost of the Fond du lac project. The notes to the financial statements are an integral part of this statement.

CITY OF DULUTH, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 1,569,538
Receivables:	
Taxes	1,641
Loans	2,069,801
Due from other funds	5,467
Other assets	<u>349,524</u>
Total assets	<u><u>\$ 3,995,971</u></u>
LIABILITIES	
Accounts payable	\$ 4,029
Due to other governments	1,926
Due to agency	<u>3,990,016</u>
Total liabilities	<u><u>\$ 3,995,971</u></u>

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

CITY OF DULUTH, MINNESOTA
 STATEMENT OF NET ASSETS
 COMPONENT UNITS
 DECEMBER 31, 2004

	Duluth Entertainment & Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	Totals
ASSETS					
Cash and cash equivalents	\$ 171,518	\$ 1,554,861	\$ 2,129,072	\$ 599,978	\$ 4,455,429
Receivables, net	298,339	284,739	238,492	40,565	862,135
Due from primary government	51,420	-	307,579	-	358,999
Due from other governments	-	-	261,083	-	261,083
Inventories	158,403	72,077	159,788	49,567	439,835
Prepays	2,632	55,818	15,093	30,411	103,954
Deferred charges	20,580	320,792	-	53,738	395,110
Restricted assets:					
Cash and cash equivalents	288,169	770,691	-	225,000	1,283,860
Accounts receivable	20,402	2,448	-	-	22,850
Grants receivable	-	1,023,412	-	-	1,023,412
Assets held by trustee	80,417	-	-	-	80,417
Capital assets, net:					
Non-depreciable	905,601	10,357,761	237,691	2,421,337	13,922,390
Depreciable	42,511,072	23,920,702	14,399,897	2,494,324	83,325,995
Total assets	<u>44,508,553</u>	<u>38,363,301</u>	<u>17,748,695</u>	<u>5,914,920</u>	<u>106,535,469</u>
LIABILITIES					
Accounts payable and other short-term liabilities	392,878	70,713	537,763	139,942	1,141,296
Contracts payable	-	85,453	-	-	85,453
Accrued interest payable	38,949	-	-	33,405	72,354
Due to primary government	-	-	-	250,560	250,560
Due to other government	-	44,789	-	2,217	47,006
Deferred revenue	152,719	120,467	57,986	116,156	447,328
Liabilities payable from restricted assets	308,571	1,521,237	-	-	1,829,808
Non-current liabilities:					
Due within one year	786,019	39,847	455,604	328,347	1,609,817
Due in more than one year	4,792,105	203,472	-	1,851,878	6,847,455
Total liabilities	<u>6,471,241</u>	<u>2,085,978</u>	<u>1,051,353</u>	<u>2,722,505</u>	<u>12,331,077</u>
NET ASSETS					
Invested in capital assets, net of related debt	37,928,391	34,599,255	14,637,588	2,774,302	89,939,536
Restricted for:					
Debt service	80,417	-	-	-	80,417
Capital projects	-	-	1,305,612	225,000	1,530,612
Other	-	167,848	-	25,000	192,848
Unrestricted	28,504	1,510,220	754,142	168,113	2,460,979
Total net assets	<u>\$ 38,037,312</u>	<u>\$ 36,277,323</u>	<u>\$ 16,697,342</u>	<u>\$ 3,192,415</u>	<u>\$ 94,204,392</u>

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, 2004**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Duluth Entertainment & Convention Center Authority Business-type activities: Entertainment and convention facility	\$ 9,614,823	\$ 6,857,927	\$ -	\$ -
Duluth Airport Authority Business-type activities: Airport facility	5,869,616	3,411,304	971,050	6,785,900
Duluth Transit Authority Business-type activities: Public transportation	11,964,061	1,833,538	6,149,540	3,063,859
Spirit Mountain Recreation Area Authority Business-type activities: Ski hill operations	3,741,239	3,593,980	-	-
Total component units	<u>\$ 31,189,739</u>	<u>\$ 15,696,749</u>	<u>\$ 7,120,590</u>	<u>\$ 9,849,759</u>

(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, 2004

<u>Functions/Programs</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>				<u>Totals</u>
	<u>Duluth Entertainment & Convention Center Authority</u>	<u>Duluth Airport Authority</u>	<u>Duluth Transit Authority</u>	<u>Spirit Mountain Recreation Area Authority</u>	
Duluth Entertainment & Convention Center Authority					
Business-type activities:					
Entertainment and convention facility	<u>\$ (2,756,896)</u>	\$ -	\$ -	\$ -	\$ (2,756,896)
Duluth Airport Authority					
Business-type activities:					
Airport facility	-	<u>5,298,638</u>	-	-	5,298,638
Duluth Transit Authority					
Business-type activities:					
Public transportation	-	-	<u>(917,124)</u>	-	(917,124)
Spirit Mountain Recreation Area Authority					
Business-type activities:					
Ski hill operations	-	-	-	<u>(147,259)</u>	(147,259)
Total component units					<u>1,477,359</u>
General revenues:					
Property taxes	-	-	<u>1,063,100</u>	-	1,063,100
Donated capital assets	<u>2,533,873</u>	-	-		2,533,873
Grants and shared revenues not restricted to specific programs	<u>786,287</u>	-	<u>1,717,114</u>	-	2,503,401
Investment income	<u>5,176</u>	<u>28,118</u>	<u>23,354</u>	<u>10,294</u>	<u>66,942</u>
Gain on sale of capital assets	<u>22,703</u>	<u>111,500</u>	-	<u>(1,222)</u>	<u>132,981</u>
Miscellaneous	<u>151,787</u>	-	-	<u>26,628</u>	<u>178,415</u>
Total general revenues and transfers	<u>3,499,826</u>	<u>139,618</u>	<u>2,803,568</u>	<u>35,700</u>	<u>6,478,712</u>
Change in net assets	<u>742,930</u>	<u>5,438,256</u>	<u>1,886,444</u>	<u>(111,559)</u>	<u>7,956,071</u>
Net assets - beginning	<u>37,294,382</u>	<u>30,839,067</u>	<u>14,810,898</u>	<u>3,303,974</u>	<u>86,248,321</u>
Net assets - ending	<u>\$ 38,037,312</u>	<u>\$ 36,277,323</u>	<u>\$ 16,697,342</u>	<u>\$ 3,192,415</u>	<u>\$ 94,204,392</u>

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

Notes to the Financial Statements

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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. This financial report has been prepared in conformity with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, issued in June 1999.

REPORTING ENTITY

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

BLENDED COMPONENT UNIT

Effective March 22, 2004, the Duluth City Council became the governing board of the Duluth Economic Development Authority (DEDA). Although legally separate, DEDA, is in substance, part of City operations. Previously, DEDA was reported as a discretely presented component unit of the City. DEDA funds are reported as governmental funds.

DISCRETELY PRESENTED COMPONENT UNITS

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

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

The City Council approves the budget of each component unit. The City Council also approves the issuance and funding of debt for each component unit. The City Council currently provides an annual subsidy to the Duluth Entertainment and Convention Center Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority. For the Duluth Transit Authority, the City Council approves rate changes and is providing funding as local match for the Authority's capital grants.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

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

Duluth Entertainment and Convention Center Authority 350 South Fifth Avenue West Duluth, MN 55802	Duluth Airport Authority Duluth International Airport Duluth, MN 55811
Spirit Mountain Recreation Area Authority 9500 Spirit Mountain Place Duluth, MN 55810	Duluth Transit Authority 2402 West Michigan Street Duluth, MN 55806

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The City considers revenues to be available if they are collected within 90 days of the end of the current fiscal year, except for property taxes, which are considered available if collected within 60 days of the fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

The City reports the following major governmental funds:

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

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

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

The **Street Improvement Program Debt Service Fund** accounts for the resources accumulated and payments made for the principal and interest on long-term special assessment debt related to the City's street improvement program.

The **Permanent Improvement Capital Projects Fund** accounts for improvements which will not sustain a special assessment.

The City reports the following major proprietary funds:

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

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

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

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Additionally, the City reports the following fund types:

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and internal service funds are charges to customers and participants for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CASH AND CASH EQUIVALENTS

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

ASSETS HELD BY TRUSTEE

The assets represent funds held for debt service reserves.

RECEIVABLES AND PAYABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are 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."

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

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

Taxes and tax increments receivable consist of uncollected taxes levied and payable in the years 1998 through 2004, net of allowance for uncollectible taxes. These receivables are offset by deferred revenue to indicate they are not available to finance expenditures of the current fiscal period.

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

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

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

INVENTORIES AND PREPAID ITEMS

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

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

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

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

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

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

RESTRICTED ASSETS

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

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 for equipment, \$50,000 for buildings and infrastructure, and all property which has an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

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

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

COMPENSATED ABSENCES

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

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

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

Sick leave is recorded as an expenditure or expense when paid. Employees are granted from 18 to 120 days of sick leave each year, depending on their union bargaining unit. Employees are not compensated for unused sick leave. Any contingent liability for unused sick leave has not been determined and is not recognized in the financial statements. Retired employees are given a credit toward health insurance deductibles based on sick leave usage. This is described in further detail in Note 15 - Other Postemployment Benefits.

LONG-TERM OBLIGATIONS

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

FUND EQUITY

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

RESTATEMENTS AND RECLASSIFICATIONS

Effective March 22, 2004, the Duluth City Council became the governing body of the Duluth Economic Development Authority (DEDA). Although legally separate, DEDA, is in substance, part of City operations. Previously, DEDA was reported as a discretely presented component unit of the City. DEDA funds are now reported as governmental funds.

Effective January 1, 2004, the City implemented retroactive reporting of skywalk bridges. Previously, skywalk bridges had not been included in the City's infrastructure assets.

As of January 1, 2004, the City determined that amounts pertaining to claims and judgments were incorrectly classified as other current liabilities.

As of January 1, 2004, the City determined that amounts pertaining to bond issuance costs were incorrectly classified as contra liabilities.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
RESTATEMENTS AND RECLASSIFICATIONS (continued)

The above restatements and reclassifications had the following impact on previously reported balances:

<u>Statement of Activities</u>	<u>Governmental Activities</u>	<u>Component Units</u>
Net Assets, January 1, 2004, as previously reported	\$ 166,139,476	\$ 110,286,810
Change in presentation for DEDA	24,038,489	(24,038,489)
Skywalks net of accumulated depreciation	<u>6,058,051</u>	<u>-</u>
 Net Assets, January 1, 2004, restated	<u><u>\$ 196,236,016</u></u>	<u><u>\$ 86,248,321</u></u>
<u>Governmental Activities</u>	<u>Capital Assets (net)</u>	<u>Long-Term Debt</u>
Balance January 1, 2004, as previously reported	\$ 199,829,830	\$ 127,059,443
Change in presentation for DEDA	26,764,835	20,559,920
Reclassification of claims and judgments	-	1,008,398
Reclassification of bond issuance costs	-	512,823
Skywalks net of accumulated depreciation	<u>6,058,051</u>	<u>-</u>
 Balance January 1, 2004, restated	<u><u>\$ 232,652,716</u></u>	<u><u>\$ 149,140,584</u></u>
<u>Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds</u>	<u>Amount</u>	
Fund balance, January 1, 2004, as previously reported	\$ 75,406,024	
Change in Presentation for DEDA	<u>17,560,935</u>	
 Fund balance, January 1, 2004, restated	<u><u>\$ 92,966,959</u></u>	

In addition, several account balances were reclassified for the year ended December 31, 2003, as previously reported. These reclassifications were required for the comparability to the current year's financial statement and must be considered when comparing the financial statements of this report with those of prior periods.

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.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

**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 by December 28.

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

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

DEFICIT FUND EQUITY

The Permanent Improvement and Street Improvement Program Capital Projects Funds had deficit fund balances of \$40,281 and \$462,545, respectively, at December 31, 2004. These deficits are a result of deferring grant revenues not considered available and expenditures for projects to be bonded in the future. The Police Grant Programs Special Revenue Fund had a deficit fund balance of \$126,497 at December 31, 2004, due to deferring grant revenues not considered available. The Self Insurance Internal Service Fund had negative net assets of \$929,970 at December 31, 2004 due to an unusual amount of settled claims.

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, 2004; an auditor's report on compliance and internal accounting control will be issued at a later date.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

3. DEPOSITS AND INVESTMENTS
DEPOSITS

Minnesota Statutes Section 118A.02 authorizes the City to deposit its cash and to invest in certificates of deposit in financial institutions designated by the City Council. Minnesota Statutes require that all City deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004:

	Book Balance	Bank Balance
Covered Deposits		
Insured (FDIC) or collateralized by securities held by the City or its agent in the City's name		
Demand Deposits:		
City cash pool	\$ (3,039,033)	\$ 650,152
Component Units:		
Duluth Airport Authority	2,128,973	2,360,143
Duluth Entertainment and Convention Center Authority	453,456	501,138
Duluth Transit Authority	2,129,072	2,192,719
Spirit Mountain Recreation Area Authority	<u>439,178</u>	<u>207,981</u>
Total Demand Deposits	\$ 2,111,646	\$ 5,912,133
Time Deposits:		
City cash pool	<u>1,775,000</u>	<u>1,778,705</u>
Total	<u>\$ 3,886,646</u>	<u>\$ 7,690,838</u>

INVESTMENTS

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

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

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

- 5) in general obligation temporary bonds of the same governmental entity issued under Minnesota Statutes Sections 429.091, Subd. 7, 469.178, Subd. 5, or 475.61, Subd. 6.
- 6) repurchase agreements consisting of collateral allowable in Minnesota Statutes Section 118A.04, and reverse repurchase agreements may be entered into with any of the following entities:
 - (1) a financial institution qualified as a "depository" of public funds of the government entity;
 - (2) any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
 - (3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
 - (4) a securities broker-dealer licensed pursuant to chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.

Reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs. In no event may reverse repurchase agreements be entered into for the purpose of generating cash for investments, except as stated in Minnesota Statutes Section 118A.05, Subd. 3.
- 7) securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of Minnesota Statutes Section 118A.05, Subd. 2, clause (1) or (2), and having its principal executive office in Minnesota. Securities lending transactions may be entered into with entities meeting the qualifications of Minnesota Statutes Section 118A.05, Subd. 2 and the collateral for such transactions shall be restricted to the securities described in Minnesota Statutes Section 118A.04 and 118A.05.
- 8) agreements or contracts for:
 - (1) shares of a Minnesota joint powers investment trust whose investments are restricted to securities described in Minnesota Statutes Sections 118A.04 and 118A.05, Subd. 2;
 - (2) units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency, in which investments are restricted to securities described in Minnesota Statutes Section 118A.04 and 118A.05;
 - (3) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or
 - (4) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and whose shares are registered under the Federal Securities Act of 1933, as long as the investment company's fund receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization and is invested in financial instruments with a final maturity no longer than 13 months.
- 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.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Generally accepted accounting principles have determined three levels of custodial credit risk for securities:

- 1) Insured or registered, or securities held by the City or its agent in the City's name;
- 2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name;
- 3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

The following is a summary of the City's securities at fair value, categorized into the aforementioned levels of risk at December 31, 2004:

	Category			
	1	2	3	Amount
City investment pool:				
U.S. Government agency securities	\$ 63,705,787	\$ -	\$ 1,164,968	\$ 64,870,755
Commercial paper	54,939,873	-	-	54,939,873
Negotiable certificates of deposit	1,964,291	-	-	1,964,291
Total	<u>120,609,951</u>	<u>-</u>	<u>1,164,968</u>	<u>121,774,919</u>
City of Duluth Mutual Funds				\$ 6,002,333
Total Investments				127,777,252
Add: Deposits				<u>3,886,646</u>
Total Deposits and Investments*				<u>\$ 131,663,898</u>
Detail as shown in Basic Financial Statements:				
Current Assets				
Cash and cash equivalents				112,652,382
Assets held by trustee				7,477,409
Restricted assets				
Cash and cash equivalents				11,343,587
Assets held by trustee				190,520
Total Carrying Value				<u>\$ 131,663,898</u>

* 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.

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, 2004 was 97.2%.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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 \$1,265,529. The uncollectible amounts related to the revenues of the City's utility enterprise funds at December 31, 2004 are as follows:

Water	\$ 73,764
Gas	398,945
Sewer	107,703
Steam District #1	<u>2,400</u>
 Total Uncollectibles	 <u>\$582,812</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, 2004:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes	\$ 575,175	\$ -
Grants	2,639,027	570,566
Assessments	12,186,110	-
Loans	1,736,278	421,305
Deposits	-	16,980
Other	<u>2,346,920</u>	<u>-</u>
 Total for Governmental Funds	 <u>\$19,483,510</u>	 <u>\$ 1,008,851</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

6. CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2004 was as follows:

	<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	\$ 24,424,358	\$ 359,153	\$ 137,133	\$ 24,646,378
Construction in progress	18,934,579	18,050,427	7,727,345	29,257,661
Total capital assets, not being depreciated	<u>\$ 43,358,937</u>	<u>\$ 18,409,580</u>	<u>\$ 7,864,478</u>	<u>\$ 53,904,039</u>
Capital assets, being depreciated:				
Buildings	83,114,269	1,351,203	296,406	84,169,066
Equipment	19,136,113	771,514	1,018,938	18,888,689
Infrastructure	181,447,967	7,107,577	0	188,555,544
Total capital assets being depreciated	<u>\$ 283,698,349</u>	<u>\$ 9,230,294</u>	<u>\$ 1,315,344</u>	<u>\$ 291,613,299</u>
Less accumulated depreciation for:				
Buildings	28,676,552	2,227,917	296,406	30,608,063
Equipment	12,648,732	1,393,779	766,259	13,276,252
Infrastructure	53,079,286	5,172,526	0	58,251,812
Total accumulated depreciation	<u>\$ 94,404,570</u>	<u>\$ 8,794,222</u>	<u>\$ 1,062,665</u>	<u>\$ 102,136,127</u>
Total capital assets, being depreciated, net	<u>\$ 189,293,779</u>	<u>\$ 436,072</u>	<u>\$ 252,679</u>	<u>\$ 189,477,172</u>
Governmental activities capital assets, net	<u><u>\$ 232,652,716</u></u>	<u><u>\$ 18,845,652</u></u>	<u><u>\$ 8,117,157</u></u>	<u><u>\$ 243,381,211</u></u>
 Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	819,521	33,950		853,471
Construction in progress	29,377,569	9,527,169	17,925,755	20,978,983
Total capital assets, not being depreciated	<u>\$ 30,197,090</u>	<u>\$ 9,561,119</u>	<u>\$ 17,925,755</u>	<u>\$ 21,832,454</u>
Capital assets, being depreciated:				
Buildings	27,682,333	7,579,787	319,767	34,942,353
Equipment	62,247,826	1,457,182	635,423	63,069,585
Infrastructure	90,103,102	11,219,780		101,322,882
Total capital assets, being depreciated	<u>\$ 180,033,261</u>	<u>\$ 20,256,749</u>	<u>\$ 955,190</u>	<u>\$ 199,334,820</u>
Less accumulated depreciation for:				
Buildings	14,207,955	836,920	152,228	14,892,647
Equipment	44,669,455	3,140,390	604,262	47,205,583
Infrastructure	28,024,846	1,708,356	50,905	29,682,297
Total accumulated depreciation	<u>\$ 86,902,256</u>	<u>\$ 5,685,666</u>	<u>\$ 807,395</u>	<u>\$ 91,780,527</u>
Total capital assets, being depreciated, net	<u>\$ 93,131,005</u>	<u>\$ 14,571,083</u>	<u>\$ 147,795</u>	<u>\$ 107,554,293</u>
Business-type activities capital assets, net	<u><u>\$ 123,328,095</u></u>	<u><u>\$ 24,132,202</u></u>	<u><u>\$ 18,073,550</u></u>	<u><u>\$ 129,386,747</u></u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

6. CAPITAL ASSETS (continued)

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

Governmental Activities:

General government	\$ 1,855,581
Public safety	603,311
Public works, including depreciation of general infrastructure assets	5,490,255
Culture and recreation	813,877
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets.	<u>31,198</u>

Total depreciation expense - governmental activities

\$ 8,794,222

Business-type Activities:

Water	\$ 1,066,639
Gas	908,136
Sewer	598,039
Stormwater	239,146
Steam District #1	372,570
Steam District #2	2,299,223
Golf	<u>201,913</u>

Total depreciation expense - business-type activities

\$ 5,685,666

Component Units	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 5,650,063	\$ 113,015	\$ 0	\$ 5,763,078
Construction in progress	<u>9,425,424</u>	<u>7,937,371</u>	<u>9,203,483</u>	<u>8,159,312</u>
Total capital assets, not being depreciated	<u>\$ 15,075,487</u>	<u>\$ 8,050,386</u>	<u>\$ 9,203,483</u>	<u>\$ 13,922,390</u>
Capital assets, being depreciated:				
Buildings	88,217,269	6,735,187	114,410	94,838,046
Equipment	40,004,236	3,462,481	2,285,140	41,181,577
Infrastructure	32,882,235	4,743,134	0	37,625,369
Other	431,901	15,728	0	447,629
Total capital assets being depreciated	<u>\$ 161,535,641</u>	<u>\$ 14,956,530</u>	<u>\$ 2,399,550</u>	<u>\$ 174,092,621</u>
Less accumulated depreciation for:				
Buildings	37,082,508	2,712,909	25,346	39,770,071
Equipment	27,526,332	2,954,336	2,171,110	28,309,558
Infrastructure	20,953,709	1,449,066	0	22,402,775
Other	257,542	26,680	0	284,222
Total accumulated depreciation	<u>\$ 85,820,091</u>	<u>\$ 7,142,991</u>	<u>\$ 2,196,456</u>	<u>\$ 90,766,626</u>
Total capital assets, being depreciated, net	<u>\$ 75,715,550</u>	<u>\$ 7,813,539</u>	<u>\$ 203,094</u>	<u>\$ 83,325,995</u>
Component unit capital assets, net	<u>\$ 90,791,037</u>	<u>\$ 15,863,925</u>	<u>\$ 9,406,577</u>	<u>\$ 97,248,385</u>

Depreciation expense was charged to component units as follows:

Duluth Entertainment and Convention Center Authority	\$ 2,097,428
Duluth Airport Authority	2,100,947
Duluth Transit Authority	2,516,320
Spirit Mountain Recreation Area Authority	<u>428,296</u>
Total depreciation expense - component units	<u>\$ 7,142,991</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

7. COMMITMENTS
CONSTRUCTION COMMITMENTS

At December 31, 2004, the City had construction commitments of approximately \$16,542,868 for various projects and street improvements. The Duluth Airport Authority component unit had construction commitments of \$5,134,103 for airport improvements. Funding for these future expenditures or expenses will be available from federal and state grants, municipal state aid construction funds, tax levies, bond proceeds, and special assessments.

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters.

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

The self-insurance for workers' compensation covers up to \$720,000 per single loss occurrence. At that point, the City is covered for losses by the Workers' Compensation Reinsurance Association, an organization created by Minnesota statutes in 1979 to implement a mandatory program of reinsurance for workers' compensation liability risks in the State of Minnesota for losses occurring on or after October 1, 1979. The Association provides full indemnification for the City for claims arising under Minnesota Statutes Ch. 176, in excess of the \$720,000 retention limit.

The accrued liability for workers' compensation is estimated by the benefits administrator at the time an injury or illness is reported. Interest cost is not included in the estimate. The estimated liability for general liability matters is accrued if the City determines settlement is probable, based on a case-by-case evaluation. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims incurred but not reported have been considered in the sense that management's experience has shown that they do not affect the predictions. An actuary was not used in determining the liabilities, but actuarial guidelines were used. The estimated liability for claims payable at year end is present valued at 4%. In addition, the City Attorney estimated settlements to be \$4,759,133 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 2003 and 2004 were as follows:

	Liability January 1	Claims and Changes in Estimates	Claim Payments	Liability December 31
2003	\$ 1,731,348	\$ 696,606	\$ 1,113,456	\$ 1,314,498
2004	1,314,498	2,601,945	2,434,333	1,482,110

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

8. RISK MANAGEMENT (continued)

The Group Health Fund, an internal service fund, was established for the payment of employee medical and dental claims. The City pays Delta Dental Plan of Minnesota and Blue Cross Blue Shield of Minnesota an administrative fee to process dental and medical claims, respectively. The City assumes all risk, except that which is covered by a medical stop-loss policy purchased from Blue Cross Blue Shield of Minnesota. The stop-loss policy has an individual limit of \$200,000 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 2003 and 2004 were as follows:

	<u>Liability</u> <u>January 1</u>	<u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>Liability</u> <u>December 31</u>
2003	\$ 1,325,769	\$ 11,105,916	\$ 11,442,073	\$ 989,612
2004	989,612	12,279,217	12,146,023	1,122,806

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 2004:

<u>Type of Property</u>	<u>Governmental</u> <u>Activities</u>	<u>Component</u> <u>Units</u>
Police garage	\$ 29,540	\$ -
Land and right-of-way	26,254	-
Buildings	318,633	-
Equipment	184,795	2,988
Total rental expenses	<u>\$ 559,222</u>	<u>\$ 2,988</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, 2004:

<u>Year Ending December 31</u>	<u>Governmental</u> <u>Activities</u>
2005	\$ 63,122
2006	63,122
2007	63,122
2008	63,122
2009	63,122
2010-2014	398,895
2015-2019	394,241
2020-2024	190,229
2025-2029	147,700
2030-2031	59,080
Total minimum payments required	<u>\$1,505,755</u>

Component unit subleases of noncancelable operating leases provide for future minimum rentals to be received totaling \$614,807 at December 31, 2004.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

9. LEASE OBLIGATIONS (continued)
CAPITAL LEASES

Capitalized leases for the City of Duluth and its component units at December 31, 2004, consist of the following capital assets shown at original cost as summarized below:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Buildings	\$ 750,000	\$ -	\$1,744,334
Equipment	<u>-</u>	<u>173,555</u>	<u>651,260</u>
Total	750,000	173,555	2,395,594
Less accumulated amortization	<u>(266,667)</u>	<u>(52,027)</u>	<u>(557,579)</u>
Capital assets, net	<u><u>\$ 483,333</u></u>	<u><u>\$ 121,528</u></u>	<u><u>\$1,838,015</u></u>

Also at December 31, 2004 the City had an energy efficiency improvement lease agreement with an outstanding amount of \$147,488; and a lease agreement, partially financed by Lake Park Little League, Inc., for the purchase of land and construction of five baseball fields, with a balance of \$18,062. These capital leases are not included in Capital Assets because they fail to meet the City's capitalization policy.

Minimum future lease payments are:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>
2005	\$ 220,576	\$ 46,484	\$ 327,375
2006	47,394	38,203	325,370
2007	47,394	-	259,747
2008	47,394	-	259,480
2009	47,394	-	182,527
2010-2014	118,484	-	775,000
2015-2017	<u>-</u>	<u>-</u>	<u>183,428</u>
Total minimum lease payments	528,636	84,687	2,312,927
Less:			
Imputed interest	<u>(69,685)</u>	<u>(4,999)</u>	<u>(494,176)</u>
Present value of minimum lease payments	<u><u>\$ 458,951</u></u>	<u><u>\$ 79,688</u></u>	<u><u>\$ 1,818,751</u></u>

10. SHORT-TERM DEBT

The City issued General Obligation Tax and Aid Anticipation Certificates to fund governmental activities in anticipation of collection of taxes levied and state aids receivable for the City's General Fund. The obligations were general obligations of the City for which the City pledged its full faith and taxing power. The certificates matured on December 31, 2004.

The following is a summary of changes in the City's General Obligation Tax and Aid Anticipation Certificates:

<u>January 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2004</u>
\$ -	\$ 12,000,000	\$ 12,000,000	\$ -

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Governmental Activities Long-Term Debt

General Obligation Bonds and Certificate Covenants

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

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

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

Year Ending December 31	General Obligation Bonds			General Obligation Tax Increment		General Obligation Certificates	
	Interest	Principal	Interest	Principal	Interest	Principal	
2005	\$ 1,122,331	\$ 2,685,700	\$ 170,897	\$ 901,000	\$ 131,220	\$ 1,505,000	
2006	1,019,325	2,716,700	132,409	929,000	82,683	1,100,000	
2007	909,053	2,835,000	91,930	955,000	49,388	895,000	
2008	790,181	3,027,000	49,608	988,000	23,763	525,000	
2009	668,501	2,860,000	26,384	70,000	9,263	285,000	
2010 - 2014	1,735,669	10,545,000	76,148	410,000	-	-	
2015 - 2019	210,841	2,220,000	2,375	95,000	-	-	
2020 - 2024	1,785	85,000	-	-	-	-	
Total	<u>\$ 6,457,686</u>	<u>\$26,974,400</u>	<u>\$ 549,751</u>	<u>\$4,348,000</u>	<u>\$ 296,317</u>	<u>\$ 4,310,000</u>	

Tax Increment Revenue Bond and Notes

During 1985, the City established Development District #6 - St. Louis Bay Energy and Industrial Park - West Duluth (the District), and adopted a Tax Increment Financing Plan which provided for the issuing of tax increment revenue bonds in the aggregate principal amount of \$29,300,000 dated December 1, 1985. The \$4,800,000 outstanding bonds are limited obligations of the City payable solely from tax increment revenues pledged under the indenture. The bonds do not constitute a debt of the City under any constitutional or statutory provision whatsoever and shall never constitute a charge or pledge of the faith and credit or taxing power of the City.

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

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

Year Ending December 31	St. Louis Bay Tax Increment Revenue Bonds*		Duluth Economic Development Tax Increment Revenue Bonds		Duluth Economic Development Tax Increment Revenue Notes	
	Principal	Interest	Interest	Principal	Interest	Principal
2005	\$ 1,800,000	\$ 521,579	\$ 1,448,078	\$ 76,108	\$ 209,042	
2006	2,000,000	595,825	1,375,925	59,233	215,580	
2007	1,000,000	665,164	1,303,486	41,325	315,043	
2008	-	625,548	1,065,002	18,253	120,000	
2009	-	12,400	40,000	10,545	50,000	
2010 - 2014	-	16,200	135,000	13,395	160,000	
2015 - 2019	-	-	-	-	-	
2020 - 2024	-	-	-	-	-	
Total	<u>\$ 4,800,000</u>	<u>\$2,436,716</u>	<u>\$5,367,491</u>	<u>\$218,859</u>	<u>\$1,069,665</u>	

* The interest rates are determined monthly based on prevailing market conditions and commercial paper rate.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Governmental Activities Long-Term Debt (continued)

Lease Revenue Bond

During 1995, \$2,720,000 lease revenue bonds were issued for the development of a community center facility. The \$1,890,000 outstanding bonds are limited to lease revenue and are not a general obligation of the City.

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

Year Ending December 31	Lease Revenue Bonds	
	Interest	Principal
2005	\$ 126,610	\$ 120,000
2006	119,170	130,000
2007	110,980	135,000
2008	102,340	145,000
2009	92,480	155,000
2010 - 2014	<u>288,660</u>	<u>1,205,000</u>
Total	<u>\$ 840,240</u>	<u>\$ 1,890,000</u>

Special Assessment Bonds

The City has a contingent liability against its full faith and credit on \$53,017,600 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 for the special assessment bonds follows:

Year Ending December 31	Special Assessment Bonds		G.O. Revenue Notes	
	Interest	Principal	Interest	Principal
2005	\$ 2,118,158	\$ 4,678,300	\$ 3,480	\$ 23,000
2006	1,956,724	4,849,300	3,250	24,000
2007	1,778,444	4,685,000	3,010	24,000
2008	1,599,421	4,570,000	2,770	24,000
2009	1,419,316	4,415,000	2,530	24,000
2010-2014	4,341,526	19,710,000	8,990	124,000
2015-2019	956,143	9,680,000	2,640	105,000
2020-2024	<u>9,944</u>	<u>430,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,179,676</u>	<u>\$ 53,017,600</u>	<u>\$ 26,670</u>	<u>\$ 348,000</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

11. LONG-TERM DEBT

DEBT REQUIREMENTS AND SOURCES OF REPAYMENTS

Governmental Activities Long-Term Debt (continued)

Other Debt

The City pledged certain franchise fees to pay revenue bonds issued by the State of Minnesota which were secured by the State's full faith and credit. The revenue bonds were issued to finance the construction and equipping of an aircraft maintenance facility at the Duluth International Airport. The City has a \$10,235,000 outstanding revenue pledge debt to the State which is not considered a general obligation debt of the City.

The tax increment revenue pledge was made to fund the debt service requirements on revenue bonds issued by the State of Minnesota. The revenue bonds were issued to finance the construction and equipping of an aircraft maintenance facility at Duluth International Airport. Tax increments generated by the project are pledged for repayment of principal and interest on the State-issued revenue bonds. The \$6,945,000 outstanding tax increment revenue pledge is not a general obligation of the City.

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

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

Business-type Activities Long-Term Debt

Revenue and General Obligation Bonds

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

Revenue Bonds

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

General Obligation Public Facilities Authority Revenue Notes

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

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Business-type Activities Long-Term Debt

General Obligation Public Facilities Authority Revenue Notes(continued)

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

Year Ending December 31	Revenue and General Obligation Bonds			Revenue Bonds			G.O. Revenue Notes Public Facilities Authority	
	Interest	Principal	Interest	Principal	Interest	Principal		
2005	\$ 1,423,538	\$ 2,635,000	\$ 31,595	\$ 120,000	\$ 54,449	\$ 211,953		
2006	1,374,059	3,010,000	29,195	120,000	75,762	226,868		
2007	1,263,591	3,140,000	26,435	125,000	70,729	231,323		
2008	1,153,044	2,870,000	23,185	125,000	65,590	237,703		
2009	1,052,584	2,590,000	19,435	130,000	60,306	243,158		
2010-2014	3,842,445	12,180,000	31,340	420,000	217,799	1,296,398		
2015-2019	1,226,623	10,785,000	-	-	65,414	1,146,422		
2020-2024	<u>70,768</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Total	<u>\$11,406,652</u>	<u>\$38,210,000</u>	<u>\$ 161,185</u>	<u>\$ 1,040,000</u>	<u>\$ 610,049</u>	<u>\$ 3,593,825</u>		

The Steam District #1 Enterprise Fund has two loans for storefront renovations.

Component Unit Long-Term Debt

Spirit Mountain Recreation Area Authority

Revenue Bonds

\$1,646,750 City of Duluth Gross Revenue Recreational Facility Bond dated March 28, 2003, with interest at 4.50 percent, due in semi-annual installments June 1 and December 1 and matures 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:

Fiscal Year Ended April 30	Interest	Principal
2005	\$ 72,406	\$ 152,594
2006	65,462	159,538
2007	58,202	166,798
2008	50,612	174,388
2009	42,676	182,324
2010 - 2014	83,874	811,108
2015 - 2019	-	-
2020 - 2024	-	-
Total	<u>\$ 373,232</u>	<u>\$ 1,646,750</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Component Unit Long-Term Debt (continued)

Duluth Entertainment and Convention Center Authority

General Obligation Bonds

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

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

Year Ending <u>December 31</u>	General Obligation Refunding Revenue Bonds	
	<u>Interest</u>	<u>Principal</u>
2005	\$ 194,475	\$ 605,000
2006	170,275	630,000
2007	145,075	655,000
2008	118,875	685,000
2009	91,475	710,000
2010 - 2014	95,625	1,515,000
2015 - 2019	-	-
2020 - 2024	-	-
 Total	 <u>\$ 815,800</u>	 <u>\$ 4,800,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT (continued)
DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS
December 31, 2004

	Issue Date	Amount Outstanding	Total
Governmental Activities:			
General Obligation Bonds Payable:			
Great Lakes Aquarium	07-15-96	\$ 1,915,000	
Bayfront Project Tax Increment (80%)	12-01-96	440,000	
Zoo Refunding	09-01-97	1,920,000	
Duluth Transit Authority	09-01-97	240,000	
Street Overlay (26%) Refunding	12-01-97	101,400	
Street Overlay (60%) Refunding	05-01-98	306,000	
West Michigan Street Improvements	12-01-98	1,290,000	
Duluth Entertainment and Convention Center Authority	02-01-99	5,845,000	
Parking Improvement Tax Increment	06-01-99	250,000	
Technology Village Parking Ramp Tax Increment (72%)	06-01-99	2,165,000	
Duluth Transit Authority	06-01-99	40,000	
Great Lakes Aquarium	12-01-99	1,740,000	
Bayfront Festival Park	04-01-01	2,385,000	
Duluth Transit Authority	09-01-01	495,000	
Airport Improvement General Obligation Bonds	02-01-02	3,240,000	
Leif Erickson Park Tax Increment (80%) Refunding	09-01-02	352,000	
Duluth Entertainment & Convention Center Authority Refunding	03-01-03	2,080,000	
Bayfront Festival Park Improvement	12-01-03	425,000	
General Obligation Improvement	03-01-04	800,000	
Airpark Improvement	09-01-04	<u>945,000</u>	
Total General Obligation Bonds Payable			\$ 26,974,400
General Obligation Tax Increment Bonds Payable:			
Bayfront Project Increment (20%)	12-01-96	110,000	
Canal Park Tax Increment Refunding	09-01-97	1,100,000	
Great Lakes Aquarium Tax Increment	05-01-99	2,215,000	
Technology Village Parking Ramp Tax Increment (28%)	06-01-99	835,000	
Leif Erickson Park Tax Increment Refunding (20%)	09-01-02	<u>88,000</u>	
Total General Obligation - Tax Increment Bonds Payable			4,348,000
Revenue Bonds Payable:			
Tax Increment Revenue Bonds:			
St. Louis Bay Tax Increment	12-01-85	4,800,000	
Cirrus Tax Increment Revenue	03-01-94	330,000	
Tax Increment Revenue Refunding	04-15-98	1,525,209	
Tax Increment Revenue Refunding	05-04-99	3,512,282	
Lease Revenue Bonds	05-01-95	<u>1,890,000</u>	
Total Revenue Bonds Payable			12,057,491
Special Assessment Debt with Government Commitment	23 issues		53,017,600
General Long-Term Debt Certificates Payable:			
General Obligation Certificates Payable	5 issues		<u>4,310,000</u>
Total Governmental Activities Bonds and Certificates Payable			<u>100,707,491</u>
			(continued)

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT
DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS (continued)
December 31, 2004

	<u>Date</u>	<u>Issue Outstanding</u>	<u>Amount Total</u>
Business-type Activities Debt:			
Revenue Bonds Payable:			
Golf Fund	1 issue	\$ 1,040,000	\$ 1,040,000
Revenue and General Obligation Bonds Payable			
Water Fund	6 issues	6,903,000	
Gas Fund	4 issues	14,257,000	
Steam District #1	4 issues	2,955,000	
Sewer Fund	9 issues	12,744,000	
Stormwater Fund	1 issue	1,351,000	
Total Revenue and General Bonds Payable			<u>38,210,000</u>
Total Business-type Activities Debt			<u>39,250,000</u>
Total Bonds and Certificates Payable			<u>\$ 139,957,491</u>
Deductions Allowable:			
Technology Village Parking Ramp Tax Increment (72%)	06-01-99	2,165,000	
Bayfront Festival Park	04-01-01	2,385,000	
Airport Improvement General Obligation Bonds	02-01-02	3,240,000	
Airpark Improvement	09-01-04	945,000	
Bayfront Project Increment (20%)	12-01-96	110,000	
Canal Park Tax Increment Refunding	09-01-97	1,100,000	
Great Lakes Aquarium Tax Increment	05-01-99	2,215,000	
Technology Village Parking Ramp Tax Increment (28%)	06-01-99	835,000	
Leif Erickson Park Tax Increment Refunding (20%)	09-01-02	88,000	
St. Louis Bay Tax Increment	12-01-85	4,800,000	
Cirrus Tax Increment Revenue	03-01-94	330,000	
Tax Increment Revenue Refunding	04-15-98	1,525,209	
Tax Increment Revenue Refunding	05-04-99	3,512,282	
Lease Revenue Bond	05-01-95	1,890,000	
Special Assessment		53,017,600	
Golf Fund	12-14-04	1,040,000	
Water Fund		6,903,000	
Gas Fund		14,257,000	
Steam District #1		2,955,000	
Sewer Fund		12,744,000	
Stormwater Fund		1,351,000	
Total Deductions Allowable			<u>117,408,091</u>
Net Debt			<u>\$ 22,549,400</u>
Legal Debt Margin for Duluth			
Taxable Market Value (\$ 4,268,939,500 x 2%)			<u>\$ 85,378,790</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT
DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS (continued)

Overlapping Debt to Duluth

Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$ 39,515,000	93.30%	\$ 36,867,495
Independent School District 704	13,195,000	6.20%	818,090
St. Louis County	42,406,540	37.90%	16,072,079
Western Lake Superior Sanitary District	59,815,345	74.09%	44,317,189
			<u>\$ 98,074,853</u>

REFUNDING BOND ISSUES

A current refunding occurs when the refunded bonds are retired within 90 days after the refunding issue is sold. A current refunding issue does not require establishment of an escrow account. The advance refunding issues resulted in defeasance of debt. The refunded bonds were removed from the debt of the City.

When the City issues an advance refunding bond, an escrow account is established from the proceeds. Amounts in the escrow accounts are invested in special obligations of the United States Treasury or other obligations of the United States or of 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 2004 the City issued \$1,040,000 in Gross Revenue Recreation Facility Refunding Bonds with the obligations to be paid by the revenues generated by the city golf courses. The refinancing resulted in a \$87,550 deferred loss, which is amortized over the life of the old debt. The transaction also resulted in a net present value savings of \$22,642.

There is no remaining balance on advanced refunded bonds.

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

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

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT

REFUNDING BOND ISSUES (continued)

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:			
Tax Increment Revenue Bond	05-04-99	\$ 8,001,533	\$ 3,512,282
General Obligation Tax Increment	09-01-02	127,000	88,000
General Obligation Tax Increment	09-01-02	508,000	352,000
General Obligation Improvement	09-01-02	1,080,000	710,000
Advance Refunding Bonds:			
General Obligation Zoo	09-01-97	3,285,000	1,920,000
Canal Park Tax Increment Bond	09-01-97	3,040,000	1,100,000
General Obligation Improvement	12-01-97	2,455,000	510,000
Tax Increment Revenue Bond	04-15-98	4,149,906	1,525,209
Duluth Entertainment and Convention Center Authority	03-01-03	2,405,000	2,080,000
Street Improvement (1994)	03-01-03	818,000	704,000
Street Improvement (1995)	03-01-03	3,118,400	2,683,800
General Obligation and Improvement	03-01-03	583,600	502,200
Crossover Advance Refunding Bonds:			
General Obligation Improvement	05-01-98	<u>2,660,000</u>	<u>1,345,000</u>
Total Governmental Activities		<u>\$ 32,231,439</u>	<u>\$ 17,032,491</u>
Business-type Activities:			
Current Refunding Bonds:			
Golf Course Refunding	12-04-04	\$ 1,040,000	\$ 1,040,000
Advance Refunding Bonds:			
Water Utility Revenue and General Obligation	09-01-97	2,455,000	1,100,000
Water Utility Revenue and General Obligation	03-01-03	625,000	540,000
Sewer Utility Revenue and General Obligation	03-01-03	1,240,000	1,080,000
Crossover Advance Refunding Bonds:			
Water Utility Revenue and General Obligation	05-01-98	1,955,000	1,025,000
Sewer Utility Revenue and General Obligation	05-01-98	<u>530,000</u>	<u>285,000</u>
Total Business-type Activities		<u>\$ 7,845,000</u>	<u>\$ 5,070,000</u>
Component Unit Activities:			
Duluth Entertainment and Convention Center Authority			
Advance Refunding:			
General Obligation DECC Refunding	04-01-01	<u>\$ 6,970,000</u>	<u>\$ 4,800,000</u>
		Total	<u>\$ 26,902,491</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Bonds, certificates, and notes payable at December 31, 2004, are comprised of the following individual issues:

BONDS AND CERTIFICATES BY ISSUE	Interest Rate	Issue Date	Final Maturity	Authorized and Issued	Outstanding
Governmental Activities:					
General Obligation Bonds Payable -					
General Obligation					
Great Lakes Aquarium	4.60 to 5.65%	07-15-96	02-01-17	\$ 2,495,000	\$ 1,915,000
Bayfront Project Tax Increment (80%)	3.80 to 4.90%	12-01-96	02-01-08	1,028,000	440,000
Zoo Refunding	3.70 to 5.10%	09-01-97	02-01-12	3,285,000	1,920,000
Duluth Transit Authority	4.55 to 4.85%	09-01-97	02-01-08	525,000	240,000
Street Overlay (26%) Refunding	4.00 to 4.50%	12-01-97	02-01-06	406,900	101,400
Street Overlay (60%) Refunding	4.10 to 4.55%	05-01-98	02-01-08	639,000	306,000
West Michigan Street Improvements	3.40 to 4.70%	12-01-98	02-01-14	1,745,000	1,290,000
Duluth Entertainment and Convention Center Authority	3.00 to 4.45%	02-01-99	08-01-14	8,000,000	5,845,000
Parking Improvement Tax Increment	4.25 to 5.00%	06-01-99	02-01-15	310,000	250,000
Technology Village Parking Ramp Tax Increment (72%)	4.25 to 5.00%	06-01-99	02-01-15	2,590,000	2,165,000
Duluth Transit Authority	4.00 to 4.25%	06-01-99	02-01-05	180,000	40,000
Great Lakes Aquarium	4.50 to 4.88%	12-01-99	02-01-10	2,475,000	1,740,000
Bayfront Festival Park	3.50 to 4.25%	04-01-01	02-01-11	3,135,000	2,385,000
Duluth Transit Authority	2.65 to 4.10%	09-01-01	02-01-11	615,000	495,000
Airport Improvement	4.00 to 6.25%	02-01-02	02-01-17	3,400,000	3,240,000
Leif Erickson Park Tax Increment Refunding (80%)	2.00 to 3.25%	09-01-02	02-01-08	508,000	352,000
Duluth Entertainment & Convention Center Authority Refunding	2.00 to 3.10%	03-01-03	02-01-10	2,405,000	2,080,000
Bayfront Festival Park Improvement	2.00 to 3.60%	12-01-03	02-12-12	425,000	425,000
Improvement	2.00 to 3.40%	03-01-04	02-01-14	800,000	800,000
Airpark Improvement	2.00 to 4.20%	09-01-04	02-01-20	945,000	945,000
Total General Obligation				\$ 35,911,900	\$ 26,974,400
General Obligation - Tax Increment					
Bayfront Project Tax Increment (20%)	3.80 to 4.90%	12-01-96	02-01-08	\$ 257,000	\$ 110,000
Canal Park Tax Increment Refunding	3.60 to 4.75%	09-01-97	02-01-08	3,040,000	1,100,000
Great Lakes Aquarium Tax Increment	3.30 to 4.20%	05-01-99	02-01-08	4,530,000	2,215,000
Technology Village Parking Ramp Tax Increment (28%)	4.25 to 5.00%	06-01-99	02-01-15	1,000,000	835,000
Leif Erickson Park Tax Increment Refunding (20%)	2.00 to 3.25%	09-01-02	02-01-08	127,000	88,000
Total General Obligation - Tax Increment				\$ 8,954,000	\$ 4,348,000
Total General Obligation Bonds Payable				\$ 44,865,900	\$ 31,322,400
Revenue Bonds Payable -					
Tax Increment Revenue Bonds Payable -					
St. Louis Bay Tax Increment	*variable	12-01-85	09-01-10	\$ 29,300,000	\$ 4,800,000
Cirrus Tax Increment Revenue	7.00 to 8.00%	03-01-94	02-01-12	645,000	330,000
Tax Increment Revenue Refunding	3.75 to 4.90%	04-15-98	08-01-08	4,149,906	1,525,209
Tax Increment Revenue Refunding	4.30 to 5.20%	05-04-99	08-01-08	8,001,533	3,512,282
Total Tax Increment Revenue Bonds Payable				\$ 42,096,439	\$ 10,167,491
Lease Revenue Bonds Payable -					
Artspace Community Center	5.00 to 6.80%	05-01-95	08-01-14	\$ 2,720,000	\$ 1,890,000
Total Revenue Bonds Payable				\$ 44,816,439	\$ 12,057,491

* Rates are determined monthly based on prevailing market conditions and commercial paper rate.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT

BONDS, CERTIFICATES, AND NOTES PAYABLE - BY ISSUE (continued)

Bonds, certificates, and notes payable at December 31, 2004, are comprised of the following individual issues:

BONDS AND CERTIFICATES BY ISSUE (continued)	Interest Rate	Issue Date	Final Maturity	Authorized and Issued	Outstanding
Governmental Activities (continued):					
Special Assessment Debt with Government Commitment -					
Street Improvement	4.60 to 5.45%	07-15-96	02-01-12	\$ 5,650,000	\$ 3,570,000
Street Improvement	4.50 to 5.10%	09-01-97	02-01-12	6,020,000	4,115,000
General Obligation Improvement	4.05 to 4.80%	09-01-97	02-01-08	830,000	380,000
Street Overlay (74%) Refunding	4.00 to 4.50%	12-01-97	02-01-06	1,158,100	288,600
General Obligation Improvement Refunding	4.00 to 4.40%	12-01-97	02-01-05	890,000	120,000
Street Overlay (40%) Refunding	4.10 to 4.55%	05-01-98	02-01-08	426,000	204,000
General Obligation Improvement Refunding	4.20 to 4.45%	05-01-98	02-01-07	1,595,000	835,000
General Obligation Improvement	3.40 to 4.80%	12-01-98	02-01-15	1,005,000	795,000
Street Improvement	4.38 to 4.88%	08-01-98	02-01-14	6,790,000	4,670,000
Street Improvement	4.00 to 5.00%	06-01-99	02-01-15	6,675,000	5,135,000
General Obligation Improvement	4.50 to 5.25%	12-01-99	02-01-15	1,220,000	980,000
Street Improvement	4.50 to 5.35%	09-01-00	02-01-16	5,410,000	4,430,000
General Obligation Improvement	3.30 to 4.85%	04-01-01	02-01-16	1,405,000	1,180,000
Street Improvement	3.50 to 4.70%	09-01-01	02-01-17	4,800,000	4,190,000
Street Improvement	2.50 to 4.45%	09-01-02	02-01-18	3,860,000	3,575,000
General Obligation Improvement Refunding	2.25 to 3.15%	09-01-02	02-01-08	1,080,000	710,000
General Obligation Improvement	3.50 to 4.55%	12-01-02	02-01-18	2,220,000	2,120,000
Street Improvement Refunding	2.00 to 3.10%	03-01-03	02-01-10	3,118,400	2,683,800
Street Improvement Refunding	2.00 to 3.10%	03-01-03	02-01-10	818,000	704,000
General Obligation Improvement Refunding	2.00 to 3.10%	03-01-03	02-01-10	583,600	502,200
Street Improvement	2.00 to 4.50%	09-01-03	02-01-19	5,035,000	5,035,000
General Obligation Improvement	2.50 to 4.20%	12-01-03	02-01-19	2,010,000	2,010,000
Street Improvement	2.25 to 4.63%	09-01-04	02-01-20	4,785,000	4,785,000
Total Special Assessment Debt with Government Commitment				\$ 67,384,100	\$ 53,017,600

(continued)

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT

BONDS, CERTIFICATES, AND NOTES PAYABLE - BY ISSUE (continued)

Bonds, certificates, and notes payable at December 31, 2004, are comprised of the following individual issues:

	Interest Rate	Issue Date	Final Maturity	Authorized and Issued	Outstanding
BONDS AND CERTIFICATES BY ISSUE (continued)					
Governmental Activities (continued):					
General Obligation Certificates Payable -					
Equipment	4.38 to 4.55%	12-20-00	12-20-05	\$ 1,985,000	\$ 435,000
Equipment	3.00 to 3.65%	12-20-01	12-20-06	1,075,000	450,000
Equipment	2.50 to 3.00%	12-19-02	12-19-07	1,780,000	1,100,000
Equipment	2.00 to 2.50%	12-19-03	12-19-08	1,200,000	970,000
Equipment	3.00 to 3.25%	02-20-04	12-20-09	1,355,000	1,355,000
Total General Obligation Certificates Payable				\$ 7,395,000	\$ 4,310,000
Total Governmental Activities Bonds and Certificates Payable				\$ 164,461,439	\$ 100,707,491
Business-type Activities:					
Revenue Bonds Payable -					
Golf Fund -					
Revenue Recreation Facility Refunding	2.00 to 3.80%	12-04-04	12-01-12	\$ 1,040,000	\$ 1,040,000
Revenue and General Obligation Bonds Payable -					
Water Fund -					
Water Utility Revenue and General Obligation Refunding	4.00 to 4.80%	09-01-97	02-01-08	\$ 2,455,000	\$ 1,100,000
Water Utility Revenue and General Obligation Refunding	4.20 to 4.45%	05-01-98	02-01-07	1,955,000	1,025,000
Water Utility Revenue and General Obligation	4.40 to 5.25%	12-01-00	02-01-16	1,530,000	1,315,000
Water Utility Revenue and General Obligation	2.50 to 4.45%	09-01-02	02-01-18	1,690,000	1,603,000
Water Utility Revenue and General Obligation	3.25 to 4.55%	12-01-02	12-01-18	1,385,000	1,320,000
Water Utility Revenue and General Obligation	2.00 to 3.25%	03-01-03	02-01-10	625,000	540,000
Total Water Fund				\$ 9,640,000	\$ 6,903,000
Gas Fund -					
Gas Utility Revenue and General Obligation	4.00 to 4.75%	12-01-01	02-01-17	\$ 5,300,000	\$ 4,785,000
Gas Utility Revenue and General Obligation	2.50 to 4.45%	09-01-02	02-01-18	2,132,000	2,022,000
Gas Utility Revenue and General Obligation	3.25 to 4.55%	12-01-02	02-01-18	1,425,000	1,360,000
Gas Utility Revenue and General Obligation	2.50 to 4.20%	12-01-03	02-02-19	6,090,000	6,090,000
Total Gas Fund				\$ 14,947,000	\$ 14,257,000
Steam District #1 Fund -					
Steam Utility Revenue and General Obligation	3.40 to 4.30%	12-01-98	02-01-09	\$ 310,000	\$ 170,000
Steam Utility Revenue and General Obligation	5.25 to 5.50%	12-01-00	02-01-11	325,000	245,000
Steam Utility Revenue and General Obligation	4.30 to 4.50%	02-01-02	02-01-12	345,000	290,000
Steam Utility Revenue and General Obligation	2.25 to 4.75%	09-01-03	02-01-23	2,250,000	2,250,000
Total Steam District #1 Fund				\$ 3,230,000	\$ 2,955,000

(continued)

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT

BONDS, CERTIFICATES, AND NOTES PAYABLE - BY ISSUE (continued)

Bonds, certificates, and notes payable at December 31, 2004, are comprised of the following individual issues:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
BONDS AND CERTIFICATES BY ISSUE (continued)					
Business-type Activities (continued)					
Sewer Fund -					
Sewer Utility Revenue and General Obligation Refunding	4.15 to 4.55%	05-01-98	02-01-08	\$ 530,000	\$ 285,000
Sewer Utility Revenue and General Obligation	3.40 to 4.30%	12-01-98	02-01-09	\$ 1,080,000	\$ 600,000
Sewer Utility Revenue and General Obligation	4.50 to 5.25%	12-01-99	02-01-15	\$ 1,745,000	\$ 1,405,000
Sewer Utility Revenue and General Obligation	4.40 to 5.25%	12-01-00	02-01-16	\$ 570,000	\$ 490,000
Sewer Utility Revenue and General Obligation	4.00 to 4.75%	12-01-01	02-01-17	\$ 1,330,000	\$ 1,200,000
Sewer Utility Revenue and General Obligation	2.50 to 4.45%	09-01-02	02-01-18	\$ 2,003,000	\$ 1,899,000
Sewer Utility Revenue and General Obligation	3.25 to 4.55%	12-01-02	02-01-18	\$ 1,825,000	\$ 1,740,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.25%	03-01-03	02-01-10	\$ 1,240,000	\$ 1,080,000
Sewer Utility Revenue and General Obligation	3.00 to 4.20%	12-01-04	02-01-20	\$ 4,045,000	\$ 4,045,000
Total Sewer Fund				\$ 14,368,000	\$ 12,744,000
Stormwater Fund -					
Stormwater Utility Revenue and General Obligation	2.50 to 4.45%	09-01-02	02-01-18	\$ 1,425,000	\$ 1,351,000
Total Revenue and General Obligation Bonds Payable				\$ 43,610,000	\$ 38,210,000
Total Business-type Activities Bonds Payable				\$ 44,650,000	\$ 39,250,000
Component Units:					
Spirit Mountain Recreation Area					
Revenue Bonds Payable -					
Spirit Mountain Recreation Area	4.50 to 4.50%	03-31-03	12-01-12	\$ 1,646,750	\$ 1,646,750
Duluth Entertainment and Convention Center Authority					
General Obligation Bonds Payable -					
Duluth Entertainment and Convention Center Refunding	3.50 to 4.20%	04-01-01	02-01-11	\$ 6,970,000	\$ 4,800,000
Total Component Units Bonds Payable				\$ 8,616,750	\$ 6,446,750

(continued)

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT

BONDS, CERTIFICATES, AND NOTES PAYABLE - BY ISSUE (continued)

Bonds, certificates, and notes payable at December 31, 2004, are comprised of the following individual issues:

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
NOTES PAYABLE BY ISSUE					
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	1.00%	07-24-02	08-20-18	\$ 364,195	\$ 348,000
Tax Increment Revenue					
Canal Park Tax Increment	8.00%	12-01-91	02-01-08	\$ 325,000	\$ 200,000
Cirrus Tax Increment Taxable	8.75%	03-06-97	08-01-07	885,000	499,665
Fremont Tax Increment Limited Revenue	5.70%	07-01-97	02-01-12	650,000	370,000
Total Tax Increment Revenue				\$ 1,860,000	\$ 1,069,665
Total Governmental Activities				\$ 2,224,195	\$ 1,417,665
Business-type Activities:					
General Obligation:					
Water Fund -					
Public Facilities Authority Note	2.819%	08-25-03	08-20-18	\$ 870,000	\$ 835,021
Public Facilities Authority Note*	2.530%	07-02-04	08-20-18	1,570,978	1,570,978
Total Water Fund				\$ 2,440,978	\$ 2,405,999
Sewer Fund -					
Public Facilities Authority Note	2.819%	08-25-03	08-20-18	\$ 100,000	\$ 95,979
Public Facilities Authority Note**	1.340%	10-17-03	08-20-18	1,091,847	1,091,847
Total Sewer Fund				\$ 1,191,847	\$ 1,187,826
Total Business-type Activities				\$ 3,632,825	\$ 3,593,825

* Total face value \$ 2,485,231; only \$1,570,978 has been issued as of 12/31/04.

** Total face value \$ 1,179,115; only \$1,091,847 has been issued as of 12/31/04.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT (continued)
 CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2004 follows:

	<u>Balance</u> <u>01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/04</u>	<u>Due Within</u> <u>One Year</u>
Primary Government:					
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 28,208,400	\$ 1,745,000	\$ 2,979,000	\$ 26,974,400	\$ 2,685,700
General Obligation - Tax Increment Bonds	5,222,000	-	874,000	4,348,000	901,000
Tax Increment Revenue Bonds	13,389,954	-	3,222,463	10,167,491	3,248,078
Lease Revenue Bonds	2,005,000	-	115,000	1,890,000	120,000
Special Assessment Debt with Government Commitment	52,554,600	4,785,000	4,322,000	53,017,600	4,678,300
General Obligation Certificates	4,590,000	1,355,000	1,635,000	4,310,000	1,505,000
Add deferred amounts:					
For Bond Premium	-	159,777	99,121	60,656	-
Tax Increment Revenue Notes	1,360,367	-	290,702	1,069,665	209,042
General Obligation Notes	364,195	-	16,195	348,000	23,000
Tax Increment Revenue Pledge	7,090,000	-	145,000	6,945,000	155,000
Revenue Pledge	10,470,000	-	235,000	10,235,000	245,000
Capital Leases	646,741	-	187,790	458,951	198,683
Compensated Absences	3,521,406	2,915,676	3,066,685	3,370,397	151,368
Claims and Judgments	2,304,110	14,881,162	14,580,356	2,604,916	1,477,260
PERA Police and Fire Pension Liability	17,413,811	-	2,344,024	15,069,787	2,543,264
Total Governmental Activity					
Long-Term Liabilities	<u>\$149,140,584</u>	<u>\$25,841,615</u>	<u>\$34,112,336</u>	<u>\$140,869,863</u>	<u>\$18,140,695</u>
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 1,490,000	\$ 1,040,000	\$ 1,490,000	\$ 1,040,000	\$ 120,000
Revenue and General Obligation Bonds	36,380,000	4,045,000	2,215,000	38,210,000	2,635,000
Less deferred amounts:					
For Issuance Discounts	(604,880)	(168,063)	(98,732)	(674,211)	-
General Obligation Notes	1,435,047	2,197,778	39,000	3,593,825	275,346
Leases Payable	120,660	-	40,972	79,688	42,944
Loans	59,996	-	12,877	47,119	13,448
Compensated Absences	989,494	726,267	750,971	964,790	53,953
Total Business-Type Activity					
Long-Term Liabilities	<u>\$ 39,870,317</u>	<u>\$ 7,840,982</u>	<u>\$ 4,450,088</u>	<u>\$ 43,261,211</u>	<u>\$ 3,140,691</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

11. LONG-TERM DEBT
CHANGES IN LONG-TERM LIABILITIES (continued)

	<u>Balance</u> <u>01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/04</u>	<u>Due Within</u> <u>One Year</u>
Component Unit Activities:					
Duluth Entertainment and Convention Center Authority					
Bonds Payable					
General Obligation Bonds	\$ 5,385,000	\$	-	\$ 4,800,000	\$ 605,000
Less deferred amounts:					
For Issuance Discounts	(26,440)		-	(20,780)	-
On Refunding	(678,821)		-	(593,069)	-
Capital Leases	1,388,256		-	1,302,131	91,177
Compensated Absences	83,253	89,842	83,253	89,842	89,842
Duluth Transit Authority					
Compensated Absences	486,960	450,616	486,960	450,616	450,616
Claims Payable	4,988	-	-	4,988	4,988
Duluth Airport Authority					
Loans	19,470		19,470		-
Compensated Absences	48,390	39,847	48,390	39,847	39,847
Deferred Revenue	228,582		25,110	203,472	-
Spirit Mountain Recreation Authority					
Revenue Bond Payable	1,646,750		-	1,646,750	133,588
Less deferred amounts:					
For Issuance Discounts	(52,267)		-	(33,261)	-
Capital Leases	542,780		26,160	516,620	144,643
Compensated Absences	44,505	50,116	44,505	50,116	50,116
Total Component Unit Activities					
Long-Term Liabilities	<u>\$ 9,121,406</u>	<u>\$ 630,421</u>	<u>\$ 1,294,555</u>	<u>\$ 8,457,272</u>	<u>\$ 1,609,817</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the governmental activities totals above. Compensated absences and claims payable for governmental activities are accrued and liquidated in the internal service funds. The General Fund and Community Development Special Revenue Fund were used in prior years to liquidate the liability for compensated absences related to governmental activities.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Due To/From Other Funds results from the time lag between the dates interfund goods or services are provided or reimbursable expenditures occur and when the payment between funds is made. Balances at December 31, 2004 are:

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General	Street Improvement Debt Service	\$74,000
	Gas Enterprise	49,832
	Nonmajor governmental funds	237,809
	Internal service funds	376,326
Community Investment	General	2,530
Street Improvement Debt Service	Nonmajor governmental funds	102
Permanent Improvement Capital Projects	General	304,731
Nonmajor governmental funds	General	884,402
	Permanent Improvement Capital Projects	10,581
	Water Enterprise	22,341
	Gas Enterprise	4,430
	Sewer Enterprise	118,799
	Other nonmajor governmental funds	775,732
	Nonmajor enterprise funds	3,718
	Internal service funds	3,932
	Agency Funds	5,467
Water Enterprise	General	30,150
	Permanent Improvement Capital Projects	297,040
	Nonmajor governmental funds	974,612
	Internal service funds	1,940
Gas Enterprise	General	38,550
	Permanent Improvement Capital Projects	17,624
	Nonmajor governmental funds	88,207
	Internal service funds	27,036
Sewer Enterprise	General	24,100
	Permanent Improvement Capital Projects	14,651
	Nonmajor governmental funds	238,657
	Internal service funds	16,982
Nonmajor enterprise funds	General	13,000
	Sewer Enterprise	8,936
	Nonmajor governmental funds	361,190
	Internal service funds	7,965
Internal service funds	General	47,742
	Water Enterprise	38,393
	Gas Enterprise	43,161
	Sewer Enterprise	1,606
	Nonmajor governmental funds	510,692
	Nonmajor enterprise funds	1,037
	Other internal service funds	102,150
	Total	<u>\$5,797,618</u>
Due from other funds, reported in	Balance Sheet - Governmental Funds	4,946,102
	Statement of Net Assets - Proprietary Funds	
	Business-type Activities - Enterprise Funds	292,253
	Governmental Activities - Internal Service Funds	553,796
	Statement of Fiduciary Net Assets	5,467
	Total	<u>\$5,797,618</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

Due To/From primary government and component units results from the time lag between the dates goods or services are provided and when payment is made. Balances as shown below are reported on the Government-wide Statement of Net Assets. Balances are at December 31, 2004, with the exception of the Spirit Mountain Recreation Authority, whose fiscal year ended April 30, 2004.

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government: General Fund	Component Unit: Spirit Mountain Recreation Area Authority	\$ 120,441
Total Due from Component Units		<u>\$ 120,441</u>
Total Due to Primary Government		\$ 250,560
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2004		(250,560)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2004		<u>120,441</u>
		<u>\$ 120,441</u>
Component Unit: Duluth Entertainment and Convention Center Authority	Primary Government: Nonmajor governmental funds	\$ 51,420
Duluth Transit Authority	Nonmajor governmental funds	<u>307,579</u>
Total Due from Primary Government		<u>\$ 358,999</u>
Total Due to Component Units		<u>\$ 358,999</u>

INTERFUND LOAN RECEIVABLES/PAYABLES

These balances are a result of temporary interfund financing at year-end. Balances at December 31, 2004 are:

<u>Receivable fund</u>	<u>Amount</u>
General	<u>\$1,134,750</u>
<u>Payable fund</u>	
Permanent Improvement Capital Projects	\$ 140,821
Nonmajor governmental funds	639,503
Nonmajor enterprise funds	307,474
Internal service funds	<u>46,952</u>
Total	<u>\$1,134,750</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

The City reports transfers between many of its funds to move revenues from the fund in which they are collected to the fund required to expend them, including: payments in lieu of taxes, debt service payments, participation in projects, reimbursement of expenditures, and revenue recognition for investment earnings in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Interfund transfers for the year ended December 31, 2004 are as follows:

Transfer to reported in fund:	Transfer from reported in fund:	Amount
General	Street Improvement Debt Service	\$2,859,100
	Nonmajor governmental funds	1,355,197
Community Investment	General	1,778,247
Street Improvement Debt Service	General	69,049
Nonmajor governmental funds	General	1,457,273
	Special Assessment Debt Service	150,835
	Street Improvement Debt Service	516,684
	Permanent Improvement Capital Projects	72,772
	Other nonmajor governmental funds	6,514,129
Water Enterprise	General	57,180
	Permanent Improvement Capital Projects	297,040
Gas Enterprise	General	3,048,151
	Permanent Improvement Capital Projects	17,624
	Nonmajor governmental funds	75,000
Sewer Enterprise	General	88,369
	Permanent Improvement Capital Projects	14,651
Nonmajor enterprise funds	General	97,407
Internal service funds	General	<u>115,400</u>
	Total	<u>\$18,584,108</u>
Transfers out, reported in	Statement of Revenues, Expenditures, and Changes in Fund Balance	14,773,286
	Statement of Revenues, Expenses, and Changes in Fund Net Assets	
	Business-type Activities - Enterprise Funds	3,695,422
	Governmental Activities - Internal Service Funds	<u>115,400</u>
	Total	<u>\$18,584,108</u>

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

13. PENSION PLANS
PLAN DESCRIPTION

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

Public Employees Retirement Fund members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. All police officers, fire fighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Fund.

The PERA provides retirement benefits, as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

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

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

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

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

13. PENSION PLANS (continued)
FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. Current statutory contribution rates of annual covered payroll for the plans are:

	<u>Statutory Rates</u>	
	<u>Employees</u>	<u>Employer</u>
Public Employees Retirement Fund		
Basic members	9.10%	11.78%
Coordinated members	5.10%	5.53%
Public Employees Police and Fire Fund	6.20%	9.30%

The City's contributions for the years ending December 31, 2004, 2003, and 2002 for the Public Employees Retirement Fund and Public Employees Police and Fire Fund were:
(Dollar amounts in Thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Public Employees Retirement Fund	\$ 1,656	\$ 1,628	\$ 1,648
Public Employees Police and Fire Fund	<u>5,421</u>	<u>5,426</u>	<u>5,484</u>
Totals	<u>\$ 7,077</u>	<u>\$ 7,054</u>	<u>\$7,132</u>

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

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 2004 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 2004 annual report.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

14. SEGMENT INFORMATION

The City issued revenue bonds for each of the following non-major enterprise funds: the Stormwater Utility, which operates the stormwater sewer collection system; Steam District #1, the plant which generates and distributes steam to major users in the greater downtown area; and the Golf Fund, which operates the city's two municipal 27-hole golf courses. Summary financial information for each of these funds for fiscal year ending December 31, 2004 is presented below.

	Stormwater	Steam District #1	Golf
CONDENSED STATEMENT OF NET ASSETS			
Assets			
Current assets	\$ 1,975,106	\$ 1,102,446	\$ 113,876
Due from other funds	4,755	-	-
Capital assets	7,312,255	4,448,125	2,364,943
Noncurrent assets	105,000	25,000	46,320
Total assets	<u>9,397,116</u>	<u>5,575,571</u>	<u>2,525,139</u>
Liabilities			
Current liabilities	271,201	561,906	490,093
Due to other funds	379,700	9,091	2,300
Noncurrent liabilities	1,359,657	2,791,713	905,611
Total liabilities	<u>2,010,558</u>	<u>3,362,710</u>	<u>1,398,004</u>
Net assets			
Restricted for capital projects			107,470
Invested in capital assets, net of related debt	5,589,750	1,507,964	1,376,693
Unrestricted	1,796,808	704,897	(357,028)
Total net assets	<u>\$ 7,386,558</u>	<u>\$ 2,212,861</u>	<u>\$ 1,127,135</u>

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

Operating revenues (expenses)			
Charges (pledged against bonds)	\$ 2,864,868	\$ 4,016,386	\$ 1,732,131
Depreciation expense	(239,146)	(372,570)	(201,913)
Other operating expenses	(2,220,714)	(3,373,137)	(1,441,402)
Operating income	<u>405,008</u>	<u>270,679</u>	<u>88,816</u>
Nonoperating revenues (expenses)			
Investment earnings	39,796	5,326	3,522
Intergovernmental	59,302	-	-
Interest expense	(51,779)	(148,023)	(91,401)
Other	(119)	-	(28,198)
Transfers out	<u>(23,392)</u>	<u>(74,015)</u>	<u>-</u>
Change in net assets	<u>428,816</u>	<u>53,967</u>	<u>(27,261)</u>
Beginning net assets	<u>6,957,742</u>	<u>2,158,894</u>	<u>1,154,396</u>
Ending net assets	<u>\$ 7,386,558</u>	<u>\$ 2,212,861</u>	<u>\$ 1,127,135</u>

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by			
Operating activities	\$ 690,229	\$ 681,004	\$ 294,855
Noncapital financing activities	25,467	(74,015)	162,214
Capital and related financing activities	(1,011,204)	(1,955,700)	(580,069)
Investing activities	39,796	5,326	-
Net increase (decrease)	<u>(255,712)</u>	<u>(1,343,385)</u>	<u>(123,000)</u>
Beginning cash and cash equivalents	<u>2,196,991</u>	<u>1,742,390</u>	<u>123,000</u>
Ending cash and cash equivalents	<u>\$ 1,941,279</u>	<u>\$ 399,005</u>	<u>\$ 0</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

**15. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES
LAKE SUPERIOR CENTER**

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

In order to obtain State funding, the City guaranteed that any operating deficits will be funded from non-state sources, and DEDA guaranteed that it would provide sufficient funds necessary to complete construction of the project. In 2004, the City approved the creation of a revolving \$250,000 cash management fund. Amounts drawn from the fund are to be repaid annually by October 1st. On December 31, 2004, the outstanding balance owed to the City was \$150,000.

LITIGATION

The City, in connection with the normal conduct of its affairs, is involved in various judgments, claims, and litigation; it is expected that the final settlement of these matters will not materially affect the financial statements of the City.

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 is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material effect on the City's financial position at December 31, 2004.

OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 13, the City provides postemployment health care benefits and term life insurance coverage in accordance with various union contracts. City employees qualified to receive these postemployment benefits have retired on or after January 1, 1983, and receive retirement or disability benefits from the Public Employees Retirement Association. Currently, 687 retirees meet the eligibility requirements.

The City pays 100% of medical claims and hospitalization costs, subject to an annual \$650 deductible. The \$650 deductible may be waived for the retiree only, based on the employee's sick leave usage while employed. Supervisory employees have a deductible for claimed dependents only. Premiums are paid by the City for the life of the retiree or the surviving spouse. Premiums contributed to the Group Health Internal Service Fund for retiree benefits from the participating funds were at \$5,957,206 in 2004 and \$5,392,371 in 2003. Expenses for health care benefits are recognized as reported claims are paid and include a provision for estimated claims, incurred but not yet reported to the City. Life insurance expenses are recognized when premiums are paid. During the year, expenses of \$5,913,117 for postemployment health care benefits and \$25,132 for life insurance coverage were recognized. There was a \$260,496 increase in health expenses from the previous year. Twenty City retirees, who retired prior to January 1, 1983, are paying their own medical premiums with no deductible.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

15. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES
OTHER POSTEMPLOYMENT BENEFITS (continued)

In 2002, the City contracted with an actuary to update the calculation of its accumulated postretirement benefit obligation (APBO), to use as a benchmark for future negotiated plan changes and to prepare for future reporting requirements as proposed by the Governmental Accounting Standards Board Other Postemployment Benefit exposure draft, which was issued February 14, 2004. The APBO for all retirees and current active employees was calculated to be \$178.5 million as of January 1, 2002. Because the actuarial report was issued prior to the GASB exposure draft, the obligation was amortized over 20 years in accordance with Financial Accounting Standards No. 106, rather than the 30 years allowed in the GASB exposure draft.

JOINT VENTURE

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

Control of the collaborative is vested in a Board of Directors. The City has four members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. St. Louis County is the fiscal agent for this organization through its Duluth Area Family Services Collaborative Agency Fund. Separate financial information can be obtained from the St. Louis County Auditor's Office. A summary of the financial information of the Collaborative for the fiscal year ended December 31, 2004, is:

Total Assets	\$ 58,834
Total Liabilities	-
Total Fund Equity	58,834
Total Revenues	-
Total Expenditures/Expenses	24,548
Increase (decrease) in Fund Balance	\$ (24,548)

RELATED ORGANIZATION

The Duluth Housing and Redevelopment Authority is a legally separate organization from the City of Duluth with its own rights and powers. Although the Mayor of the City of Duluth appoints all Authority Board members, there is no financial accountability necessary for including this organization as a component unit of the City of Duluth. Related party transactions are limited to payments by the City on various contracts for services entered into with the Authority. The City made payments on various contracts totaling \$1,434,060 to the Duluth Housing and Redevelopment Authority in 2004.

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

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

The Duluth Economic Development Authority is committed to provide tax increment assistance pursuant to development agreements for housing projects. The assistance is provided in the form of an annual tax rebate to developers. The annual tax rebate is contingent upon payment of annual property taxes by the developer. The assistance for each project is limited in amount based on both the scope of the project and the life of the tax increment district. The tax increment assistance does not result in debt proceeds and does not meet the definition of debt. A summary of the maximum tax increment assistance to be provided as of December 31, 2004, follows:

- Ramsey Townhouses - \$1,937,425
- Augusta Building - \$268,321
- Spirit Bay - \$139,659
- Inn on the Lake - \$194,524
- Accessible Space, Inc. - annual payment not to exceed 100% of captured tax increment. The maximum tax increment financing available is \$149,999.
- Fitgers on the Lake - annual payment not to exceed \$16,000 of captured tax increment
- Jefferson Square - annual payment not to exceed 20% of captured tax increment
- Hampton Inn - \$183,479
- Irving School Project - annual payment not to exceed 100% of captured tax increment

CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2004

15. **SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES** (continued)
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, 2004, are as follows:

<u>Entity</u>	<u>Series</u>	<u>Issued</u>	<u>Principal Outstanding</u>
City of Duluth Duluth Radisson Hotel	1995A	\$ 8,470,000	\$ 6,165,000
Duluth Economic Development Authority St. Mary's Medical Center	2004 1993C	90,965,000 45,795,000	90,965,000 34,580,000
Northwood Children's Home	1996	700,000	85,000
Miller Dwan Medical Center	1997	20,000,000	16,500,000
BSM Properties	1998	11,750,000	10,690,000
Aftenro Home	2000	2,575,000	2,520,000
Residential Services	2000B 2000C	576,421 330,919	462,476 265,584
Center for Alcohol & Drug Treatment	2000A	2,600,000	2,366,582
St. Luke's Hospital	2002	55,000,000	53,800,000
Merritt School LLC	2004	660,000	653,988
Miller Hill 47 Limited Partnership	2004	2,000,000	1,979,684

16. **SUBSEQUENT EVENTS**
TAX AND AID ANTICIPATION CERTIFICATES

Pursuant to the authority contained in Sections 55 through 59 of the Charter, the City sold \$13,000,000 of General Obligation Tax and Aid Anticipation Certificates dated February 24, 2005. The taxes levied in 2004 and collectible in 2005, are pledged for the payment of these certificates due December 30, 2005. The proceeds of the sale will be used to improve the cash flow requirements of the General Fund during 2005.

MEDICAL CAMPUS EXPANSION

The Duluth Economic Development Authority (DEDA) and the City of Duluth approved a development agreement that will allow St. Mary's / Duluth Clinic (SMDC) to construct a 225,000 square foot clinic building. This building will be connected to their existing facilities and could create 200 additional jobs in the medical field. This new clinic building will allow SMDC to expand some key areas, such as Cancer (Oncology), Digestive Diseases, Orthopedics and Diagnostic Imaging. The expected cost to SMDC is \$75 million for the building and equipment.

The development agreement requires DEDA to construct a parking ramp that will be connected by a skywalk system to the new clinic. The ramp will consist of 602 spaces, with 400 of the spaces being leased to SMDC. Also, as part of the development agreement, within five years DEDA and the City will make every effort to expand the skywalk system from downtown to the new clinic building, via the parking ramp.

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Combining and Individual Fund Information

Governmental Funds

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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 received from the U.S. Department of Housing and Urban Development. These monies are to be expended for projects considered necessary for the renewal and revitalization of Duluth.

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

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

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

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

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

Transit Support - to account for property taxes levied for the operation of the Duluth Transit Authority component unit, as well as bond proceeds and other revenues that are used as the matching local share for various capital grants awarded to the Transit Authority.

Police School Patrol - to account for funds donated for field trips and other projects benefitting school children who participate in the City's School Patrol Program.

5th Avenue West Mall - to account for gifts designated for the purpose of maintaining a mall along 5th Avenue West and beautifying the waterfront area adjacent to the Duluth Entertainment and Convention Center.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (continued)

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

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

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

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

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

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

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

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

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

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

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

NON-MAJOR GOVERNMENTAL FUNDS (continued)

DEBT SERVICE FUNDS

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

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

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

St. Louis Bay Tax Increment - to account for accumulation of resources for, and payment of, tax increment bonds funded by the St. Louis Bay Tax Increment District.

DEDA Debt Service - to account for the accumulation of resources for, and payment of, tax increment backed debt.

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.

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

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

Aviation Incubator - to account for monies used to construct an airplane manufacturing incubator project.

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

CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2004

	Special Revenue Funds				
	Home Investment Partnership Program	Community Development	Workforce Development	Senior Employment	Senior Nutrition
ASSETS					
Cash and cash equivalents	\$ -	\$ 45,335	\$ 483,473	\$ -	\$ -
Assets held by trustee	-	-	-	-	-
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	-	4,003	-	-	6,451
Loans	169,116	97,290	-	-	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	34,603	-	-	81,365
Due from other governments	112,035	722,809	136,423	20,392	44,074
Prepays	-	-	-	-	-
Total assets	<u>\$ 281,151</u>	<u>\$ 904,040</u>	<u>\$ 619,896</u>	<u>\$ 20,392</u>	<u>\$ 131,890</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 49,919	\$ 65,679	\$ -	\$ 481
Contracts payable	65,770	421,656	24,807	-	53,230
Due to other funds	21,605	27,435	3,932	-	-
Due to component units	-	-	-	-	-
Interfund loan payable	7,177	139,430	-	19,622	72,134
Due to other governments	-	567	9,874	-	-
Accrued salaries payable	-	7,367	19,213	770	6,045
Deferred revenue	<u>186,599</u>	<u>105,893</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>281,151</u>	<u>752,267</u>	<u>123,505</u>	<u>20,392</u>	<u>131,890</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	-	-	-
Special accounts	-	-	466,853	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	151,773	29,538	-	-
Capital project funds	-	-	-	-	-
Total fund balances	<u>-</u>	<u>151,773</u>	<u>496,391</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 281,151</u>	<u>\$ 904,040</u>	<u>\$ 619,896</u>	<u>\$ 20,392</u>	<u>\$ 131,890</u>

(continued)

CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2004

	Special Revenue Funds				
	Special Projects	Police Grant Programs	Transit Support	Recovery Loan Program	Bayfront Festival Park
ASSETS					
Cash and cash equivalents	\$ 314,227	\$ -	\$ 172,662	\$ 622,796	\$ 110,297
Assets held by trustee	-	-	-	-	-
Receivables, net:					
Taxes	-	-	9,176	-	-
Accounts	8,100	-	-	-	-
Loans	-	-	-	168,723	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	9,824	46,620	-	-	-
Due from other governments	22,457	149,872	134,919	-	-
Prepays	-	-	-	-	-
Total assets	<u>\$ 354,608</u>	<u>\$ 196,492</u>	<u>\$ 316,757</u>	<u>\$ 791,519</u>	<u>\$ 110,297</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 24,754	\$ 31,006	\$ 1,175	\$ -	\$ -
Contracts payable	-	-	-	-	-
Due to other funds	29,443	72,071	-	-	-
Due to component units	-	-	307,579	-	-
Interfund loan payable	-	24,876	-	-	-
Due to other governments	-	32	-	50,000	-
Accrued salaries payable	232	2,576	-	-	-
Deferred revenue	-	192,428	8,003	118,723	-
Total liabilities	<u>54,429</u>	<u>322,989</u>	<u>316,757</u>	<u>168,723</u>	<u>-</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	-	-	-
Special accounts	-	20,664	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	300,179	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	(147,161)	-	622,796	110,297
Capital project funds	-	-	-	-	-
Total fund balances	<u>300,179</u>	<u>(126,497)</u>	<u>-</u>	<u>622,796</u>	<u>110,297</u>
Total liabilities and fund balances	<u>\$ 354,608</u>	<u>\$ 196,492</u>	<u>\$ 316,757</u>	<u>\$ 791,519</u>	<u>\$ 110,297</u>

(continued)

CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2004

Special Revenue Funds						
	Library Special Accounts	Capital Equipment	Economic Development	Energy Management	Tourism Tax	
ASSETS						
Cash and cash equivalents	\$ 1,131,623	\$ 1,153,682	\$ 20,995	\$ 348,614	\$ 1,755,730	
Assets held by trustee	-	-	-	-	-	
Receivables, net:						
Taxes	-	-	-	-	-	365,152
Accounts	-	-	26,162	-	-	
Loans	-	-	436,144	-	-	
Grants	-	-	-	8,250	-	
Deposits	-	-	-	-	-	
Due from other funds	-	77,255	-	-	-	
Due from other governments	-	-	-	-	-	
Prepays	-	-	-	-	-	
Total assets	<u>\$ 1,131,623</u>	<u>\$ 1,230,937</u>	<u>\$ 483,301</u>	<u>\$ 356,864</u>	<u>\$ 2,120,882</u>	
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 19,915	\$ 141,763	\$ -	\$ 62,596	\$ 10,634	
Contracts payable	-	-	-	-	-	
Due to other funds	-	-	-	-	-	372,143
Due to component units	-	-	-	-	-	51,420
Interfund loan payable	-	-	-	-	-	
Due to other governments	-	-	155,390	-	-	
Accrued salaries payable	-	-	-	1,375	-	
Deferred revenue	-	-	298,306	8,250	-	
Total liabilities	<u>19,915</u>	<u>141,763</u>	<u>453,696</u>	<u>72,221</u>	<u>434,197</u>	
Fund balances:						
Reserved for:						
Encumbrances	-	-	-	-	-	
Debt service	-	-	-	-	-	1,008,276
Special accounts	-	-	-	-	-	335,495
Unreserved:						
Designated for, reported in:						
Special revenue funds	1,111,708	-	-	-	-	
Debt service funds	-	-	-	-	-	
Capital project funds	-	-	-	-	-	
Undesignated, reported in:						
Special revenue funds	-	1,089,174	29,605	284,643	342,914	
Capital project funds	-	-	-	-	-	
Total fund balances	<u>1,111,708</u>	<u>1,089,174</u>	<u>29,605</u>	<u>284,643</u>	<u>1,686,685</u>	
Total liabilities and fund balances	<u>\$ 1,131,623</u>	<u>\$ 1,230,937</u>	<u>\$ 483,301</u>	<u>\$ 356,864</u>	<u>\$ 2,120,882</u>	

(continued)

CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2004

	Special Revenue Funds				Debt Service Fund
	Public Facility and Programs	DEDA Operating	DEDA NWA Maint. Facility	DEDA Loan Programs	General Obligation
ASSETS					
Cash and cash equivalents	\$ 57,494	\$ 905,940	\$ 809,194	\$ 4,573,266	\$ 5,429,069
Assets held by trustee	-	-	3,522,920	-	-
Receivables, net:					
Taxes	1,358	-	-	-	183,208
Accounts	-	3,667	17,703	-	29,217
Loans	-	7,747	-	2,899,741	-
Grants	-	-	-	-	1,380,000
Deposits	-	-	-	250,000	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	89,383
Prepays	-	-	-	-	-
Total assets	<u>\$ 58,852</u>	<u>\$ 917,354</u>	<u>\$ 4,349,817</u>	<u>\$ 7,723,007</u>	<u>\$ 7,110,877</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 409,936	\$ -	\$ -	\$ 1,050
Contracts payable	-	38,973	-	-	-
Due to other funds	-	11,034	-	-	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	-
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	-	7,747	1,846,920	-	1,501,300
Total liabilities	<u>-</u>	<u>467,690</u>	<u>1,846,920</u>	<u>-</u>	<u>1,502,350</u>
Fund balances:					
Reserved for:					
Encumbrances	-	53,296	-	-	-
Debt service	-	-	2,118,623	159,676	4,246,028
Special accounts	-	-	-	2,747,692	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	21,651	-	1,000,000	-
Debt service funds	-	-	-	-	1,362,499
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	58,852	374,717	384,274	3,815,639	-
Capital project funds	-	-	-	-	-
Total fund balances	<u>58,852</u>	<u>449,664</u>	<u>2,502,897</u>	<u>7,723,007</u>	<u>5,608,527</u>
Total liabilities and fund balances	<u>\$ 58,852</u>	<u>\$ 917,354</u>	<u>\$ 4,349,817</u>	<u>\$ 7,723,007</u>	<u>\$ 7,110,877</u>

(continued)

CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2004

	Debt Service Funds			Capital Project Funds	
	Transit Bond	St. Louis Bay Tax Increment	DEDA Debt Service	Special Assessment	Street Improvement Program
ASSETS					
Cash and cash equivalents	\$ 291,556	\$ -	\$ 3,093,405	\$ 129,477	\$ -
Assets held by trustee	-	3,485,478	-	-	-
Receivables, net:					
Taxes	10,097	-	297,644	-	-
Accounts	-	-	72,658	-	345,469
Loans	-	-	37,255	-	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	-	-	1,445,000	144,729
Due from other governments	-	-	-	240,682	-
Prepays	-	-	-	-	1,034
Total assets	<u>\$ 301,653</u>	<u>\$ 3,485,478</u>	<u>\$ 3,500,962</u>	<u>\$ 1,815,159</u>	<u>\$ 491,232</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 1,160
Contracts payable	-	-	-	244,972	488,621
Due to other funds	-	-	747,605	455,130	87,732
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	376,264
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	<u>6,832</u>	<u>-</u>	<u>300,900</u>	<u>359,170</u>	<u>-</u>
Total liabilities	<u>6,832</u>	<u>-</u>	<u>1,048,505</u>	<u>1,059,272</u>	<u>953,777</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	614,034	866,640
Debt service	<u>170,708</u>	<u>971,475</u>	<u>2,452,457</u>	<u>-</u>	<u>-</u>
Special accounts	-	-	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	<u>124,113</u>	<u>2,514,003</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	-	-	141,853	(1,329,185)
Capital project funds	-	-	-	-	-
Total fund balances	<u>294,821</u>	<u>3,485,478</u>	<u>2,452,457</u>	<u>755,887</u>	<u>(462,545)</u>
Total liabilities and fund balances	<u>\$ 301,653</u>	<u>\$ 3,485,478</u>	<u>\$ 3,500,962</u>	<u>\$ 1,815,159</u>	<u>\$ 491,232</u>

(continued)

CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2004

	Capital Project Funds			Total Nonmajor Governmental Funds
	Capital Improvements	Medical District Expansion	DEDA Capital Projects	
ASSETS				
Cash and cash equivalents	\$ 620,751	\$ 1,969,537	\$ 1,754,130	\$ 25,793,253
Assets held by trustee	-	-	-	7,008,398
Receivables, net:				
Taxes	-	-	-	866,635
Accounts	39,100	-	544	553,074
Loans	-	-	1,800,456	5,616,472
Grants	-	-	-	1,388,250
Deposits	-	-	-	250,000
Due from other funds	600,000	-	747,605	3,187,001
Due from other governments	7,932	-	-	1,680,978
Prepays	-	-	962,751	963,785
Total assets	<u>\$ 1,267,783</u>	<u>\$ 1,969,537</u>	<u>\$ 5,265,486</u>	<u>\$ 47,307,846</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 25,900	\$ 20,314	\$ 866,282
Contracts payable	41,717	-	13,389	1,393,135
Due to other funds	-	-	1,272	1,829,402
Due to component units	-	-	-	358,999
Interfund loan payable	-	-	-	639,503
Due to other governments	-	-	-	215,863
Accrued salaries payable	-	-	-	37,578
Deferred revenue	<u>507,932</u>	<u>-</u>	<u>1,724,180</u>	<u>7,173,183</u>
Total liabilities	<u>549,649</u>	<u>25,900</u>	<u>1,759,155</u>	<u>12,513,945</u>
Fund balances:				
Reserved for:				
Encumbrances	33,882	541,614	35,035	2,144,501
Debt service	-	-	-	11,127,243
Special accounts	-	-	1,034,199	4,604,903
Unreserved:				
Designated for, reported in:				
Special revenue funds	-	-	-	2,433,538
Debt service funds	-	-	-	4,000,615
Capital project funds	684,252	1,402,023	1,874,143	3,960,418
Undesignated, reported in:				
Special revenue funds	-	-	-	7,147,061
Capital project funds	-	-	562,954	(624,378)
Total fund balances	<u>718,134</u>	<u>1,943,637</u>	<u>3,506,331</u>	<u>34,793,901</u>
Total liabilities and fund balances	<u>\$ 1,267,783</u>	<u>\$ 1,969,537</u>	<u>\$ 5,265,486</u>	<u>\$ 47,307,846</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Funds				
	Home Investment Partnership Program	Community Development	Workforce Development	Senior Employment	Senior Nutrition
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	778,247	4,274,223	2,357,936	361,450	253,434
Investment income	-	63	-	-	-
Miscellaneous revenues	-	177,188	15,326	-	236,056
Total revenues	778,247	4,451,474	2,373,262	361,450	489,490
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	778,247	3,818,866	2,387,751	361,450	570,855
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	778,247	3,818,866	2,387,751	361,450	570,855
Excess (deficiency) of revenues over expenditures	-	632,608	(14,489)	-	(81,365)
OTHER FINANCING SOURCES (USES)					
Sale of bonds	-	-	-	-	-
Premium on sale of bonds	-	-	-	-	-
Transfers in	-	-	-	-	81,365
Transfers out	-	(484,704)	-	-	-
Total other financing sources (uses)	-	(484,704)	-	-	81,365
Net change in fund balance	-	147,904	(14,489)	-	-
Fund balance - January 1, 2004, as restated	-	3,869	510,880	-	-
Fund balance - December 31, 2004	\$ -	\$ 151,773	\$ 496,391	\$ -	\$ -

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Funds				
	Special Projects	Police Grant Programs	Transit Support	Police School Patrol	5th Ave West Mall
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ 7,208	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	174,253	201,783	-	-	-
Investment income	-	215	2,096	-	-
Miscellaneous revenues	259,507	30,115	-	-	-
Total revenues	433,760	232,113	9,304	-	-
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	157,555	143,120	-	-	-
Public works	-	-	-	-	-
Culture and recreation	261,951	-	-	-	-
Urban and economic development	21,000	-	542,082	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	440,506	143,120	542,082	-	-
Excess (deficiency) of revenues over expenditures	(6,746)	88,993	(532,778)	-	-
OTHER FINANCING SOURCES (USES)					
Sale of bonds	-	-	-	-	-
Premium on sale of bonds	-	-	-	-	-
Transfers in	30,895	-	-	-	-
Transfers out	(33,570)	(227,622)	-	(9,836)	(11,235)
Total other financing sources (uses)	(2,675)	(227,622)	-	(9,836)	(11,235)
Net change in fund balance	(9,421)	(138,629)	(532,778)	(9,836)	(11,235)
Fund balance - January 1, 2004, as restated	309,600	12,132	532,778	9,836	11,235
Fund balance - December 31, 2004	\$ 300,179	\$ (126,497)	\$ -	\$ -	\$ -

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Funds				
	Recovery Loan Program	Bayfront Festival Park	Library Special Accounts	Capital Equipment	Economic Development
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	21,765
Investment income	-	502	5,213	3,465	-
Miscellaneous revenues	45,339	18,587	66,245	19,134	13,727
Total revenues	45,339	19,089	71,458	22,599	35,492
EXPENDITURES					
Current:					
General government	-	-	-	126,996	-
Public safety	-	-	-	77,763	-
Public works	-	-	-	36,644	-
Culture and recreation	-	52	37,744	-	-
Urban and economic development	-	-	-	-	18,535
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	20,144	-
Capital outlay	-	-	29,632	693,250	-
Total expenditures	-	52	67,376	954,797	18,535
Excess (deficiency) of revenues over expenditures	45,339	19,037	4,082	(932,198)	16,957
OTHER FINANCING SOURCES (USES)					
Sale of bonds	-	-	-	1,355,000	-
Premium on sale of bonds	-	-	-	17,566	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	(17,566)	-
Total other financing sources (uses)	-	-	-	1,355,000	-
Net change in fund balance	45,339	19,037	4,082	422,802	16,957
Fund balance - January 1, 2004, as restated	577,457	91,260	1,107,626	666,372	12,648
Fund balance - December 31, 2004	\$ 622,796	\$ 110,297	\$ 1,111,708	\$ 1,089,174	\$ 29,605

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Funds				
	Energy Management	Tourism Tax	Public Facility and Programs	DEDA Operating	NWA Maint. Facility
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	4,941,611	-	-	-
Other taxes	-	-	27,211	-	-
Intergovernmental revenues	15,000	-	-	360,269	-
Investment income	-	39,110	181	3,990	4,237
Miscellaneous revenues	10,995	1,806	-	1,690,297	262,869
Total revenues	25,995	4,982,527	27,392	2,054,556	267,106
EXPENDITURES					
Current:					
General government	159,806	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	18,338	-	-
Urban and economic development	-	2,389,587	-	1,891,951	1,458,065
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	159,806	2,389,587	18,338	1,891,951	1,458,065
Excess (deficiency) of revenues over expenditures	(133,811)	2,592,940	9,054	162,605	(1,190,959)
OTHER FINANCING SOURCES (USES)					
Sale of bonds	-	-	-	-	-
Premium on sale of bonds	-	-	-	-	-
Transfers in	75,000	-	-	180,044	1,235,823
Transfers out	-	(2,399,423)	-	(909,650)	-
Total other financing sources (uses)	75,000	(2,399,423)	-	(729,606)	1,235,823
Net change in fund balance	(58,811)	193,517	9,054	(567,001)	44,864
Fund balance - January 1, 2004, as restated	343,454	1,493,168	49,798	1,016,665	2,458,033
Fund balance - December 31, 2004	\$ 284,643	\$ 1,686,685	\$ 58,852	\$ 449,664	\$ 2,502,897

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Fund	Debt Service Funds			
	DEDA Loan Programs	General Obligation	Transit Bond	St. Louis Bay Tax Increment	DEDA Debt Service
REVENUES					
Taxes:					
Property taxes	\$ -	\$ 3,332,496	\$ 174,048	\$ 1,253,658	\$ 5,288,307
Salestaxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	414,461	21,463	-	83,049
Investment income	73,252	44,195	-	28,804	31,013
Miscellaneous revenues	103,744	817,192	-	-	83,278
Total revenues	176,996	4,608,344	195,511	1,282,462	5,485,647
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	52,052	-	-	-	20,048
Debt service:					
Principal retirement	-	5,018,000	470,000	1,700,000	1,813,165
Interest and fiscal fees	-	1,705,381	42,843	126,903	736,966
Bond issuance costs	-	21,839	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	52,052	6,745,220	512,843	1,826,903	2,570,179
Excess (deficiency) of revenues over expenditures	124,944	(2,136,876)	(317,332)	(544,441)	2,915,468
OTHER FINANCING SOURCES (USES)					
Sale of bonds	-	-	-	-	-
Premium on sale of bonds	-	97,870	-	-	-
Transfers in	-	2,762,590	-	-	-
Transfers out	(122,283)	(434,836)	-	-	(2,250,143)
Total other financing sources (uses)	(122,283)	2,425,624	-	-	(2,250,143)
Net change in fund balance	2,661	288,748	(317,332)	(544,441)	665,325
Fund balance - January 1, 2004, as restated	7,720,346	5,319,779	612,153	4,029,919	1,787,132
Fund balance - December 31, 2004	\$ 7,723,007	\$ 5,608,527	\$ 294,821	\$ 3,485,478	\$ 2,452,457

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Capital Projects Funds				
	Special Assessment	Street Improvement Program	Capital Improvements	Aviation Incubator	Medical District Expansion
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	2,713,887	337,000	245,049	-	-
Investment income	7,411	261	-	2,459	27,376
Miscellaneous revenues	18,691	11,886	148,764	-	-
Total revenues	2,739,989	349,147	393,813	2,459	27,376
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	-	-	-	11,852
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	27,366	84,736	26,533	-	-
Capital outlay	4,360,731	5,367,446	647,343	865,677	554,161
Total expenditures	4,388,097	5,452,182	673,876	865,677	566,013
Excess (deficiency) of revenues over expenditures	(1,648,108)	(5,103,035)	(280,063)	(863,218)	(538,637)
OTHER FINANCING SOURCES (USES)					
Sale of bonds	945,000	4,785,000	800,000	-	-
Premium on sale of bonds	-	44,341	-	-	-
Transfers in	65,000	120,669	100,000	-	2,509,650
Transfers out	(10,581)	(44,239)	-	(2,459)	(27,376)
Total other financing sources (uses)	999,419	4,905,771	900,000	(2,459)	2,482,274
Net change in fund balance	(648,689)	(197,264)	619,937	(865,677)	1,943,637
Fund balance - January 1, 2004, as restated	1,404,576	(265,281)	98,197	865,677	-
Fund balance - December 31, 2004	\$ 755,887	\$ (462,545)	\$ 718,134	\$ -	\$ 1,943,637

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Capital Projects Fund	Total DEDA Capital Projects	Nonmajor Governmental Funds
REVENUES			
Taxes:			
Property taxes	\$ -	\$ 10,055,717	
Sales taxes	-	4,941,611	
Other taxes	-	27,211	
Intergovernmental revenues	-	12,613,269	
Investment income	41,042	314,885	
Miscellaneous revenues	<u>629,433</u>	<u>4,660,179</u>	
Total revenues	<u>670,475</u>	<u>32,612,872</u>	
EXPENDITURES			
Current:			
General government	-	286,802	
Public safety	-	378,438	
Public works	-	36,644	
Culture and recreation	-	318,085	
Urban and economic development	612,078	14,934,419	
Debt service:			
Principal retirement	-	9,001,165	
Interest and fiscal fees	-	2,612,093	
Bond issuance costs	-	180,618	
Capital outlay	<u>187,945</u>	<u>12,706,185</u>	
Total expenditures	<u>800,023</u>	<u>40,454,449</u>	
Excess (deficiency) of revenues over expenditures	<u>(129,548)</u>	<u>(7,841,577)</u>	
OTHER FINANCING SOURCES (USES)			
Sale of bonds	-	7,885,000	
Premium on sale of bonds	-	159,777	
Transfers in	783,290	7,944,326	
Transfers out	<u>(1,726,170)</u>	<u>(8,711,693)</u>	
Total other financing sources (uses)	<u>(942,880)</u>	<u>7,277,410</u>	
Net change in fund balance	<u>(1,072,428)</u>	<u>(564,167)</u>	
Fund balance - January 1, 2004, as restated	<u>4,578,759</u>	<u>35,358,068</u>	
Fund balance - December 31, 2004	<u>\$ 3,506,331</u>	<u>\$ 34,793,901</u>	

CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL
GENERAL FUND
Year Ended December 31, 2004

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
Taxes:				
General property -				
Current	\$ 5,736,600	\$ 5,736,600	\$ 5,078,580	\$ (658,020)
Delinquent	150,000	150,000	89,538	(60,462)
Mobile home	40,000	40,000	38,348	(1,652)
Forfeited tax sale apportionment	50,000	50,000	55,799	5,799
Franchise	1,708,000	1,758,000	1,736,545	(21,455)
Sales	10,650,000	10,650,000	10,537,343	(112,657)
Charitable gambling	100,000	100,000	104,611	4,611
Other	30,000	30,000	524	(29,476)
Total Taxes	18,464,600	18,514,600	17,641,288	(873,312)
Licenses and permits:				
Liquor and non-intoxicating liquor	361,800	361,800	308,272	(53,528)
Health	15,900	15,900	18,300	2,400
Police protective	27,800	27,800	28,236	436
Amusement	14,400	14,400	13,260	(1,140)
Manufacturing and merchandising	33,100	33,100	31,809	(1,291)
Other	303,500	303,500	281,076	(22,424)
Total Licenses and Permits	756,500	756,500	680,953	(75,547)
Intergovernmental revenues:				
Federal grants -				
Bulletproof Vest Partnership Program	0	9,297	9,297	0
Homeland Security Grant	0	53,296	53,296	0
FEMA Disaster Grant	0	0	29,443	29,443
State grants -				
Local governmental aid	26,674,000	26,674,000	26,674,033	33
Market value credit	0	0	645,254	645,254
PERA aid	125,000	125,000	124,428	(572)
Amortization aid	3,238,400	3,823,400	3,824,196	796
Insurance premium	1,600,000	1,815,000	1,850,313	35,313
Snowmobile trail	6,000	6,000	31,381	25,381
Post training reimbursement	58,000	58,000	48,702	(9,298)
MSA Maintenance allotment	1,115,800	1,115,800	1,144,008	28,208
Crime Victim EMR	0	3,000	3,000	0
Lake Superior Zoo	123,500	123,500	144,525	21,025
Seat Belt and Consumption Enforcement	20,000	47,000	17,316	(29,684)
HAZMAT Regional Response Team	0	65,759	61,916	(3,843)
Other local grants -				
Payments in lieu of taxes				
Housing and Redevelopment Authority	30,000	30,000	30,036	36
St. Louis County	129,100	129,100	129,431	331
HRA-Harborview drug elimination	66,000	66,000	0	(66,000)
North Country Library Co-op	0	0	1,051	1,051
Independent School District #709	151,000	151,000	151,000	0
Total Intergovernmental Revenues	33,336,800	34,295,152	34,972,626	677,474

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL
GENERAL FUND
Year Ended December 31, 2004

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
Charges for services:				
Departmental fees and services -				
Fire	\$ 5,800	\$ 5,800	\$ 0	\$ (5,800)
Police	65,000	65,000	58,168	(6,832)
Parks and recreation	395,000	395,000	435,833	40,833
Engineering services	550,000	550,000	440,492	(109,508)
Building inspection services	1,639,600	1,789,600	2,103,721	314,121
MIS services	1,600	1,600	3,362	1,762
Grant administration services	72,800	72,800	72,741	(59)
Hydrant maintenance services	31,000	31,000	31,000	0
Assessment fees	155,000	155,000	219,210	64,210
License fees	0	0	35	35
Parking meters	525,000	525,000	539,576	14,576
Municipal parking lots	155,000	155,000	138,520	(16,480)
Other services	5,100	5,100	16,181	11,081
Departmental sales -				
Copier and microfilm prints	36,200	36,200	32,582	(3,618)
Print and plan sales	12,400	12,400	20,638	8,238
Book sales	300	300	275	(25)
Miscellaneous sales and services	84,700	91,690	123,090	31,400
Share of general expenses -				
Duluth Airport Authority	41,100	41,100	43,400	2,300
Water and Gas	1,170,800	1,170,800	1,235,204	64,404
Sewer	417,800	417,800	440,804	23,004
Stormwater	174,100	174,100	183,696	9,596
Steam District #1	13,000	13,000	12,996	(4)
Duluth Entertainment & Convention Center	37,000	37,000	17,700	(19,300)
Duluth Transit Authority	16,100	16,100	17,000	900
Golf	41,600	41,600	43,904	2,304
Duluth Economic Development Authority	208,000	208,000	217,996	9,996
Fleet Services	57,200	57,200	60,304	3,104
Spirit Mountain Recreation Area Authority	55,800	55,800	40,700	(15,100)
Total Charges for Services	5,967,000	6,123,990	6,549,128	425,138
Fines and forfeits:				
Library fines	110,000	110,000	95,401	(14,599)
Parking fines	550,000	550,000	564,089	14,089
Court fines	430,000	430,000	380,668	(49,332)
License penalties	2,000	2,000	3,056	1,056
Felony forfeitures	0	39,842	39,870	28
Total Fines and Forfeits	1,092,000	1,131,842	1,083,084	(48,758)
Special Assessments:				
	135,500	135,500	125,213	(10,287)
Investment Income:				
	800,000	900,000	261,734	(638,266)

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL
GENERAL FUND
Year Ended December 31, 2004

	Original Budget	Modified Budget	Actual	Actual to Modified Budget
				Favorable (Unfavorable)
Miscellaneous revenues:				
Commission and concessions	\$ 7,000	\$ 7,000	\$ 10,134	\$ 3,134
Payments in lieu of taxes	16,000	16,000	16,086	86
Police auction proceeds	0	5,178	5,178	0
Rent and lease	130,700	130,700	106,316	(24,384)
Casino parking ramp	515,000	515,000	562,430	47,430
Tech Village parking ramp	400,000	400,000	395,931	(4,069)
Damage claims	5,500	13,600	11,686	(1,914)
Others share of improvements	0	10,000	10,000	0
Sale of equipment	275,000	275,000	292,973	17,973
Sale of land	30,000	30,000	40,640	10,640
Sale of scrap	1,500	1,500	4,446	2,946
Surcharge retainage	1,000	1,000	0	(1,000)
Refunds and reimbursements	865,600	872,613	725,657	(146,956)
Gifts and donations	0	14,245	21,757	7,512
Total Miscellaneous Revenues	2,247,300	2,291,836	2,203,234	(88,602)
Total Revenues	62,799,700	64,149,420	63,517,260	(632,160)
Other Financing Sources:				
Operating transfers in:				
Police Grant Programs	0		227,622	227,622
Community Investment	1,850,000	1,850,000	1,778,247	(71,753)
Tourism Tax	928,200	991,867	1,030,977	39,110
Special Projects	0	33,570	33,570	0
Community Development	0	0	4,667	4,667
Duluth Economic Development Authority	0	0	89,328	89,328
Medical District Expansion	0	0	27,376	27,376
General Obligation Debt Service	0	0	43,733	43,733
Street Improvement Debt Service	0	0	69,049	69,049
Group Health	0	0	54,222	54,222
Vacation Compensation	0	0	61,178	61,178
Gas	2,982,100	2,982,100	3,048,151	66,051
Water	0	0	57,180	57,180
Sewer	0	0	88,369	88,369
Stormwater	0	0	23,392	23,392
Steam District #1	80,000	80,000	74,015	(5,985)
Total Other Financing Sources	5,840,300	5,937,537	6,711,076	773,539
Total Revenues and Other Financing Sources	\$ 68,640,000	\$ 70,086,957	\$ 70,228,336	\$ 141,379
Reconciliation:				
Original budget as approved by Duluth City Council		\$ 68,640,000		
Adjustments made in accordance with budget ordinance provisions:				
Grants, gifts and donations		186,554		
Ordinance allowable		1,260,403		
Total adjustments		1,446,957		
Modified budget as reported above		\$ 70,086,957		

SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -

BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

GENERAL FUND

Year Ended December 31, 2004

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified	Note	Expended	Encumbered	Totals	
GENERAL GOVERNMENT:							
Legislative and Executive							
City Council							
Personal services - salaries	\$ 90,000	\$ 90,700		\$ 90,664	\$ 0	\$ 90,664	\$ 36
Personal services - benefits	11,900	11,900		11,588	0	11,588	312
Other expenditures	58,000	56,500		40,826	0	40,826	15,674
	<u>159,900</u>	<u>159,100</u>	1	<u>143,078</u>	<u>0</u>	<u>143,078</u>	<u>16,022</u>
Mayor							
Personal services - salaries	126,300	126,700		126,548	0	126,548	152
Personal services - benefits	28,800	28,800		28,568	0	28,568	242
Other expenditures	11,200	12,500		10,785	0	10,785	1,715
	<u>166,300</u>	<u>168,000</u>	1	<u>165,891</u>	<u>0</u>	<u>165,891</u>	<u>2,109</u>
Administrative Assistant							
Personal services - salaries	142,000	250,365		250,365	0	250,365	0
Personal services - benefits	32,000	55,000		54,749	0	54,749	251
Other expenditures	9,000	7,672		7,138	0	7,138	534
	<u>183,000</u>	<u>313,037</u>	1,4	<u>312,252</u>	<u>0</u>	<u>312,252</u>	<u>785</u>
City Attorney							
Personal services - salaries	1,032,500	1,012,700		990,467	0	990,467	22,233
Personal services - benefits	223,800	222,800		210,444	0	210,444	12,366
Other expenditures	27,000	33,500		33,194	0	33,194	306
Capital outlay	8,000	8,000		7,689	0	7,689	311
	<u>1,291,300</u>	<u>1,277,000</u>	1	<u>1,241,794</u>	<u>0</u>	<u>1,241,794</u>	<u>35,206</u>
Human Rights Office							
Personal services - salaries	97,500	102,200		102,110	0	102,110	90
Personal services - benefits	25,700	26,700		26,669	0	26,669	41
Other expenditures	20,000	20,000		12,667	0	12,667	7,333
	<u>143,200</u>	<u>148,900</u>	1	<u>141,436</u>	<u>0</u>	<u>141,436</u>	<u>7,464</u>
Total Legislative and Executive	<u>1,943,700</u>	<u>2,066,037</u>		<u>2,004,451</u>	<u>0</u>	<u>2,004,451</u>	<u>61,586</u>
Department of Administrative Services							
Human Resources							
Personal services - salaries	444,200	464,100		452,070	0	452,070	2,030
Personal services - benefits	114,700	114,700		113,807	0	113,807	893
Other expenditures	41,200	41,200		39,120	0	39,120	2,080
	<u>600,100</u>	<u>610,000</u>	1	<u>604,997</u>	<u>0</u>	<u>604,997</u>	<u>5,003</u>
Budget and Operations Analysis							
Personal services - salaries	174,300	176,500		176,470	0	176,470	30
Personal services - benefits	44,100	44,100		41,337	0	41,337	2,763
Other expenditures	4,000	4,000		3,436	0	3,436	564
	<u>222,400</u>	<u>224,600</u>	1	<u>221,243</u>	<u>0</u>	<u>221,243</u>	<u>3,357</u>
Clerk							
Personal services - salaries	378,900	409,900		400,430	0	400,430	9,470
Personal services - benefits	93,600	85,600		84,521	0	84,521	1,079
Other expenditures	54,200	29,200		26,865	0	26,865	2,335
	<u>526,700</u>	<u>524,700</u>	1	<u>511,816</u>	<u>0</u>	<u>511,816</u>	<u>12,884</u>

(continued)

SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 Year Ended December 31, 2004

	Budget			Actual			Favorable (Unfavorable)	
	Original	Modified	Note	Expended	Encumbered	Totals		
GENERAL GOVERNMENT: (continued)								
Department of Administrative Services (continued)								
Management Information Systems								
Personal services - salaries	\$ 868,000	\$ 858,000		\$ 844,887	\$ 0	\$ 844,887	\$ 13,113	
Personal services - benefits	224,500	224,500		209,431	0	209,431	15,069	
Other expenditures	<u>284,800</u>	<u>269,100</u>		<u>220,159</u>	<u>0</u>	<u>220,159</u>	<u>48,941</u>	
	<u>1,377,300</u>	<u>1,351,600</u>	1	<u>1,274,477</u>	<u>0</u>	<u>1,274,477</u>	<u>77,123</u>	
Facilities Management								
Personal services - salaries	1,203,200	1,236,318		1,234,727	0	1,234,727	1,591	
Personal services - benefits	359,700	359,700		339,333	0	339,333	20,367	
Other expenditures	<u>2,679,300</u>	<u>2,676,082</u>		<u>2,668,541</u>	<u>0</u>	<u>2,668,541</u>	<u>7,541</u>	
	<u>4,242,200</u>	<u>4,272,100</u>	1	<u>4,242,601</u>	<u>0</u>	<u>4,242,601</u>	<u>29,499</u>	
Architect								
Personal services - salaries	147,000	152,900		151,996	0	151,996	904	
Personal services - benefits	33,100	33,100		31,886	0	31,886	1,214	
Other expenditures	<u>6,300</u>	<u>6,300</u>		<u>4,901</u>	<u>0</u>	<u>4,901</u>	<u>1,399</u>	
	<u>186,400</u>	<u>192,300</u>	1	<u>188,783</u>	<u>0</u>	<u>188,783</u>	<u>3,517</u>	
Total Administrative Services	7,156,100	7,175,300		7,043,917	0	7,043,917	131,383	
Department Planning and Development								
Urban Development								
Personal services - salaries	499,300	480,663		430,662	0	430,662	1	
Personal services - benefits	127,700	104,600		104,350	0	104,350	250	
Other expenditures	<u>330,000</u>	<u>241,900</u>		<u>41,818</u>	<u>0</u>	<u>41,818</u>	<u>200,082</u>	
Total Planning and Development	957,000	777,163	1,4	576,830	0	576,830	200,333	
Department of Finance								
Assessor								
Personal services - salaries	569,100	593,100		587,571	0	587,571	5,529	
Personal services - benefits	140,100	146,700		146,964	0	146,964	736	
Other expenditures	<u>31,400</u>	<u>26,800</u>		<u>26,084</u>	<u>0</u>	<u>26,084</u>	<u>716</u>	
	<u>740,600</u>	<u>766,600</u>	1	<u>759,619</u>	<u>0</u>	<u>759,619</u>	<u>6,981</u>	
Auditor								
Personal services - salaries	996,300	1,004,013		1,004,012	0	1,004,012	1	
Personal services - benefits	256,700	251,700		250,262	0	250,262	1,438	
Other expenditures	<u>89,500</u>	<u>90,487</u>		<u>81,646</u>	<u>0</u>	<u>81,646</u>	<u>8,842</u>	
	<u>1,342,500</u>	<u>1,346,200</u>	1	<u>1,335,919</u>	<u>0</u>	<u>1,335,919</u>	<u>10,281</u>	

(continued)

SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 Year Ended December 31, 2004

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified	Note	Expended	Encumbered	Totals	
GENERAL GOVERNMENT: (continued)							
Department of Finance (continued)							
Purchasing							
Personal services - salaries	\$ 210,900	\$ 215,600		\$ 209,510	\$ 0	\$ 209,510	\$ 6,090
Personal services - benefits	55,200	55,200		54,469	0	54,469	731
Other expenditures	16,600	16,600		13,950	0	13,950	2,660
	<u>282,700</u>	<u>287,400</u>	1	<u>277,929</u>	<u>0</u>	<u>277,929</u>	<u>9,471</u>
Treasurer							
Personal services - salaries	260,800	269,600		267,394	0	267,394	2,206
Personal services - benefits	70,200	70,200		65,649	0	65,649	4,551
Other expenditures	9,100	9,100		8,798	0	8,798	302
	<u>340,100</u>	<u>348,900</u>	1	<u>341,841</u>	<u>0</u>	<u>341,841</u>	<u>7,069</u>
Total Finance	<u>2,705,900</u>	<u>2,749,100</u>		<u>2,715,308</u>	<u>0</u>	<u>2,715,308</u>	<u>33,792</u>
TOTAL GENERAL GOVERNMENT	<u>12,761,700</u>	<u>12,767,600</u>		<u>12,340,506</u>	<u>0</u>	<u>12,340,506</u>	<u>427,094</u>
PUBLIC SAFETY:							
Fire Department							
Fire Administration							
Personal services - salaries	259,000	272,500		271,827	0	271,827	673
Personal services - benefits	100,500	100,500		97,916	0	97,916	2,584
Other expenditures	39,900	39,900		30,941	0	30,941	8,969
	<u>399,400</u>	<u>412,900</u>	1,4	<u>400,684</u>	<u>0</u>	<u>400,684</u>	<u>12,216</u>
Firefighting Operations							
Personal services - salaries	7,368,000	7,705,793		7,712,386	0	7,712,386	(6,593)
Personal services - benefits	4,461,300	4,499,163		4,497,587	0	4,497,587	1,576
Other expenditures	319,000	355,100		363,773	0	363,773	1,327
	<u>12,149,300</u>	<u>12,560,056</u>	1,4	<u>12,563,746</u>	<u>0</u>	<u>12,563,746</u>	<u>(3,690)</u>
Fire Prevention							
Personal services - salaries	278,100	291,900		279,711	0	279,711	12,189
Personal services - benefits	139,900	148,500		144,121	0	144,121	4,379
Other expenditures	49,100	41,152		31,269	0	31,269	9,883
	<u>467,100</u>	<u>481,562</u>	1,2	<u>466,101</u>	<u>0</u>	<u>466,101</u>	<u>26,451</u>
Building Inspection							
Personal services - salaries	1,214,000	1,186,100		1,161,531	0	1,161,531	24,569
Personal services - benefits	331,900	305,600		304,814	0	304,814	786
Other expenditures	136,300	136,300		109,560	0	109,560	26,760
	<u>1,682,200</u>	<u>1,628,000</u>	1	<u>1,575,895</u>	<u>0</u>	<u>1,575,895</u>	<u>52,105</u>
HAZMAT							
Other expenditures	<u>0</u>	<u>20,956</u>	1,2,4	<u>9,714</u>	<u>0</u>	<u>9,714</u>	<u>11,242</u>
Total Fire	<u>14,697,000</u>	<u>15,103,464</u>		<u>15,005,140</u>	<u>0</u>	<u>15,005,140</u>	<u>98,324</u>

(continued)

SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 Year Ended December 31, 2004

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified	Note	Expended	Encumbered	Totals	
PUBLIC SAFETY: (continued)							
Police Department							
Administration							
Personal services - salaries	\$ 3,177,600	\$ 3,177,600		\$ 3,162,178	\$ 0	\$ 3,162,178	\$ 15,422
Personal services - benefits	927,800	903,000		902,576	0	902,576	424
Other expenditures	738,700	883,700		882,715	0	882,715	985
Capital outlay	0	0		0	0	0	0
	<u>4,844,100</u>	<u>4,964,300</u>	1,4	<u>4,947,469</u>	<u>0</u>	<u>4,947,469</u>	<u>16,831</u>
Operations Division							
Personal services - salaries	6,423,000	6,497,563		6,519,709	0	6,519,709	(22,146)
Personal services - benefits	2,017,400	2,045,400		2,056,103	0	2,056,103	(9,703)
Other expenditures	72,000	81,297		79,498	0	79,498	1,799
Capital outlay	0	0		0	0	0	0
	<u>8,512,400</u>	<u>8,624,260</u>	1,3,4	<u>8,654,310</u>	<u>0</u>	<u>8,654,310</u>	<u>(30,050)</u>
Special Accounts							
Other expenditures	0	133,116	2,3,4	81,567	0	81,567	51,549
Total Police	<u>13,356,500</u>	<u>13,721,676</u>		<u>13,683,346</u>	<u>0</u>	<u>13,683,346</u>	<u>38,330</u>
TOTAL PUBLIC SAFETY	<u>28,063,500</u>	<u>28,825,140</u>		<u>28,888,486</u>	<u>0</u>	<u>28,888,486</u>	<u>136,664</u>
PUBLIC WORKS:							
Public Works and Utilities Department							
Director's Office							
Personal services - salaries	42,900	45,063		45,063	0	45,063	0
Personal services - benefits	9,800	9,800		9,651	0	9,651	149
Other expenditures	3,500	3,037		358	0	358	2,679
	<u>56,200</u>	<u>57,900</u>	1	<u>55,072</u>	<u>0</u>	<u>55,072</u>	<u>2,828</u>
Maintenance Division							
Personal services - salaries	2,898,900	3,078,496		3,041,091	0	3,041,091	37,405
Personal services - benefits	781,800	783,300		782,998	0	782,998	302
Other expenditures	2,998,700	3,116,306		3,027,586	0	3,027,586	88,720
Capital outlay	0	42,994		42,973		42,973	21
	<u>6,679,400</u>	<u>7,021,096</u>	1,4	<u>6,894,648</u>	<u>0</u>	<u>6,894,648</u>	<u>126,448</u>
Bridge Division							
Personal services - salaries	474,700	498,472		498,472	0	498,472	0
Personal services - benefits	127,000	133,174		133,174	0	133,174	0
Other expenditures	49,300	59,300		56,533	0	56,533	2,767
	<u>651,000</u>	<u>690,946</u>	1	<u>688,179</u>	<u>0</u>	<u>688,179</u>	<u>2,767</u>

(continued)

SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 Year Ended December 31, 2004

	Budget			Actual			Favorable (Unfavorable)	
	Original	Modified	Note	Expended	Encumbered	Totals		
PUBLIC WORKS: (continued)								
Public Works and Utilities Department (continued)								
Engineering								
Personal services - salaries	\$ 1,195,400	\$ 1,193,867		\$ 1,193,866	\$ 0	\$ 1,193,866	\$ 1	
Personal services - benefits	296,300	293,591		293,590	0	293,590	1	
Other expenditures	169,400	217,513		193,106	22,472	215,578	1,935	
	<u>1,661,100</u>	<u>1,704,971</u>	1,4	<u>1,680,562</u>	<u>22,472</u>	<u>1,703,034</u>	<u>1,937</u>	
TOTAL PUBLIC WORKS	<u>9,047,700</u>	<u>9,474,913</u>		<u>9,318,461</u>	<u>22,472</u>	<u>9,340,933</u>	<u>133,980</u>	
CULTURE AND RECREATION:								
Library Department								
Library Services								
Personal services - salaries	2,460,400	2,488,400		2,483,859	0	2,483,859	4,541	
Personal services - benefits	721,500	692,500		687,654	0	687,654	4,846	
Other expenditures	132,700	132,700		116,576	0	116,576	16,124	
Capital outlay	285,100	285,100		285,100	0	285,100	0	
	<u>3,599,700</u>	<u>3,598,700</u>	1	<u>3,573,189</u>	<u>0</u>	<u>3,573,189</u>	<u>25,511</u>	
Buildings and Equipment								
Personal services - salaries	143,000	160,702		160,702	0	160,702	0	
Personal services - benefits	46,400	47,400		47,165	0	47,165	235	
Other expenditures	23,100	29,498		27,948	0	27,948	1,560	
	<u>212,500</u>	<u>227,600</u>	1	<u>225,815</u>	<u>0</u>	<u>225,815</u>	<u>1,785</u>	
Total Library	<u>3,812,200</u>	<u>3,826,300</u>		<u>3,799,004</u>	<u>0</u>	<u>3,799,004</u>	<u>27,296</u>	

(continued)

SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
 BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 Year Ended December 31, 2004

	Budget			Actual			Favorable (Unfavorable)	
	Original	Modified	Note	Expended	Encumbered	Totals		
CULTURE AND RECREATION: (continued)								
Parks and Recreation Department								
Recreation and Senior Services								
Personal services - salaries	\$ 1,092,900	\$ 1,098,315		\$ 1,088,841	\$ 0	\$ 1,088,841	\$ 9,474	
Personal services - benefits	277,600	257,600		247,049	0	247,049	10,561	
Other expenditures	209,700	169,700		155,839	0	155,839	13,861	
	<u>1,580,200</u>	<u>1,525,615</u>	1,3,4	<u>1,491,729</u>	<u>0</u>	<u>1,491,729</u>	<u>33,886</u>	
Zoo								
Personal services - salaries	594,900	650,900		628,049	0	628,049	22,851	
Personal services - benefits	154,300	157,600		156,145	0	156,145	1,356	
Other expenditures	262,700	337,700		330,689	0	330,689	7,011	
	<u>1,011,900</u>	<u>1,146,100</u>	1,4	<u>1,114,883</u>	<u>0</u>	<u>1,114,883</u>	<u>31,217</u>	
Total Parks and Recreation	<u>2,592,100</u>	<u>2,671,715</u>		<u>2,606,612</u>	<u>0</u>	<u>2,606,612</u>	<u>65,103</u>	
TOTAL CULTURE AND RECREATION	<u>6,404,300</u>	<u>6,498,015</u>		<u>6,405,616</u>	<u>0</u>	<u>6,405,616</u>	<u>92,399</u>	
TRANSFERS:								
Capital improvements/lease purchase	260,900	269,703	1,4	269,703	0	269,703	0	
Capital maintenance/equipment	800,000	1,338,034	2,3	789,824	2,346	792,169	545,865	
Civil Defense	12,000	12,000		5,474	0	5,474	6,526	
Auditing services	98,600	98,600		76,070	0	76,070	22,530	
Other functions	913,500	923,718	1,2,3	844,466	0	844,466	79,262	
Parking improvement debt	31,800	31,800		31,794	0	31,794	6	
Flexible benefits	13,000	11,800	1	10,473	0	10,473	1,327	
Airbus Construction	875,000	875,000		875,000	0	875,000	0	
Energy Program	153,900	153,902	1	153,901	0	153,901	1	
Federal Programs	80,000	81,400	1	81,365	0	81,365	35	
Street improvement debt	2,859,100	2,859,100		2,859,100	0	2,859,100	0	
Self Insurance	1,100,000	1,500,000	4	1,500,000	0	1,500,000	0	
Unemployment insurance	25,000	26,200	1	25,619	0	25,619	581	
Retiree insurance	5,050,000	4,950,000	1	4,942,858	0	4,942,858	7,142	
Transfers and accruals	100,000	0	1	0	0	0	0	
TOTAL TRANSFERS	<u>12,372,800</u>	<u>13,131,257</u>		<u>12,466,637</u>	<u>2,346</u>	<u>12,467,982</u>	<u>663,275</u>	
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>\$ 68,640,000</u>	<u>\$ 70,696,925</u>		<u>\$ 69,218,706</u>	<u>\$ 24,817</u>	<u>\$ 69,243,523</u>	<u>\$ 1,453,402</u>	
RECONCILIATION:								
Original budget as approved by Duluth City Council				\$ 68,640,000				
Adjustments made in accordance with Budget Ordinance								
Note 1		0						
Note 2		671,884						
Note 3		124,638						
Note 4		1,260,403						
Total adjustments		<u>2,056,925</u>						
Modified budget as reported above				<u>\$ 70,696,925</u>				

Departmental transfers made in accordance with budget ordinance
 Encumbrance, contract, reserve or designation carryovers from prior year
 Grants, gifts and donations in accordance with budget ordinance
 Other allowable additions made in accordance with budget ordinance

CITY OF DULUTH, MINNESOTA
 SCHEDULE OF EXPENDITURES/TRANSFERS OUT
 GENERAL FUND
 Year Ended December 31, 2004

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
GENERAL GOVERNMENT:						
Legislative and Executive						
City Council	\$ 90,664	\$ 11,588	\$ 40,826	\$ 0	\$ 0	\$ 143,078
Mayor	126,548	28,558	10,785	0	0	165,891
Administrative Assistant	250,385	54,749	7,138	0	0	312,252
City Attorney	990,467	210,444	33,194	7,689	0	1,241,794
Human Rights	102,110	26,639	12,667	0	0	141,436
Total Legislative and Executive	<u>1,560,154</u>	<u>331,998</u>	<u>104,610</u>	<u>7,689</u>	<u>0</u>	<u>2,004,451</u>
Department of Administrative Services						
Human Resources	452,070	113,807	39,120	0	0	604,997
Budget and Operations Analysis	176,470	41,337	3,436	0	0	221,243
Clerk	400,480	84,521	26,866	0	0	511,816
Management Information Systems	844,887	209,481	220,159	220,830	0	1,495,307
Other Functions	0	0	2,336,433	0	9,824	2,346,257
Facilities Management	1,234,727	388,333	2,411,327	168,653	257,214	4,411,254
Architect	151,996	31,896	4,901	0	0	188,783
Total Administrative Services	<u>3,260,580</u>	<u>820,315</u>	<u>5,042,241</u>	<u>389,483</u>	<u>267,038</u>	<u>9,779,657</u>
Department of Planning and Development						
Urban Development	<u>430,662</u>	<u>104,350</u>	<u>41,818</u>	<u>0</u>	<u>0</u>	<u>576,830</u>
Department of Finance						
Assessor	587,571	146,964	26,084	0	0	759,619
Auditor	1,004,012	250,262	157,715	0	0	1,411,999
Purchasing	209,510	54,489	13,960	0	0	277,929
Treasurer	267,394	66,649	8,798	0	0	341,841
Total Finance	<u>2,068,487</u>	<u>516,344</u>	<u>206,547</u>	<u>0</u>	<u>0</u>	<u>2,791,378</u>
Benefits						
Flexible benefits	0	10,473	0	0	0	10,473
Unemployment insurance	0	25,619	0	0	0	25,619
Retiree insurance	0	4,942,858	0	0	0	4,942,858
Total Benefits	<u>0</u>	<u>4,978,950</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,978,950</u>
TOTAL GENERAL GOVERNMENT	<u>7,319,883</u>	<u>6,751,957</u>	<u>5,395,216</u>	<u>397,172</u>	<u>267,038</u>	<u>20,131,266</u>
PUBLIC SAFETY:						
Fire Department						
Fire Administration	271,827	97,916	30,941	10,560	0	411,234
Firefighting Operations	7,712,386	4,497,587	353,773	0	0	12,563,746
Fire Prevention	279,711	144,121	31,269	0	0	455,101
Building Inspection	1,161,531	304,814	109,560	0	0	1,575,895
HAZMAT	0	0	9,714	0	0	9,714
Total Fire	<u>9,425,465</u>	<u>5,044,438</u>	<u>535,247</u>	<u>10,560</u>	<u>0</u>	<u>15,015,890</u>

(continued)

CITY OF DULUTH, MINNESOTA
 SCHEDULE OF EXPENDITURES/TRANSFERS OUT
 GENERAL FUND
 Year Ended December 31, 2004

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
PUBLIC SAFETY: (continued)						
Police Department						
Administration	\$ 3,162,178	\$ 902,576	\$ 882,715	\$ 0	\$ 0	\$ 4,947,469
Operations Division	6,519,709	2,055,103	79,498	0	0	8,654,310
Special Accounts	0	0	0	81,567	0	81,567
Total Police	9,681,887	2,957,679	962,213	81,567	0	13,683,346
Civil Defense	0	0	5,474	0	0	5,474
TOTAL PUBLIC SAFETY	19,107,342	8,002,117	1,502,934	92,117	0	28,704,510
PUBLIC WORKS:						
Public Works Department						
Director's Office	46,063	9,661	368	0	0	56,072
Maintenance Division	3,041,091	782,988	3,027,586	53,735	0	6,905,410
Bridge Division	498,472	133,174	56,533	0	0	688,179
Engineering	1,193,866	293,590	193,106	57,413	0	1,737,975
TOTAL PUBLIC WORKS	4,778,492	1,219,413	3,277,583	111,148	0	9,386,836
CULTURE AND RECREATION:						
Library Department						
Library Services	2,483,859	687,654	116,576	377,269	0	3,666,388
Buildings and Equipment	150,702	47,165	27,948	0	0	225,815
Grants	0	0	0	0	0	0
Total Library Department	2,634,561	734,819	144,524	377,269	0	3,891,173
Parks and Recreation Department						
Recreation and Senior Services	1,088,841	247,049	155,839	129,447	0	1,621,176
Zoo	628,049	156,146	330,689	0	0	1,114,883
Total Parks and Recreation	1,716,890	403,194	486,528	129,447	0	2,736,059
TOTAL CULTURE AND RECREATION	4,351,451	1,138,013	631,052	506,716	0	6,627,232

(continued)

CITY OF DULUTH, MINNESOTA
 SCHEDULE OF EXPENDITURES/TRANSFERS OUT
 GENERAL FUND
 Year Ended December 31, 2004

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
TRANSFERS:						
DEDAN Northwest Maintenance Facility	\$ 0	\$ 0	\$ 0	\$ 0	\$ 875,000	\$ 875,000
Senior Nutrition	0	0	0	0	81,365	81,365
Street Improvement Program Debt Service	0	0	0	0	2,859,100	2,859,100
General Obligation	0	0	0	0	31,794	31,794
Capital Improvements	0	0	0	0	100,000	100,000
TOTAL TRANSFERS	0	0	0	0	3,947,259	3,947,259
DEBT SERVICE:						
Capital lease obligation - principal	0	0	0	271,253	0	271,253
Capital lease obligation - interest	0	0	0	150,560	0	150,560
TOTAL DEBT SERVICE	0	0	0	421,803	0	421,803
TOTAL EXPENDITURES	\$ 35,667,168	\$ 17,111,500	\$ 10,806,785	\$ 1,528,966	\$ 4,214,297	\$ 69,218,706

Proprietary Funds

NON-MAJOR PROPRIETARY FUNDS

ENTERPRISE FUNDS

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

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

Steam District #1 - to account for the generation and distribution of steam.

Steam District #2 - to account for the operations of the Hibbard Steam Plant.

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

INTERNAL SERVICE FUNDS

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

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

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

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

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

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2004

	Stormwater	Steam District #1	Steam District #2	Golf	Total Nonmajor Enterprise Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,941,279	\$ 320,667	\$ 150,000	\$ -	\$ 2,411,946
Restricted cash and cash equivalents:					
Construction	-	78,338	-	-	78,338
Restricted assets held by trustee	-	-	-	110,103	110,103
Receivables, net:					
Accounts	-	513,611	581,613	3,773	1,098,997
Restricted loans					
Assessments	442	-	-	-	442
Due from other funds	4,755	-	-	-	4,755
Due from other governments	33,385	-	-	-	33,385
Inventories	-	165,440	-	-	165,440
Prepays	-	24,390	55,285	-	79,675
Total current assets	1,979,861	1,102,446	786,898	113,876	3,983,081
Capital assets, net	7,312,255	4,448,125	11,281,555	2,364,943	25,406,878
Noncurrent assets:					
Due from other governments	-	25,000	-	-	25,000
Issuance costs	-	-	-	46,320	46,320
Planning and development costs	105,000	-	-	-	105,000
Total other assets	105,000	25,000	-	46,320	176,320
Total noncurrent assets	7,417,255	4,473,125	11,281,555	2,411,263	25,583,198
Total assets	9,397,116	5,575,571	12,068,453	2,525,139	29,566,279
LIABILITIES					
Current liabilities:					
Accounts payable	11,098	151,013	606,777	6,806	775,694
Contracts payable	34,292	196,859	-	-	231,151
Notes payable	-	13,448	-	-	13,448
Leases payable	-	-	-	42,944	42,944
Due to other funds	379,700	9,091	-	2,300	391,091
Interfund loan payable	-	-	-	307,474	307,474
Due to other governments	44	15,103	-	-	15,147
Accrued interest payable	21,047	50,483	-	4,403	75,933
Accrued salaries payable	24,331	-	-	4,693	29,024
Unearned revenue	105,389	-	-	3,773	109,162
Revenue bonds payable	75,000	135,000	-	120,000	330,000
Total current liabilities	650,901	570,997	606,777	492,393	2,321,068
Noncurrent liabilities:					
Notes payable	-	33,671	-	-	33,671
Compensated absences	98,213	-	-	33,985	132,198
Leases payable	-	-	-	36,744	36,744
Revenue bonds payable	1,276,000	2,820,000	-	920,000	5,016,000
Less unamortized bond discount	(14,556)	(61,958)	-	(85,118)	(161,632)
Total noncurrent liabilities	1,359,657	2,791,713	-	905,611	5,056,981
Total liabilities	2,010,558	3,362,710	606,777	1,398,004	7,378,049
NET ASSETS					
Invested in capital assets, net of related debt	5,589,750	1,507,964	11,281,555	1,376,693	19,755,962
Restricted for capital projects	-	-	150,000	107,470	257,470
Unrestricted	1,796,808	704,897	30,121	(357,028)	2,174,798
Total net assets	\$ 7,386,558	\$ 2,212,861	\$ 11,461,676	\$ 1,127,135	\$ 22,188,230

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Stormwater</u>	<u>Steam Dist #1</u>	<u>Steam Dist. #2</u>	<u>Golf</u>	Total Nonmajor Enterprise Funds
OPERATING REVENUES					
Charges for services	\$ 2,853,984	\$ 3,925,369	\$ 6,383,327	\$ 1,369,145	\$ 14,531,825
Miscellaneous revenues	<u>10,884</u>	<u>91,017</u>	<u>-</u>	<u>362,986</u>	<u>464,887</u>
Total operating revenues	<u>2,864,868</u>	<u>4,016,386</u>	<u>6,383,327</u>	<u>1,732,131</u>	<u>14,996,712</u>
OPERATING EXPENSES					
Personal services	1,512,147	-	-	483,369	1,995,516
Supplies	118,707	1,627,806	1,038,642	90,286	2,875,441
Utilities	14,449	229,090	990,484	58,920	1,292,943
Other services and charges	575,411	1,516,241	4,349,413	808,827	7,249,892
Depreciation	<u>239,146</u>	<u>372,570</u>	<u>2,299,223</u>	<u>201,913</u>	<u>3,112,852</u>
Total operating expenses	<u>2,459,860</u>	<u>3,745,707</u>	<u>8,677,762</u>	<u>1,643,315</u>	<u>16,526,644</u>
Operating income	<u>405,008</u>	<u>270,679</u>	<u>(2,294,435)</u>	<u>88,816</u>	<u>(1,529,932)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	39,796	5,326	1,150	3,522	49,794
Gain (Loss) on sale or disposition of capital assets	(119)	-	(30,314)	-	(30,433)
Interest expense	(51,779)	(148,023)	-	(91,401)	(291,203)
Intergovernmental revenue	59,302	-	-	-	59,302
Other expense	-	-	-	(28,198)	(28,198)
Total non-operating revenue (expenses)	<u>47,200</u>	<u>(142,697)</u>	<u>(29,164)</u>	<u>(116,077)</u>	<u>(240,738)</u>
Income before contributions and transfers	452,208	127,982	(2,323,599)	(27,261)	(1,770,670)
Capital contributions	-	-	565,362	-	565,362
Transfers out	<u>(23,392)</u>	<u>(74,015)</u>	<u>-</u>	<u>-</u>	<u>(97,407)</u>
Change in net assets	428,816	53,967	(1,758,237)	(27,261)	(1,302,715)
Total net assets - January 1, 2004	<u>6,957,742</u>	<u>2,158,894</u>	<u>13,219,913</u>	<u>1,154,396</u>	<u>23,490,945</u>
Total net assets - December 31, 2004	<u>\$ 7,386,558</u>	<u>\$ 2,212,861</u>	<u>\$ 11,461,676</u>	<u>\$ 1,127,135</u>	<u>\$ 22,188,230</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Stormwater	Steam District #1	Steam District #2	Golf	Total Non-major Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,923,262	\$ 3,966,224	\$ 6,427,412	\$ 1,389,146	\$ 14,886,043
Cash paid to suppliers	(694,383)	(3,291,563)	(6,428,562)	(957,226)	(11,371,724)
Cash paid to employees	(1,542,368)	-	-	(480,050)	(2,022,418)
Other operating revenues	3,718	6,333	-	362,986	373,037
Net cash provided (used) by operating activities	<u>690,229</u>	<u>681,004</u>	<u>(1,150)</u>	<u>294,855</u>	<u>1,664,938</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	-	-	147,616	147,616
Transfers to other funds	(48,297)	(74,015)	-	-	(117,312)
Operating grants	68,764	-	-	-	68,764
Interfund financing	-	-	-	14,598	14,598
Net cash provided (used) by noncapital financing activities	<u>25,467</u>	<u>(74,015)</u>	<u>-</u>	<u>162,214</u>	<u>113,666</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants and contributions	-	-	565,362	-	565,362
Interest received on capital	-	-	1,150	-	1,150
Principal paid on bonds, notes and capitalized leases	(74,000)	(102,877)	-	(40,972)	(217,849)
Interest paid on bonds, notes and capitalized leases	(51,437)	(109,269)	-	(6,497)	(167,203)
Transfer to trustee debt service account	-	-	-	(521,956)	(521,956)
Acquisition or construction of capital assets	(885,767)	(1,748,564)	(565,362)	(10,644)	(3,205,327)
Net cash provided (used) by capital and related financing activities	<u>(1,011,204)</u>	<u>(1,955,700)</u>	<u>1,150</u>	<u>(580,069)</u>	<u>(3,545,823)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment interest	<u>39,796</u>	<u>5,326</u>	<u>-</u>	<u>-</u>	<u>45,122</u>
Net increase (decrease) in cash and cash equivalents	<u>(256,712)</u>	<u>(1,348,386)</u>	<u>-</u>	<u>(123,000)</u>	<u>(1,722,097)</u>
Cash and cash equivalents - January 1, 2004	<u>2,196,991</u>	<u>1,742,390</u>	<u>160,000</u>	<u>123,000</u>	<u>4,212,381</u>
Cash and cash equivalents - December 31, 2004	<u>\$ 1,941,279</u>	<u>\$ 399,005</u>	<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ 2,490,284</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	<u>\$ 405,008</u>	<u>\$ 270,679</u>	<u>\$ (2,294,435)</u>	<u>\$ 88,816</u>	<u>\$ (1,529,932)</u>
Adjustments to reconcile net operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	239,146	372,570	2,289,223	201,913	3,112,852
Change in assets and liabilities:					
Decrease (increase) in receivables	(3,316)	(41,428)	44,085	(3,773)	(4,432)
Decrease (increase) in inventory	-	(12,471)	-	-	(12,471)
Decrease (increase) in prepaid items	-	(3,361)	-	-	(3,361)
Increase (decrease) in payables	(13,025)	95,015	(50,023)	4,126	36,093
Increase (decrease) in deferred revenues	62,416	-	-	3,773	66,189
Total adjustments	<u>285,221</u>	<u>410,325</u>	<u>2,289,285</u>	<u>206,039</u>	<u>3,194,870</u>
Net cash provided (used) by operating activities	<u>\$ 690,229</u>	<u>\$ 681,004</u>	<u>\$ (1,150)</u>	<u>\$ 294,855</u>	<u>\$ 1,664,938</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES					
Golf					
The trustee debt service account paid \$275,000 and \$89,893 for principal and interest payments, respectively, and earned \$2,933 in interest. There was a refunding bond issued in 2004 that resulted in an additional principal payment of \$1,215,000 on the old bond. Proceeds from the new issue were \$1,020,978 and issue costs were \$29,127.					

CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF NET ASSETS
 GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
 DECEMBER 31, 2004

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 250,872	\$ 6,308,307	\$ -	\$ 3,150,554	\$ 9,709,733
Receivables, net:					
Accounts	881,314	5,697	-	-	887,011
Due from other funds	179,587	-	281,954	92,255	553,796
Due from other governments	13,445	-	-	-	13,445
Inventories	-	-	162,164	-	162,164
Total current assets	<u>1,325,218</u>	<u>6,314,004</u>	<u>444,118</u>	<u>3,242,809</u>	<u>11,326,149</u>
Capital assets, net	-	-	512,404	-	512,404
Total assets	<u>1,325,218</u>	<u>6,314,004</u>	<u>956,522</u>	<u>3,242,809</u>	<u>11,838,553</u>
LIABILITIES					
Current liabilities:					
Accounts payable	50,165	-	157,026	-	207,191
Contracts payable	18,762	-	-	-	18,762
Claims payable	354,454	1,122,806	-	-	1,477,260
Leases payable	-	-	33,133	-	33,133
Due to other funds	642,902	88,087	3,100	10,692	744,781
Interfund loan payable	-	-	46,952	-	46,952
Accrued interest payable	32,607	-	2,445	-	35,052
Accrued salaries payable	913	-	19,443	-	20,356
Compensated absences	-	-	1,341	150,027	151,368
Unearned revenue	27,729	-	-	-	27,729
Total current liabilities	<u>1,127,532</u>	<u>1,210,893</u>	<u>263,440</u>	<u>160,719</u>	<u>2,762,584</u>
Noncurrent liabilities:					
Claims payable	1,127,656	-	-	-	1,127,656
Compensated absences	-	-	136,939	3,082,090	3,219,029
Leases payable	-	-	260,268	-	260,268
Total noncurrent liabilities	<u>1,127,656</u>	<u>-</u>	<u>397,207</u>	<u>3,082,090</u>	<u>4,606,953</u>
Total liabilities	<u>2,255,188</u>	<u>1,210,893</u>	<u>660,647</u>	<u>3,242,809</u>	<u>7,369,537</u>
NET ASSETS					
Invested in capital assets, net of related debt	-	-	219,003	-	219,003
Unrestricted	<u>(929,970)</u>	<u>5,103,111</u>	<u>76,872</u>	<u>-</u>	<u>4,250,013</u>
Total net assets	<u>\$ (929,970)</u>	<u>\$ 5,103,111</u>	<u>\$ 295,875</u>	<u>\$ -</u>	<u>\$ 4,469,016</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
OPERATING REVENUES					
Sales	\$ -	\$ -	\$ 637,405	\$ -	\$ 637,405
Charges for services	2,136,696	14,703,363	2,308,911	2,908,330	22,057,300
Miscellaneous revenues	858,194	324,659	7,158	-	1,190,011
Total operating revenues	<u>2,994,890</u>	<u>15,028,022</u>	<u>2,953,474</u>	<u>2,908,330</u>	<u>23,884,716</u>
OPERATING EXPENSES					
Cost of sales and services	-	-	592,250	-	592,250
Personal services	57,590	-	1,278,444	2,908,330	4,244,364
Supplies	1,936	-	694,549	-	696,485
Other services and charges	654,574	1,358,268	317,119	-	2,329,961
Depreciation	-	-	31,198	-	31,198
Medical and insurance claims	2,434,333	12,040,238	-	-	14,474,571
Total operating expenses	<u>3,148,433</u>	<u>13,398,506</u>	<u>2,913,560</u>	<u>2,908,330</u>	<u>22,368,829</u>
Operating income	<u>(153,543)</u>	<u>1,629,516</u>	<u>39,914</u>	<u>-</u>	<u>1,515,887</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	-	83,646	-	61,178	144,824
Interest expense	-	-	(15,595)	-	(15,595)
Total non-operating revenue (expenses)	<u>-</u>	<u>83,646</u>	<u>(15,595)</u>	<u>61,178</u>	<u>129,229</u>
Income before transfers	(153,543)	1,713,162	24,319	61,178	1,645,116
Transfers out	-	(54,222)	-	(61,178)	(115,400)
Change in net assets	(153,543)	1,658,940	24,319	-	1,529,716
Total net assets - January 1, 2004	<u>(776,427)</u>	<u>3,444,171</u>	<u>271,556</u>	<u>-</u>	<u>2,939,300</u>
Total net assets - December 31, 2004	<u>\$ (929,970)</u>	<u>\$ 5,103,111</u>	<u>\$ 295,875</u>	<u>\$ -</u>	<u>\$ 4,469,016</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,720,358	\$ 14,991,720	\$ 2,776,860	\$ 2,968,595	\$ 23,457,533
Cash paid to suppliers	(2,469,486)	(13,184,080)	(1,576,554)	-	(17,230,120)
Cash paid to employees	-	-	(1,324,397)	(3,051,715)	(4,376,112)
Other operating revenues	-	-	7,158	-	7,158
Net cash provided (used) by operating activities	<u>250,872</u>	<u>1,807,640</u>	<u>(116,933)</u>	<u>(83,120)</u>	<u>1,858,459</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Interfund financing	-	(54,222)	46,952	(61,178)	(68,448)
Net cash provided (used) by noncapital financing activities	-	(54,222)	46,952	(61,178)	(68,448)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on bonds, notes and capitalized leases	-	-	(31,536)	-	(31,536)
Interest paid on bonds, notes and capitalized leases	-	-	(15,858)	-	(15,858)
Net cash provided (used) by capital and related financing activities	-	-	(47,394)	-	(47,394)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment interest	-	83,646	-	61,178	144,824
Net increase (decrease) in cash and cash equivalents	<u>250,872</u>	<u>1,837,064</u>	<u>(117,375)</u>	<u>(83,120)</u>	<u>1,887,441</u>
Cash and cash equivalents - January 1, 2004	-	4,471,243	117,375	3,233,674	7,822,292
Cash and cash equivalents - December 31, 2004	<u>\$ 250,872</u>	<u>\$ 6,308,307</u>	<u>\$ -</u>	<u>\$ 3,150,554</u>	<u>\$ 9,709,733</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	<u>\$ (153,543)</u>	<u>\$ 1,629,516</u>	<u>\$ 39,914</u>	<u>\$ -</u>	<u>\$ 1,515,887</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	-	-	31,198	-	31,198
Change in assets and liabilities:					
Decrease (increase) in receivables	(274,532)	39,321	(169,456)	60,265	(344,402)
Decrease (increase) in inventory	-	-	(23,930)	-	(23,930)
Increase (decrease) in payables	678,947	214,426	5,341	(143,385)	755,329
Increase (decrease) in deferred revenues	-	(75,623)	-	-	(75,623)
Total adjustments	<u>404,415</u>	<u>178,124</u>	<u>(156,847)</u>	<u>(83,120)</u>	<u>342,572</u>
Net cash provided (used) by operating activities	<u>\$ 250,872</u>	<u>\$ 1,807,640</u>	<u>\$ (116,933)</u>	<u>\$ (83,120)</u>	<u>\$ 1,858,459</u>

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Fiduciary Funds

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

Sister Cities Commission - to account for gifts, donations and other revenues secured by the Commission to establish and promote relationships with Duluth's Sister Cities.

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

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2004

	Balance			Balance
	01/01/04	Additions	Deductions	12/31/04

DULUTH 1200 FUND

ASSETS

Cash and cash equivalents	\$ 1,249,915	\$ 556,732	\$ 388,971	\$ 1,417,676
Loans receivable	2,220,578	68,622	219,399	2,069,801
Other assets	<u>349,212</u>	<u>2,045</u>	<u>1,733</u>	<u>349,524</u>
Total assets	<u><u>\$ 3,819,705</u></u>	<u><u>\$ 627,399</u></u>	<u><u>\$ 610,103</u></u>	<u><u>\$ 3,837,001</u></u>

LIABILITIES

Accounts payable	\$ 24,000	\$ 69,717	\$ 91,609	\$ 2,108
Due to agency	<u>3,795,705</u>	<u>71,754</u>	<u>32,566</u>	<u>3,834,893</u>
Total liabilties	<u><u>\$ 3,819,705</u></u>	<u><u>\$ 141,471</u></u>	<u><u>\$ 124,175</u></u>	<u><u>\$ 3,837,001</u></u>

DULUTH PUBLIC ARTS

ASSETS

Cash and cash equivalents	\$ 118,304	\$ 77,887	\$ 106,227	\$ 89,964
Accounts receivable	33,940	-	33,940	-
Due from other funds	<u>2,241</u>	<u>2,500</u>	<u>2,241</u>	<u>2,500</u>
Total assets	<u><u>\$ 154,485</u></u>	<u><u>\$ 80,387</u></u>	<u><u>\$ 142,408</u></u>	<u><u>\$ 92,464</u></u>

LIABILITIES

Accounts payable	\$ 2,115	\$ 75,953	\$ 76,276	\$ 1,792
Due to other funds	30,000	-	30,000	-
Due to other governments	-	80	-	80
Deferred revenue	30,000	-	30,000	-
Due to agency	<u>92,370</u>	<u>64,124</u>	<u>65,902</u>	<u>90,592</u>
Total liabilties	<u><u>\$ 154,485</u></u>	<u><u>\$ 140,157</u></u>	<u><u>\$ 202,178</u></u>	<u><u>\$ 92,464</u></u>

SISTER CITIES COMMISSION

ASSETS

Cash and cash equivalents	\$ 74,668	\$ 63,379	\$ 76,149	\$ 61,898
Accounts receivable	2,603	-	2,603	-
Due from other funds	<u>-</u>	<u>2,967</u>	<u>-</u>	<u>2,967</u>
Total assets	<u><u>\$ 77,271</u></u>	<u><u>\$ 66,346</u></u>	<u><u>\$ 78,752</u></u>	<u><u>\$ 64,865</u></u>

LIABILITIES

Accounts payable	\$ 1,301	\$ 65,386	\$ 66,353	\$ 334
Due to agency	<u>75,970</u>	<u>63,536</u>	<u>74,975</u>	<u>64,531</u>
Total liabilties	<u><u>\$ 77,271</u></u>	<u><u>\$ 128,922</u></u>	<u><u>\$ 141,328</u></u>	<u><u>\$ 64,865</u></u>

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2004

	Balance 01/01/04	Additions	Deductions	Balance 12/31/04
<u>SEAWAY PORT AUTHORITY</u>				
ASSETS				
Cash and cash equivalents	\$ -	\$ 438,043	\$ 438,043	\$ -
Taxes receivable	3,480	815	2,654	1,641
Due from other governments	946	-	946	-
Total assets	\$ 4,426	\$ 438,858	\$ 441,643	\$ 1,641
LIABILITIES				
Due to other governments	\$ 4,426	\$ 438,088	\$ 440,873	\$ 1,641
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 1,442,887	\$ 1,136,041	\$ 1,009,390	\$ 1,569,538
Accounts receivable	36,543	-	36,543	-
Taxes receivable	3,480	815	2,654	1,641
Loans receivable	2,220,578	68,622	219,399	2,069,801
Due from other funds	2,241	5,467	2,241	5,467
Due from other governments	946	-	946	-
Other assets	349,212	2,045	1,733	349,524
Total assets	\$ 4,055,887	\$ 1,212,990	\$ 1,272,906	\$ 3,995,971
LIABILITIES				
Accounts payable	\$ 27,416	\$ 211,056	\$ 234,238	\$ 4,234
Due to other funds	30,000	-	30,000	-
Due to other governments	4,426	438,168	440,873	1,721
Deferred Revenue	30,000	-	30,000	-
Due to agency	3,964,045	199,414	173,443	3,990,016
Total liabilities	\$ 4,055,887	\$ 848,638	\$ 908,554	\$ 3,995,971

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Supplementary Information

CITY OF DULUTH, MINNESOTA

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE BY SOURCE*

December 31, 2004

Governmental funds capital assets:

Land	\$ 24,646,378
Buildings and structures	83,419,066
Equipment	18,744,844
Infrastructure	188,555,544
Construction in Progress	<u>29,257,661</u>
Total governmental funds capital assets	\$ <u>344,623,493</u>

Investments in governmental funds capital assets by source:

General fund	\$ 16,968,669
Special revenue fund	17,166,606
Capital projects fund	308,914,824
Donations	<u>1,573,394</u>
Total governmental funds capital assets	\$ <u>344,623,493</u>

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

CITY OF DULUTH, MINNESOTA

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHEDULE BY FUNCTION AND ACTIVITY*

December 31, 2004

Function and Activity	Land	Buildings and Structures	Equipment	Infrastructure	Construction in Progress	Total
General Government						
Legislative and Executive	\$ 0	\$ 0	\$ 22,980	\$ 0	\$ 0	\$ 22,980
Planning and Development	3,426,787	27,296,368	2,710,745	0	0	33,433,900
Finance	130,000	0	240,221	0	0	370,221
Administrative Services	0	0	915,045	0	0	915,045
Facilities Management	3,641,783	22,669,420	383,747	7,881,577	0	34,576,527
Total General Government	7,198,570	49,965,788	4,272,718	7,881,577	0	69,318,653
Public Safety						
Police	2,000	441,213	2,004,123	0	0	2,447,336
Fire	83,006	2,559,291	4,484,595	0	0	7,126,892
Total Public Safety	85,006	3,000,504	6,488,718	0	0	9,574,228
Public Works						
Street and Park Maintenance	5,200,050	2,465,570	6,126,883	179,956,187	26,094,433	219,842,923
Engineering	0	0	1,017,039	0	0	1,017,039
Total Public Works	5,200,050	2,465,570	7,143,722	179,956,187	26,094,433	220,859,962
Culture and Recreation						
Libraries	51,585	9,145,180	377,195	0	0	9,573,960
Parks and Recreation	12,111,167	18,842,024	462,491	717,780	3,163,228	35,296,690
Total Culture and Recreation	12,162,752	27,987,204	839,686	717,780	3,163,228	44,870,650
Total Governmental Funds Capital Assets	\$ 24,646,378	\$ 83,419,066	\$ 18,744,844	\$ 188,555,544	\$ 29,257,661	\$ 344,623,493

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

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

Year Ended December 31, 2004

Function and Activity	Governmental Funds Capital Assets 01/01/04	Additions	Deductions	Governmental Funds Capital Assets 12/31/04
General Government				
Legislative and Executive	\$ 22,960	\$ 0	\$ 0	\$ 22,960
Planning and Development	33,506,013	65,020	137,133	33,433,900
Finance	52,272	317,949	0	370,221
Administrative Services	850,280	64,765	0	915,045
Facilities Management	<u>33,710,850</u>	<u>865,677</u>	<u>0</u>	<u>34,576,527</u>
Total General Government	<u>68,142,375</u>	<u>1,313,411</u>	<u>137,133</u>	<u>69,318,653</u>
Public Safety				
Police	2,477,015	207,485	237,164	2,447,336
Fire	<u>7,175,775</u>	<u>5,352</u>	<u>54,235</u>	<u>7,126,892</u>
Total Public Safety	<u>9,652,790</u>	<u>212,837</u>	<u>291,399</u>	<u>9,574,228</u>
Public Works				
Street and Park Maintenance	203,163,989	24,517,444	7,838,510	219,842,923
Engineering	<u>1,014,399</u>	<u>62,791</u>	<u>60,151</u>	<u>1,017,039</u>
Total Public Works	<u>204,178,388</u>	<u>24,580,235</u>	<u>7,898,661</u>	<u>220,859,962</u>
Culture and Recreation				
Libraries	9,543,124	30,836	0	9,573,960
Parks and Recreation	<u>34,646,764</u>	<u>1,565,549</u>	<u>915,623</u>	<u>35,296,690</u>
Total Culture and Recreation	<u>44,189,888</u>	<u>1,596,385</u>	<u>915,623</u>	<u>44,870,650</u>
Total Governmental Funds Capital Assets	<u>\$ 326,163,441</u>	<u>\$ 27,702,868</u>	<u>\$ 9,242,816</u>	<u>\$ 344,623,493</u>

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

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
December 31, 2004

	Issued	Issue Date	Final Maturity	Jan 1 Balance
Governmental Activities:				
General Obligation Bonds Payable -				
General Obligation				
Duluth Transit Authority	\$ 1,215,000	06/01/95	02/01/05	\$ 320,000
Recreation Facilities	505,000	06/01/95	02/01/05	135,000
Great Lakes Aquarium	2,495,000	07/15/96	02/01/17	2,010,000
Bayfront Project Tax Increment (80%)	1,028,000	12/01/96	02/01/08	536,000
Zoo Refunding	3,285,000	09/01/97	02/01/12	2,150,000
Duluth Transit Authority	525,000	09/01/97	02/01/08	295,000
Street Overlay (26%) Refunding	406,900	12/01/97	02/01/06	153,400
Street Overlay (60%) Refunding	639,000	05/01/98	02/01/08	387,000
West Michigan Street Improvements	1,745,000	12/01/98	02/01/14	1,390,000
Duluth Entertainment and Convention Center Authority	8,000,000	02/01/99	08/01/14	6,310,000
Parking Improvement Tax Increment	310,000	06/01/99	02/01/15	265,000
Technology Village Parking Ramp Tax Increment (72%)	2,590,000	06/01/99	02/01/15	2,320,000
Duluth Transit Authority	180,000	06/01/99	02/01/05	75,000
Great Lakes Aquarium	2,475,000	12/01/99	02/01/10	1,985,000
Bayfront Festival Park	3,135,000	04/01/01	02/01/11	2,660,000
Duluth Transit Authority	615,000	09/01/01	02/01/11	565,000
Airport Improvement	3,400,000	02/01/02	02/01/17	3,400,000
Leif Erickson Park Tax Increment (80%) Refunding	508,000	09/01/02	02/01/08	482,000
Duluth Entertainment and Convention Center Authority Refunding	2,405,000	03/01/03	02/01/10	2,405,000
Bayfront Festival Park Improvement	425,000	12/01/03	02/01/12	425,000
Improvement	800,000	03/01/04	02/01/14	-
Airpark Improvement	945,000	09/01/04	02/01/20	-
Total General Obligation				\$ 28,208,400
General Obligation - Tax Increment				
Bayfront Project Tax Increment (20%)	\$ 257,000	12/01/96	02/01/08	\$ 134,000
Canal Park Tax Increment Refunding	3,040,000	09/01/97	02/01/08	1,375,000
Great Lakes Aquarium Tax Increment	4,530,000	05/01/99	02/01/08	2,715,000
Technology Village Parking Ramp Tax Increment (28%)	1,000,000	06/01/99	02/01/15	890,000
Leif Erickson Park Tax Increment (20%) Refunding	127,000	09/01/02	02/01/08	108,000
Total General Obligation Tax Increment				\$ 5,222,000
Total General Obligation Bonds Payable				\$ 33,430,400
Revenue Bonds Payable -				
Tax Increment Revenue Bonds Payable -				
St. Louis Bay Tax Increment	\$ 29,300,000	12/01/85	09/01/10	\$ 6,500,000
Cirrus Tax Increment Revenue	645,000	03/01/94	02/01/12	365,000
Tax Increment Revenue Refunding	4,149,906	04/15/98	08/01/08	1,973,429
Tax Increment Revenue Refunding	8,001,533	05/04/99	08/01/08	4,551,525
Total Tax Increment Revenue Bonds Payable				\$ 13,389,954
Lease Revenue Bonds Payable -				
Artspace Community Center	\$ 2,720,000	05/01/95	08/01/14	\$ 2,005,000
Total Revenue Bonds Payable				\$ 15,394,954
Special Assessment Debt with Government Commitment -				
Street Improvement	\$ 5,650,000	07/15/96	02/01/12	\$ 3,915,000
Street Improvement	6,020,000	09/01/97	02/01/12	4,530,000
General Obligation Improvement	830,000	09/01/97	02/01/08	465,000
Street Overlay (74%) Refunding	1,158,100	12/01/97	02/01/06	436,600
General Obligation Improvement Refunding	890,000	12/01/97	02/01/05	240,000
Street Overlay (40%) Refunding	426,000	05/01/98	02/01/08	258,000
General Obligation Improvement Refunding	1,595,000	05/01/98	02/01/07	1,100,000
General Obligation Improvement	1,005,000	12/01/98	02/01/15	855,000
Street Improvement	6,790,000	08/01/98	02/01/14	5,105,000
Street Improvement	6,675,000	06/01/99	02/01/15	5,575,000
General Obligation Improvement	1,220,000	12/01/99	02/02/15	1,045,000
Street Improvement	5,410,000	09/01/00	02/01/16	4,785,000
General Obligation Improvement	1,405,000	04/01/01	02/01/16	1,255,000
Street Improvement	4,800,000	09/01/01	02/01/16	4,460,000
Street Improvement	3,860,000	09/01/02	02/01/18	3,860,000
General Obligation Improvement Refunding	1,080,000	09/01/02	02/01/08	895,000
General Obligation Improvement	2,220,000	12/01/02	02/01/18	2,220,000
Street Improvement Refunding	3,118,400	03/01/03	02/01/10	3,118,400
Street Improvement Refunding	818,000	03/01/03	02/01/10	818,000
General Obligation Improvement Refunding	583,600	03/01/03	02/01/10	583,600
Street Improvement	5,035,000	09/01/03	02/01/19	5,035,000
General Obligation Improvement	2,010,000	12/01/03	02/01/19	2,010,000
Street Improvement	4,785,000	09/01/04	02/01/20	-
Total Special Assessment Debt with Government Commitment				\$ 52,564,600

(Continued)

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
December 31, 2004

	2004			2005	
	Issued	Retired	Dec 31 Balance	Principal Due in	Interest Due in
Governmental Activities:					
General Obligation Bonds Payable -					
General Obligation					
Duluth Transit Authority	\$ -	\$ 320,000	\$ -	\$ -	\$ -
Recreation Facilities		135,000			
Great Lakes Aquarium		95,000	1,915,000	100,000	101,240
Bayfront Project Tax Increment (80 %)		96,000	440,000	100,000	18,927
Zoo Refunding		230,000	1,920,000	230,000	88,118
Duluth Transit Authority		55,000	240,000	55,000	10,088
Street Overlay (26 %) Refunding		52,000	101,400	50,700	3,397
Street Overlay (80 %) Refunding		81,000	306,000	81,000	11,832
West Michigan Street Improvements		100,000	1,290,000	105,000	53,740
Duluth Entertainment and Convention Center Authority		465,000	5,845,000	480,000	232,588
Parking Improvement Tax Increment		15,000	250,000	20,000	11,369
Technology Village Parking Ramp Tax Increment (72 %)		155,000	2,165,000	155,000	98,920
Duluth Transit Authority		35,000	40,000	40,000	850
Great Lakes Aquarium		245,000	1,740,000	260,000	76,579
Bayfront Festival Park		275,000	2,385,000	325,000	90,506
Duluth Transit Authority		60,000	495,000	60,000	17,419
Airport Improvement		160,000	3,240,000	170,000	182,840
Leif Erickson Park Tax Increment (80 %) Refunding		80,000	352,000	84,000	9,100
Duluth Entertainment and Convention Center Authority Refunding		325,000	2,080,000	325,000	51,208
Bayfront Festival Park Improvement			425,000	45,000	11,505
Improvement	800,000		800,000		21,008
Airpark Improvement	946,000		946,000		31,100
Total General Obligation	\$ 1,746,000	\$ 2,979,000	\$ 26,974,400	\$ 2,685,700	\$ 1,122,334
General Obligation - Tax Increment					
Bayfront Project Tax Increment (20 %)	\$ -	\$ 24,000	\$ 110,000	\$ 25,000	\$ 4,732
Canal Park Tax Increment Refunding		275,000	1,100,000	275,000	46,375
Great Lakes Aquarium Tax Increment		500,000	2,215,000	520,000	80,368
Technology Village Parking Ramp Tax Increment (28 %)		55,000	835,000	60,000	38,148
Leif Erickson Park Tax Increment (20 %) Refunding		20,000	88,000	21,000	2,275
Total General Obligation Tax Increment	\$ -	\$ 874,000	\$ 4,248,000	\$ 901,000	\$ 170,898
Total General Obligation Bonds Payable	\$ 1,746,000	\$ 3,853,000	\$ 31,322,400	\$ 3,586,700	\$ 1,293,232
Revenue Bonds Payable -					
Tax Increment Revenue Bonds Payable -					
St. Louis Bay Tax Increment	\$ -	\$ 1,700,000	\$ 4,800,000	\$ 1,800,000	\$ 129,450
Cirus Tax Increment Revenue		35,000	330,000	35,000	24,656
Tax Increment Revenue Refunding		448,220	1,525,209	425,355	164,646
Tax Increment Revenue Refunding		1,039,243	3,512,282	987,723	332,277
Total Tax Increment Revenue Bonds Payable	\$ -	\$ 3,222,463	\$ 10,167,491	\$ 3,248,078	\$ 651,028
Lease Revenue Bonds Payable -					
Artspace Community Center	\$ -	\$ 115,000	\$ 1,890,000	\$ 120,000	\$ 126,610
Total Revenue Bonds Payable	\$ -	\$ 3,337,463	\$ 12,057,491	\$ 3,368,078	\$ 777,638
Special Assessment Debt with Government Commitment -					
Street Improvement	\$ -	\$ 346,000	\$ 3,570,000	\$ 365,000	\$ 178,515
Street Improvement		415,000	4,115,000	430,000	190,825
General Obligation Improvement		85,000	380,000	90,000	15,823
Street Overlay (74 %) Refunding		148,000	288,600	144,300	9,668
General Obligation Improvement Refunding		120,000	120,000	120,000	2,640
Street Overlay (40 %) Refunding		54,000	204,000	54,000	7,888
General Obligation Improvement Refunding		265,000	835,000	275,000	30,830
General Obligation Improvement		60,000	795,000	60,000	33,495
Street Improvement		435,000	4,670,000	380,000	208,174
Street Improvement		440,000	5,135,000	465,000	232,325
General Obligation Improvement		65,000	980,000	70,000	47,488
Street Improvement		355,000	4,430,000	370,000	209,724
General Obligation Improvement		75,000	1,180,000	75,000	49,593
Street Improvement		280,000	4,190,000	285,000	168,698
Street Improvement		285,000	3,575,000	200,000	130,644
General Obligation Improvement Refunding		185,000	710,000	185,000	17,186
General Obligation Improvement		100,000	2,120,000	120,000	83,865
Street Improvement Refunding		434,600	2,683,800	434,600	65,673
Street Improvement Refunding		114,000	704,000	114,000	17,228
General Obligation Improvement Refunding		81,400	502,200	81,400	12,287
Street Improvement			5,035,000	295,000	176,661
General Obligation Improvement			2,010,000	95,000	89,653
Street Improvement	4,785,000		4,785,000		159,257
Total Special Assessment Debt with Government Commitment	\$ 4,785,000	\$ 4,322,000	\$ 53,017,600	\$ 4,678,300	\$ 2,118,140

(continued)

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
December 31, 2004

	Issued	Issue Date	Final Maturity	Jan 1 Balance
Government Activities (Continued):				
General Obligation Certificates Payable -				
Equipment	\$ 1,985,000	12/22/99	12/22/05	\$ 430,000
Equipment	1,985,000	12/20/00	12/20/05	850,000
Equipment	1,075,000	12/20/01	12/20/06	665,000
Equipment	1,780,000	12/19/02	12/19/07	1,445,000
Equipment	1,200,000	12/19/03	12/19/08	1,200,000
Equipment	1,355,000	12/20/04	12/20/09	-
Total General Obligation Certificates Payable				\$ 4,590,000
Total Governmental Activities Bonds and Certificates Payable				\$ 105,969,954
Business-type Activities:				
Revenue Bonds Payable -				
Golf Fund -				
Revenue Recreation Facility Refunding	\$ 3,315,000	11/01/95	12/01/07	\$ 1,490,000
Revenue Recreation Facility Refunding	1,040,000	12/14/04	12/01/12	-
Total Golf Fund				\$ 1,490,000
Revenue and General Obligation Bonds Payable -				
Water Fund -				
Water Utility Revenue and General Obligation Refunding	\$ 2,455,000	09/01/97	02/01/08	\$ 1,345,000
Water Utility Revenue and General Obligation Refunding	1,955,000	05/01/98	02/01/07	1,345,000
Water Utility Revenue and General Obligation	1,530,000	12/01/00	02/01/16	1,395,000
Water Utility Revenue and General Obligation	1,690,000	09/01/02	02/01/18	1,690,000
Water Utility Revenue and General Obligation	1,385,000	12/01/02	02/01/18	1,385,000
Water Utility Revenue and General Obligation Refunding	625,000	03/01/03	02/01/10	625,000
Total Water Fund				\$ 7,785,000
Gas Fund -				
Gas Utility Revenue and General Obligation	\$ 5,300,000	12/01/01	02/01/17	\$ 5,065,000
Gas Utility Revenue and General Obligation	2,132,000	09/01/02	02/01/18	2,132,000
Gas Utility Revenue and General Obligation	1,425,000	12/01/02	02/01/18	1,425,000
Gas Utility Revenue and General Obligation	6,090,000	12/01/03	02/02/19	6,090,000
Total Gas Fund				\$ 14,712,000
Steam District #1 Fund -				
Steam Utility Revenue and General Obligation	\$ 310,000	12/01/98	02/01/09	\$ 200,000
Steam Utility Revenue and General Obligation	325,000	12/01/00	02/01/11	275,000
Steam Utility Revenue and General Obligation	345,000	12/01/02	02/01/12	320,000
Steam Utility Revenue and General Obligation	2,250,000	09/01/03	02/01/23	2,250,000
Total Steam District #1 Fund				\$ 3,045,000
Sewer Fund -				
Sewer Utility Revenue and General Obligation Refunding	\$ 530,000	05/01/98	02/01/08	\$ 350,000
Sewer Utility Revenue and General Obligation	1,080,000	12/01/98	02/01/09	705,000
Sewer Utility Revenue and General Obligation	1,745,000	12/01/99	02/01/15	1,500,000
Sewer Utility Revenue and General Obligation	570,000	12/01/00	02/01/16	520,000
Sewer Utility Revenue and General Obligation	1,330,000	12/01/01	02/01/17	1,270,000
Sewer Utility Revenue and General Obligation	2,003,000	09/01/02	02/01/18	2,003,000
Sewer Utility Revenue and General Obligation	1,825,000	12/01/02	02/01/18	1,825,000
Sewer Utility Revenue and General Obligation Refunding	1,240,000	03/01/03	02/01/10	1,240,000
Sewer Utility Revenue and General Obligation	4,045,000	12/01/04	02/01/20	-
Total Sewer Fund				\$ 9,413,000
Stormwater Fund:				
Stormwater Utility Revenue	\$ 1,425,000	09/01/02	02/01/18	\$ 1,425,000
Total Revenue and General Obligation Bonds Payable				\$ 36,380,000
Total Business-type Activities Bonds Payable				\$ 37,870,000
Component Units:				
Spirit Mountain Recreation Area				
Revenue Bonds Payable				
Spirit Mountain Recreation Area	\$ 1,646,750	03/01/03	12/01/12	\$ 1,646,750
Duluth Entertainment and Convention Center Authority				
General Obligation Bonds Payable -				
Duluth Entertainment and Convention Center Refunding	\$ 6,970,000	04/01/01	02/01/11	\$ 5,385,000
Total Component Units Bonds Payable				\$ 7,031,750

CITY OF DULUTH
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
December 31, 2004

	2004			2005	
	Issued	Retired	Dec 31 Balance	Principal Due in	Interest Due in
Government Activities (Continued):					
General Obligation Certificates Payable -					
Equipment	\$ -	\$ 430,000	\$ -	\$ -	\$ -
Equipment	\$ -	\$ 415,000	\$ 435,000	\$ 435,000	\$ 19,793
Equipment	\$ -	\$ 215,000	\$ 450,000	\$ 220,000	\$ 15,765
Equipment	\$ -	\$ 346,000	\$ 1,100,000	\$ 355,000	\$ 31,225
Equipment	\$ -	\$ 230,000	\$ 970,000	\$ 235,000	\$ 23,075
Equipment	\$ 1,355,000	\$ -	\$ 1,355,000	\$ 260,000	\$ 41,363
Total General Obligation Certificates Payable	\$ 1,355,000	\$ 1,635,000	\$ 4,310,000	\$ 1,505,000	\$ 131,221
Total Governmental Activities Bonds and Certificates Payable	\$ 7,885,000	\$ 13,147,463	\$ 100,707,491	\$ 13,138,078	\$ 4,320,231
Business-type Activities:					
Revenue Bonds Payable -					
Golf Fund -					
Revenue Recreation Facility Refunding	\$ -	\$ 1,490,000	\$ -	\$ -	\$ -
Revenue Recreation Facility Refunding	\$ 1,040,000	\$ -	\$ 1,040,000	\$ 120,000	\$ 31,595
Total Golf Fund	\$ 1,040,000	\$ 1,490,000	\$ 1,040,000	\$ 120,000	\$ 31,595
Revenue and General Obligation Bonds Payable -					
Water Fund -					
Water Utility Revenue and General Obligation Refunding	\$ -	\$ 246,000	\$ 1,100,000	\$ 255,000	\$ 46,939
Water Utility Revenue and General Obligation Refunding	\$ -	\$ 320,000	\$ 1,025,000	\$ 330,000	\$ 38,018
Water Utility Revenue and General Obligation	\$ -	\$ 80,000	\$ 1,315,000	\$ 85,000	\$ 62,336
Water Utility Revenue and General Obligation	\$ -	\$ 87,000	\$ 1,603,000	\$ 88,000	\$ 58,854
Water Utility Revenue and General Obligation	\$ -	\$ 65,000	\$ 1,320,000	\$ 75,000	\$ 50,796
Water Utility Revenue and General Obligation Refunding	\$ -	\$ 85,000	\$ 540,000	\$ 85,000	\$ 13,213
Total Water Fund	\$ -	\$ 882,000	\$ 6,903,000	\$ 918,000	\$ 269,156
Gas Fund -					
Gas Utility Revenue and General Obligation	\$ -	\$ 280,000	\$ 4,785,000	\$ 290,000	\$ 206,866
Gas Utility Revenue and General Obligation	\$ -	\$ 110,000	\$ 2,022,000	\$ 112,000	\$ 74,191
Gas Utility Revenue and General Obligation	\$ -	\$ 65,000	\$ 1,260,000	\$ 75,000	\$ 52,431
Gas Utility Revenue and General Obligation	\$ -	\$ -	\$ 6,090,000	\$ 280,000	\$ 211,318
Total Gas Fund	\$ -	\$ 455,000	\$ 14,257,000	\$ 757,000	\$ 544,806
Steam District #1 Fund -					
Steam Utility Revenue and General Obligation	\$ -	\$ 30,000	\$ 170,000	\$ 30,000	\$ 6,428
Steam Utility Revenue and General Obligation	\$ -	\$ 30,000	\$ 246,000	\$ 30,000	\$ 12,494
Steam Utility Revenue and General Obligation	\$ -	\$ 30,000	\$ 290,000	\$ 30,000	\$ 11,955
Steam Utility Revenue and General Obligation	\$ -	\$ -	\$ 2,250,000	\$ 45,000	\$ 87,744
Total Steam District #1 Fund	\$ -	\$ 90,000	\$ 2,955,000	\$ 135,000	\$ 118,621
Sewer Fund -					
Sewer Utility Revenue and General Obligation Refunding	\$ -	\$ 65,000	\$ 285,000	\$ 65,000	\$ 11,260
Sewer Utility Revenue and General Obligation	\$ -	\$ 105,000	\$ 600,000	\$ 110,000	\$ 22,618
Sewer Utility Revenue and General Obligation	\$ -	\$ 95,000	\$ 1,405,000	\$ 100,000	\$ 68,204
Sewer Utility Revenue and General Obligation	\$ -	\$ 30,000	\$ 490,000	\$ 30,000	\$ 23,283
Sewer Utility Revenue and General Obligation	\$ -	\$ 70,000	\$ 1,200,000	\$ 75,000	\$ 51,816
Sewer Utility Revenue and General Obligation	\$ -	\$ 104,000	\$ 1,899,000	\$ 105,000	\$ 69,679
Sewer Utility Revenue and General Obligation	\$ -	\$ 85,000	\$ 1,740,000	\$ 100,000	\$ 66,973
Sewer Utility Revenue and General Obligation Refunding	\$ -	\$ 160,000	\$ 1,080,000	\$ 165,000	\$ 26,513
Sewer Utility Revenue and General Obligation	\$ 4,045,000	\$ -	\$ 4,045,000	\$ -	\$ 101,040
Total Sewer Fund	\$ 4,045,000	\$ 714,000	\$ 12,744,000	\$ 750,000	\$ 441,386
Stormwater Fund:					
Stormwater Utility Revenue	\$ -	\$ 74,000	\$ 1,351,000	\$ 75,000	\$ 49,575
Total Revenue and General Obligation Bonds Payable	\$ 4,045,000	\$ 2,215,000	\$ 38,210,000	\$ 2,635,000	\$ 1,423,544
Total Business-type Activities Bonds Payable	\$ 5,085,000	\$ 3,705,000	\$ 39,250,000	\$ 2,755,000	\$ 1,455,139
Component Units:					
Spirit Mountain Recreation Area					
Revenue Bonds Payable	\$ -	\$ -	\$ 1,646,750	\$ 159,538	\$ 65,462
Spirit Mountain Recreation Area	\$ -	\$ -	\$ -	\$ -	\$ -
Duluth Entertainment and Convention Center Authority					
General Obligation Bonds Payable -					
Duluth Entertainment and Convention Center Refunding	\$ -	\$ 585,000	\$ 4,800,000	\$ 605,000	\$ 194,475
Total Component Units Bonds Payable	\$ -	\$ 585,000	\$ 6,446,750	\$ 764,538	\$ 259,937

CITY OF DULUTH
 SCHEDULE OF NOTES PAYABLE
 December 31, 2004

	<u>Issued</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan. 1 Balance</u>
Governmental Activities:				
General Obligation				
Public Facilities Authority Note	\$ 364,195	08/08/02	08/20/18	\$ 364,195
Tax Increment Revenue				
Canal Park Tax Increment	\$ 325,000	12/01/91	02/01/08	\$ 235,000
Cirrus Tax Increment Taxable	1,041,778	03/06/97	08/01/07	618,115
Fremont Tax Increment Limited Revenue	650,000	07/01/97	02/01/12	405,000
Technology Village Skywalk Revenue	457,500	03/03/01	02/01/04	102,252
Total Tax Increment Revenue				\$ 1,360,367
Total Governmental Activities				\$ 1,724,862
Business-type Activities:				
General Obligation				
Water Fund -				
Public Facilities Authority Note	\$ 870,000	08/25/03	08/20/18	\$ 870,000
Public Facilities Authority Note*	1,570,978	07/02/04	08/20/18	-
Total Water Fund				\$ 870,000
Sewer Fund -				
Public Facilities Authority Note	\$ 100,000	08/25/03	08/20/18	\$ 100,000
Public Facilities Authority Note**	1,091,847	12/12/03	08/20/18	465,047
Total Sewer Fund				\$ 565,047
Total Business-type Activities				\$ 1,435,047

* Total face Value \$ 2,485,231; only \$ 1,570,978 has been issued as of 12/31/04

** Total face Value \$ 1,179,115; only \$ 1,091,847 has been issued as of 12/31/04

CITY OF DULUTH
SCHEDULE OF NOTES PAYABLE
December 31, 2004

	2004		Principal Outstanding 12/31/2004	2005	
	Issued	Retired		Principal Due in 2005	Interest Due in 2005
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	\$ -	\$ 16,195	\$ 348,000	\$ 23,000	\$ 3,480
Tax Increment Revenue					
Canal Park Tax Increment	\$ -	\$ 35,000	\$ 200,000	\$ 40,000	\$ 15,200
Cirus Tax Increment Taxable	-	118,450	499,665	129,042	40,958
Fremont Tax Increment Limited Revenue	-	35,000	370,000	40,000	19,950
Technology Village Skywalk Revenue	-	102,252	-	-	-
Total Tax Increment Revenue	\$ -	\$ 290,702	\$ 1,069,665	\$ 209,042	\$ 76,108
Total Governmental Activities	\$ -	\$ 306,897	\$ 1,417,665	\$ 232,042	\$ 79,588
Business-type Activities:					
General Obligation					
Water Fund -					
Public Facilities Authority Note	\$ -	\$ 34,979	\$ 835,021	\$ 49,330	\$ 23,539
Public Facilities Authority Note*	1,570,978	-	1,570,978	160,231	34,321
Total Water Fund	\$ 1,570,978	\$ 34,979	\$ 2,405,999	\$ 209,561	\$ 57,860
Sewer Fund -					
Public Facilities Authority Note	\$ -	\$ 4,021	\$ 95,979	\$ 5,670	\$ 2,706
Public Facilities Authority Note**	626,800	-	1,091,847	60,115	7,030
Total Sewer Fund	\$ 626,800	\$ 4,021	\$ 1,187,826	\$ 65,786	\$ 9,736
Total Business-type Activities	\$ 2,197,778	\$ 39,000	\$ 3,593,825	\$ 275,346	\$ 67,596

CITY OF DULUTH, MINNESOTA
 SCHEDULE OF INTERGOVERNMENTAL REVENUES
 Year Ended December 31, 2004

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Totals
SHARED REVENUE:						
State of Minnesota						
Local Government Ad	\$ 26,674,033	\$ -	\$ -	\$ 31,788	\$ -	\$ 26,674,033
PERA Aid	124,428	-	-	-	-	124,428
Amortization Ad	3,824,196	-	-	-	-	3,824,196
Insurance Premium	1,850,313	-	-	-	-	1,850,313
TOTAL SHARED REVENUE	32,472,870	-	-	31,788	-	32,504,758
STATE GRANTS:						
State of Minnesota, Department of Administration						
Lake Superior Zoo	144,525	-	-	-	-	144,525
Employment and Economic Development						
Dislocated Workers	-	372,840	-	-	-	372,840
Economic Recovery	-	21,765	-	-	-	21,765
Employment and Economic Development Total	-	394,605	-	-	-	394,605
Economic Security						
Contaminated Soil Cleanup	-	163,919	-	-	-	163,919
State Summer Youth	-	85,526	-	-	-	85,526
Economic Security Total	-	249,445	-	-	-	249,445
Human Services						
Senior Nutrition	-	51,533	-	-	-	51,533
Natural Resources						
Snowmobile trail	31,381	-	-	-	-	31,381
Grassy Point	-	-	-	1,000	-	1,000
Hartley Nature Center	-	-	-	148,598	-	148,598
Natural Resources Total	31,381	-	-	149,598	-	180,979
Public Safety						
Crime Victim BMR	3,000	-	-	-	-	3,000
Auto Theft Prevention	-	70,928	-	-	-	70,928
Gang Strike Force Salary Reimbursement	-	60,000	-	-	-	60,000
Gang Strike Force Other Reimbursement	-	6,540	-	-	-	6,540
Vehicle Forfeiture (DWI)	-	1,548	-	-	-	1,548
Anti-Terrorism	-	43,649	-	-	-	43,649
Seat Belt and Consumption Enforcement	17,316	-	-	-	-	17,316
HAZMAT Regional Response Team	61,916	-	-	-	-	61,916
Public Safety Total	82,232	182,665	-	-	-	264,897
Revenue						
Market Value Credit	646,254	-	518,973	-	-	1,164,227
Transportation						
MSA Street Maintenance Allotment	1,144,008	-	-	-	-	1,144,008
MSA Street Construction Allotment	-	-	-	3,041,899	-	3,041,899
Miscellaneous Street Projects	-	-	-	2,464,212	-	2,464,212
Kenwood Box Culvert - Chester Creek	-	-	-	-	49,456	49,456
Transportation Total	1,144,008	-	-	5,496,101	49,456	6,689,565
Examining Boards - Post Training Reimbursement	48,702	-	-	-	-	48,702
TOTAL STATE GRANTS	2,096,102	878,248	518,973	5,645,699	49,456	9,188,478

(continued)

CITY OF DULUTH, MINNESOTA
 SCHEDULE OF INTERGOVERNMENTAL REVENUES
 Year Ended December 31, 2004

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Totals
FEDERAL GRANTS:						
Federal, Department of Agriculture						
Great Lakes Commission	\$ -	\$ 9,150	\$ -	\$ -	\$ -	\$ 9,150
Commerce						
Coastal Management	\$ -	\$ -	\$ -	\$ 24,061	\$ 9,846	\$ 33,907
Defense						
Army Corps of Engineers	\$ -	\$ -	\$ -	\$ -	\$ 350,000	\$ 350,000
Environmental Protection Agency						
Downtown Waterfront Restoration Project	\$ -	\$ 196,350	\$ -	\$ -	\$ -	\$ 196,350
Environmental Education Grant	\$ -	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Environmental Protection Agency Total	\$ -	\$ 211,350	\$ -	\$ -	\$ -	\$ 211,350
Federal Emergency Management Agency						
BMPACT Duluth Streams	\$ -	\$ 38,848	\$ -	\$ -	\$ -	\$ 38,848
Health and Human Services (HHS)						
Senior Nutrition	\$ -	\$ 201,901	\$ -	\$ -	\$ -	\$ 201,901
Homeland Security						
Public Assistance Grants	\$ 29,443	\$ -	\$ -	\$ -	\$ -	\$ 29,443
Preparedness Technical Assistance	\$ 53,296	\$ -	\$ -	\$ -	\$ -	\$ 53,296
Preparedness Equipment Support	\$ -	\$ 56,794	\$ -	\$ -	\$ -	\$ 56,794
Security Exercise Support	\$ -	\$ 24,264	\$ -	\$ -	\$ -	\$ 24,264
Homeland Security Total	\$ 82,739	\$ 81,058	\$ -	\$ -	\$ -	\$ 163,797
Housing and Urban Development (HUD)						
Community Development Block Grant	\$ -	\$ 4,147,582	\$ -	\$ -	\$ -	\$ 4,147,582
HOME Investment Partnership	\$ -	\$ 778,247	\$ -	\$ -	\$ -	\$ 778,247
Emergency Shelter	\$ -	\$ 126,641	\$ -	\$ -	\$ -	\$ 126,641
HUD Total	\$ -	\$ 5,052,470	\$ -	\$ -	\$ -	\$ 5,052,470
Justice						
Local Law Enforcement Block Grant	\$ -	\$ 64,315	\$ -	\$ -	\$ -	\$ 64,315
Bulletproof Vest Partnership Program	\$ 9,297	\$ -	\$ -	\$ -	\$ -	\$ 9,297
Justice Total	\$ 9,297	\$ 64,315	\$ -	\$ -	\$ -	\$ 73,612
Labor						
Senior Employment	\$ -	\$ 101,512	\$ -	\$ -	\$ -	\$ 101,512
Senior Aides	\$ -	\$ 259,938	\$ -	\$ -	\$ -	\$ 259,938
5% Incentive	\$ -	\$ 5,837	\$ -	\$ -	\$ -	\$ 5,837
Dislocated Workers	\$ -	\$ 179,090	\$ -	\$ -	\$ -	\$ 179,090
Workforce Investment Act (WIA)	\$ -	\$ 429,901	\$ -	\$ -	\$ -	\$ 429,901
Labor Total	\$ -	\$ 976,278	\$ -	\$ -	\$ -	\$ 976,278
Transportation						
Miscellaneous Street Projects	\$ -	\$ -	\$ -	\$ 1,750,126	\$ -	\$ 1,750,126
TOTAL FEDERAL GRANTS	\$ 92,036	\$ 6,635,370	\$ -	\$ 1,774,187	\$ 359,846	\$ 8,861,439
OTHER:						
St. Louis County						
Job Training Services	\$ -	\$ 1,284,742	\$ -	\$ -	\$ -	\$ 1,284,742
Miscellaneous Street Projects	\$ 129,431	\$ -	\$ -	\$ 286,104	\$ -	\$ 415,535
St. Louis County Total	\$ 129,431	\$ 1,284,742	\$ -	\$ 286,104	\$ -	\$ 1,700,277
Housing and Redevelopment Authority (HRA)						
Payment in Lieu of Taxes	\$ 30,036	\$ -	\$ -	\$ -	\$ -	\$ 30,036
Hermantown Miscellaneous Street Projects						
Independent School District #709	\$ 151,000	\$ -	\$ -	\$ 30,025	\$ -	\$ 181,000
North Country Library Co-op	\$ 1,051	\$ -	\$ -	\$ -	\$ -	\$ 1,051
TOTAL OTHER	\$ 311,518	\$ 1,284,742	\$ -	\$ 286,104	\$ -	\$ 1,912,389
TOTAL INTERGOVERNMENTAL REVENUE	\$ 34,972,626	\$ 8,798,360	\$ 618,973	\$ 7,737,778	\$ 409,302	\$ 52,467,064

CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
December 31, 2004

	Special Revenue Funds			
	Operating	Building Renovation Loan	Old Downtown Loan	District Storefront Loan
ASSETS				
Cash and cash equivalents	\$ 905,940	\$ 3,892,043	\$ 130,114	\$ 551,109
Assets held by trustee	-	-	-	-
Taxes receivable, net	-	-	-	-
Accounts receivable, net	3,667	-	-	-
Loans receivable, net	7,747	2,061,808	222,516	615,417
Deposits receivable	-	250,000	-	-
Due from other funds	-	-	-	-
Prepays	-	-	-	-
TOTAL ASSETS	\$ 917,354	\$ 6,203,851	\$ 352,630	\$ 1,166,526
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 409,936	\$ -	\$ -	\$ -
Contracts payable	38,973	-	-	-
Due to other funds	11,034	-	-	-
Deferred revenues	7,747	-	-	-
Total Liabilities	467,690	-	-	-
FUND BALANCES:				
Reserved for:				
Encumbrances	53,296	-	-	-
Debt service	-	-	-	159,676
Noncurrent loans receivable	-	1,786,305	160,788	550,599
City debt	-	-	-	-
Prepaid items	-	-	-	-
Deposits	-	250,000	-	-
Unreserved - designated for capital projects	21,651	-	-	-
Unreserved - designated for newloan fund	-	1,000,000	-	-
Unreserved - undesignated, reported in:				
Special revenue funds	374,717	3,167,546	191,842	456,251
Capital project funds	-	-	-	-
Total Fund Balances	449,664	6,203,851	352,630	1,166,526
TOTAL LIABILITIES AND FUND BALANCES	\$ 917,354	\$ 6,203,851	\$ 352,630	\$ 1,166,526

(continued)

CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
December 31, 2004

	Special Revenue Fund				
	Northwest Maintenance Facility	Debt Service	Capital Projects	Total	
ASSETS					
Cash and cash equivalents	\$ 809,194	\$ 3,093,405	\$ 1,754,130	\$ 11,135,935	
Assets held by trustee	3,522,920	-	-	3,522,920	
Taxes receivable, net	-	297,644	-	297,644	
Accounts receivable, net	17,703	72,658	544	94,572	
Loans receivable, net	-	37,255	1,800,456	4,745,199	
Deposits receivable	-	-	-	250,000	
Due from other funds	-	-	747,605	747,605	
Prepays	-	-	962,751	962,751	
TOTAL ASSETS	\$ 4,349,817	\$ 3,500,962	\$ 5,265,486	\$ 21,756,626	
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ 20,314	\$ 430,250	
Contracts payable	-	-	13,389	52,362	
Due to other funds	-	747,605	1,272	759,911	
Deferred revenues	1,846,920	300,900	1,724,180	3,879,747	
Total Liabilities	1,846,920	1,048,505	1,759,155	5,122,270	
FUND BALANCES:					
Reserved for:					
Encumbrances	-	-	35,035	88,331	
Debt service	679,813	2,452,457	-	3,291,946	
Noncurrent loans receivable	-	-	71,448	2,569,140	
City debt	1,438,810	-	-	1,438,810	
Prepaid items	-	-	962,751	962,751	
Deposits	-	-	-	250,000	
Unreserved - designated for capital projects	-	-	1,874,143	1,895,794	
Unreserved - designated for newloan fund	-	-	-	1,000,000	
Unreserved - undesignated, reported in:					
Special revenue funds	384,274	-	-	4,574,630	
Capital project funds	-	-	562,954	562,954	
Total Fund Balances	2,502,897	2,452,457	3,506,331	16,634,356	
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,349,817	\$ 3,500,962	\$ 5,265,486	\$ 21,756,626	

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2004

	Special Revenue Funds			
	Operating	Building Renovation	Old Downtown	District Storefront
REVENUES:				
Taxes				
Tax increments	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues				
Market value credit aid	- -	- -	- -	- -
Federal government	196,350	- -	- -	- -
State of Minnesota	163,919	- -	- -	- -
Charges for services				
Parking meters	12,524	- -	- -	- -
Miscellaneous revenues				
Earnings on investments	3,990	69,081	594	3,577
Interest	139	70,034	14,128	19,582
Bond fees	1,067,562	- -	- -	- -
Land sales	545,969	- -	- -	- -
Developer contributions	- -	- -	- -	- -
Other	64,103	- -	- -	- -
Total Revenues	<u>2,054,556</u>	<u>139,115</u>	<u>14,722</u>	<u>23,159</u>
EXPENDITURES:				
Current				
 Urban and economic development				
Other services and charges	1,111,645	2,052	- -	- -
Economic development projects	- -	- -	50,000	- -
 Capital Outlay				
 Urban and economic development				
Land	695,598	- -	- -	- -
Improvements other than buildings	84,708	- -	- -	- -
 Debt Service				
Principal retirement	- -	- -	- -	- -
Interest and fiscal fees	- -	- -	- -	- -
Other	- -	- -	- -	- -
Total Expenditures	<u>1,891,951</u>	<u>2,052</u>	<u>50,000</u>	<u>- -</u>
Excess of Revenues Over (Under) Expenditures	<u>162,605</u>	<u>137,063</u>	<u>(35,278)</u>	<u>23,159</u>
OTHER FINANCING SOURCES/USES:				
Operating transfer in				
DEDA Building Renovation Loan	80,044	- -	- -	- -
DEDA Debt Service	- -	- -	- -	- -
DEDA Capital Projects	100,000	- -	- -	- -
General Fund	- -	- -	- -	- -
Total Operating Transfer In	<u>180,044</u>	<u>- -</u>	<u>- -</u>	<u>- -</u>
Operating transfers out				
DEDA Operating	- -	(80,044)	- -	- -
DEDA Capital Projects	- -	- -	- -	- -
DEDA Northwest Maintenance Facility	- -	- -	- -	- -
General Fund	- -	(42,239)	- -	- -
G.O. Debt Service Fund	- -	- -	- -	- -
Medical District Expansion Fund	(909,650)	- -	- -	- -
Total Operating Transfers Out	<u>(909,650)</u>	<u>(122,283)</u>	<u>- -</u>	<u>- -</u>
Total Other Financing Sources (Uses)	<u>(729,606)</u>	<u>(122,283)</u>	<u>- -</u>	<u>- -</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(567,001)</u>	<u>14,780</u>	<u>(35,278)</u>	<u>23,159</u>
FUND BALANCES:				
Beginning of the year	1,016,665	6,189,071	387,908	1,143,367
End of the year	<u>\$ 449,664</u>	<u>\$ 6,203,851</u>	<u>\$ 352,630</u>	<u>\$ 1,166,526</u>

(continued)

CITY OF DULUTH, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

DULUTH ECONOMIC DEVELOPMENT AUTHORITY

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2004

	Special Revenue Fund				
	Northwest Maintenance Facility	Debt Service	Capital Projects		Total
REVENUES:					
Taxes					
Tax increments	\$ -	\$ 5,288,307	\$ -	\$ -	\$ 5,288,307
Intergovernmental revenues					
Market value credit aid	-	83,049	-	-	83,049
Federal government	-	-	-	-	196,350
State of Minnesota	-	-	-	-	163,919
Charges for services					
Parking meters	-	-	105,828	-	118,352
Miscellaneous revenues					
Earnings on investments	4,237	31,013	41,042	153,534	
Interest	76,229	-	10,530	190,642	
Bond fees	-	-	-	1,067,562	
Land sales	-	-	34,400	580,369	
Developer contributions	186,640	72,658	-	259,298	
Other	-	10,620	478,675	553,398	
Total Revenues	267,106	5,485,647	670,475		8,654,780
EXPENDITURES:					
Current					
 Urban and economic development					
Other services and charges	-	20,048	272,550	1,406,295	
Economic development projects	-	-	339,528	389,528	
 Capital Outlay					
 Urban and economic development					
Land	-	-	187,945	883,543	
Improvements other than buildings	-	-	-	84,708	
 Debt Service					
Principal retirement	-	1,813,165	-	1,813,165	
Interest and fiscal fees	-	545,399	-	545,399	
Other	1,458,065	191,567	-	1,649,632	
Total Expenditures	1,458,065	2,570,179	800,023		6,772,270
Excess of Revenues Over (Under) Expenditures	(1,190,959)	2,915,468	(129,548)		1,882,510
OTHER FINANCING SOURCES/USES:					
Operating transfer in					
DEDA Building Renovation Loan	-	-	-	80,044	
DEDA Debt Service	360,823	-	783,290	1,144,113	
DEDA Capital Projects	-	-	-	100,000	
General Fund	875,000	-	-	875,000	
Total Operating Transfer In	1,235,823		783,290		2,199,157
Operating transfers out					
DEDA Operating	-	-	(126,170)	(206,214)	
DEDA Capital Projects	-	(783,290)	-	(783,290)	
DEDA Northwest Maintenance Facility	-	(360,823)	-	(360,823)	
General Fund	-	(20,919)	-	(63,158)	
G.O. Debt Service Fund	-	(1,085,111)	-	(1,085,111)	
Medical District Expansion Fund	-	-	(1,600,000)	(2,509,650)	
Total Operating Transfers Out	-	(2,250,143)	(1,726,170)		(5,008,246)
Total Other Financing Sources (Uses)	1,235,823	(2,250,143)	(942,880)		(2,809,089)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	44,864	665,325	(1,072,428)		(926,579)
FUND BALANCES:					
Beginning of the year	2,458,033	1,787,132	4,578,759	17,560,935	
End of the year	\$ 2,502,897	\$ 2,452,457	\$ 3,506,331	\$ 16,634,356	

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Statistical Section

CITY OF DULUTH, MINNESOTA
GOVERNMENT-WIDE EXPENSES BY FUNCTION
LAST FISCAL YEARS

TABLE 1

Fiscal Year	General Government		Public Safety		Public Works		Culture and Recreation		Urban Economic Development		Interest		Water	
	Gas	Sewer	Stormwater	District #1	District #2	Golf	Total							
2002*	\$ 19,163,984	\$ 26,045,849	\$ 16,485,742	\$ 8,541,853	\$ 13,939,868	\$ 6,855,458	\$ 9,734,767							
2003	18,164,487	25,163,652	14,061,511	7,493,744	11,081,790	6,046,179	8,945,765							
2004	20,869,584	30,172,578	7,693,658	6,385,653	14,173,566	6,917,787	8,465,593							
2002*	\$ 36,290,401	\$ 15,355,339	\$ 2,227,108	\$ 3,399,206	\$ 7,917,186	\$ 1,756,201	\$ 167,712,962							
2003	38,806,370	15,240,922	2,354,872	3,597,759	8,497,270	1,754,734	161,209,055							
2004	41,883,691	14,610,838	2,470,632	3,893,705	8,708,076	1,762,485	167,807,846							

* This table was developed with the implementation of Governmental Accounting Standards Board Statement No. 34. Years prior to 2001 were not restated, and therefore are not available.

Unaudited

GOVERNMENT-WIDE REVENUES
LAST FISCAL YEAR

TABLE 2

Fiscal Year	Program Revenues				General Revenues				
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Shared Revenue	Not Restricted to Specific Programs	Unrestricted Investment Income	Miscellaneous	Total
2002*	\$ 85,923,425	\$ 14,328,781	\$ 17,885,399	\$ 27,162,478	\$ 35,095,985	\$ 4,124,914	\$ 6,349,444	\$ 190,860,426	
2003	90,970,541	11,580,360	12,836,608	27,605,359	32,840,817	1,412,926	6,379,199	183,625,810	
2004	97,141,195	11,944,143	14,888,978	33,297,047	33,283,967	2,728,809	6,406,680	199,700,819	

* This table was developed with the implementation of Governmental Accounting Standards Board Statement No. 34. Years prior to 2001 were not restated, and therefore are not available.

Unaudited

CITY OF DULUTH, MINNESOTA
 GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
 General, Special Revenue, Debt Service and Capital Projects Funds
 LAST TEN FISCAL YEARS

TABLE 3

Fiscal Year	General Government		Public Safety		Public Works		Culture and Recreation		Urban Economic Development		Debt Service		Capital Outlay		Total	
	General	Government	Public	Safety	Public	Works	Culture	and	Recreation	Urban	Economic	Development	Debt	Service	Capital	
1995	\$ 9,761,880		\$ 22,272,313	\$ 12,168,278	\$ 4,096,263	\$ 9,182,898	\$ 9,803,329	\$ 0	\$ 67,284,861							
1996	\$ 10,394,240		\$ 23,460,070	\$ 13,570,643	\$ 4,336,857	\$ 8,082,724	\$ 9,620,130	\$ 0	\$ 69,464,664							
1997	\$ 10,196,870		\$ 23,091,149	\$ 12,284,197	\$ 4,577,348	\$ 7,742,871	\$ 11,329,176	\$ 0	\$ 69,221,411							
1998	\$ 12,532,047		\$ 24,663,727	\$ 12,958,911	\$ 5,143,559	\$ 9,198,092	\$ 11,175,446	\$ 0	\$ 75,671,782							
1999	\$ 13,157,644		\$ 22,660,966	\$ 13,407,985	\$ 6,154,401	\$ 8,790,075	\$ 12,963,206	\$ 0	\$ 77,124,277							
2000	\$ 17,666,305		\$ 26,570,500	\$ 9,846,063	\$ 6,885,159	\$ 8,696,340	\$ 14,365,687	\$ 0	\$ 83,619,054							
2001	\$ 17,735,834		\$ 29,470,733	\$ 10,026,300	\$ 7,603,662	\$ 9,546,880	\$ 15,439,901	\$ 0	\$ 89,822,310							
2002*	\$ 19,124,773		\$ 29,423,941	\$ 9,833,899	\$ 7,395,397	\$ 12,565,206	\$ 14,895,868	\$ 23,186,154	\$ 116,425,238							
2003	\$ 19,040,102		\$ 28,861,649	\$ 9,818,124	\$ 6,919,311	\$ 12,005,724	\$ 15,435,359	\$ 18,671,264	\$ 110,551,533							
2004**	\$ 19,574,200		\$ 29,082,948	\$ 9,947,392	\$ 6,945,317	\$ 15,511,249	\$ 18,849,204	\$ 17,010,131	\$ 116,720,441							

* Implementation of Governmental Accounting Standards Board Statement No. 34 in 2002.
 General Governmental includes Capital Projects Fund.

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

Unaudited

GENERAL GOVERNMENTAL REVENUES BY SOURCE
 General, Special Revenue, Debt Service and Capital Projects Funds
 LAST TEN FISCAL YEARS

TABLE 4

Fiscal Year	Tax Revenues			Licenses & Permits	Intergovernmental	Charges for Services	Fines & Forfeits	Misc.	Total
	General Property	City Sales	Other						
1995	\$ 10,469,327	\$ 8,164,046	\$ 3,801,513	\$ 465,397	\$ 37,134,879	\$ 3,843,469	\$ 972,057	\$ 10,884,162	\$ 75,514,840
1996	\$ 10,544,430	\$ 8,570,595	\$ 4,171,064	\$ 461,211	\$ 36,304,402	\$ 4,381,287	\$ 985,385	\$ 11,065,753	\$ 76,493,117
1997	\$ 11,435,864	\$ 8,884,984	\$ 4,307,226	\$ 475,164	\$ 37,420,361	\$ 4,831,657	\$ 984,047	\$ 12,096,293	\$ 80,515,596
1998	\$ 10,402,118	\$ 9,426,505	\$ 4,966,878	\$ 478,421	\$ 41,636,886	\$ 4,873,979	\$ 975,635	\$ 12,524,509	\$ 85,284,931
1999	\$ 10,480,823	\$ 10,286,689	\$ 5,715,068	\$ 506,255	\$ 39,819,934	\$ 5,987,971	\$ 1,099,323	\$ 12,247,963	\$ 86,144,026
2000	\$ 10,577,249	\$ 10,191,355	\$ 6,194,436	\$ 513,534	\$ 41,611,058	\$ 5,510,166	\$ 1,130,118	\$ 15,937,843	\$ 91,665,559
2001	\$ 11,263,520	\$ 10,666,664	\$ 6,386,661	\$ 624,432	\$ 43,848,146	\$ 5,190,480	\$ 1,074,390	\$ 15,895,794	\$ 94,950,086
2002*	\$ 9,955,083	\$ 15,350,598	\$ 1,873,578	\$ 609,550	\$ 57,238,946	\$ 5,831,871	\$ 947,610	\$ 15,643,363	\$ 107,450,586
2003	\$ 10,514,386	\$ 14,903,251	\$ 683,080	\$ 688,314	\$ 54,781,689	\$ 6,091,850	\$ 994,710	\$ 14,854,269	\$ 103,481,549
2004**	\$ 15,936,795	\$ 15,478,954	\$ 1,924,690	\$ 680,953	\$ 51,643,301	\$ 6,549,128	\$ 1,083,084	\$ 17,315,836	\$ 110,612,541

* Implementation of Governmental Accounting Standards Board Statement No. 34 in 2002.
 General Governmental includes Capital Projects Fund.

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

Unaudited

CITY OF DULUTH, MINNESOTA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

TABLE 5

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collected as Percent of Current Levy	Current Delinquent Taxes	Delinquent Taxes as Percent of Current Levy
1995	\$ 7,894,591	\$ 7,461,725	96.8%	\$ 188,429	\$ 7,640,154	99.3%	\$ 242,866	3.2%
1996	7,910,891	7,688,537	96.8%	202,239	7,860,776	99.4%	252,154	3.2%
1997	8,138,791	7,854,817	96.5%	186,916	8,041,733	98.8%	283,974	3.5%
1998	8,281,291	7,935,851	95.8%	196,949	8,132,800	98.2%	345,440	4.2%
1999	8,866,391	8,402,586	97.0%	346,412	8,748,998	101.0%	263,805	3.0%
2000	8,795,700	8,560,631	97.3%	251,223	8,811,854	100.2%	235,089	2.7%
2001	9,658,700	9,440,473	97.7%	214,156	9,654,629	99.96%	218,227	2.3%
2002	9,038,100	8,889,198	98.4%	215,341	9,104,539	100.7%	148,902	1.6%
2003	9,679,200	9,511,986	98.3%	152,763	9,664,749	99.9%	167,214	1.7%
2004	10,153,500	9,872,757	97.2%	170,663	10,043,420	98.9%	280,743	2.8%

Unaudited

ASSESSED AND ESTIMATED TAXABLE MARKET VALUE OF PROPERTY
LAST TEN FISCAL YEARS

TABLE 6

Fiscal Year	Real Property		Personal Property		Total		Percentage of Total Tax Capacity to Total Estimated Market Value
	Tax Capacity	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity	Estimated Market Value	
1995	\$ 37,436,492	\$ 1,978,975,800	\$ 2,304,877	\$ 50,393,300	\$ 39,741,269	\$ 2,029,369,200	2.0%
1996	39,160,165	2,080,397,700	2,404,952	52,622,500	41,566,117	2,133,020,200	1.9%
1997	39,845,961	2,287,824,000	1,961,008	49,556,600	41,806,869	2,337,380,600	1.8%
1998	37,868,469	2,369,160,700	1,719,414	49,648,300	39,587,883	2,418,809,000	1.6%
1999	38,079,562	2,468,440,000	1,702,237	51,207,000	39,781,799	2,509,847,000	1.6%
2000	42,098,922	2,623,576,400	1,725,964	51,427,200	43,824,886	2,875,003,600	1.6%
2001*	34,430,679	2,846,103,400	1,060,795	53,666,700	35,491,474	2,899,770,100	1.2%
2002	36,808,493	3,108,977,000	1,088,434	53,499,800	37,866,927	3,162,476,800	1.2%
2003	42,636,464	3,579,613,600	1,088,241	55,541,000	43,734,705	3,635,154,600	1.2%
2004	50,143,966	4,212,279,500	1,119,805	56,656,000	51,263,771	4,268,935,500	1.2%

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

Unaudited

TABLE 7

CITY OF DULUTH, MINNESOTA
PROPERTY TAX RATES AND TAX LEVIES - ALL DIRECT AND OVERLAPPING
GOVERNMENTAL UNITS (EXCLUDING EXEMPT PROPERTY REIMBURSEMENT
FROM THE STATE OF MINNESOTA)
LAST TEN FISCAL YEARS

Fiscal Year	City	Schools	County	Special	Total
TAX RATES *					
1995	0.23090	0.55840	0.60430	0.01330	1.40690
1996	0.22730	0.56910	0.57410	0.01310	1.38360
1997	0.21916	0.52890	0.55170	0.02570	1.32546
1998	0.23789	0.49932	0.60070	0.01418	1.35209
1999	0.26063	0.50771	0.64718	0.01532	1.43084
2000	0.26126	0.48290	0.66028	0.01630	1.42074
2001	0.26405	0.46084	0.65924	0.01778	1.40191
2002	0.28976	0.18180	0.87363	0.04860	1.39379
2003	0.29027	0.14816	0.81464	0.05631	1.30938
2004	0.26866	0.11778	0.77282	0.06810	1.22736

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

TAX LEVIES

1995	\$	7,694,595	\$	18,597,559	\$	20,153,219	\$	442,300	\$	46,887,673
1996		7,910,691		19,794,543		20,002,448		456,268		48,163,950
1997		8,138,791		19,631,615		20,504,065		955,989		49,230,460
1998		8,281,291		17,376,205		20,928,968		493,610		47,080,074
1999		8,666,391		16,905,582		21,551,675		509,737		47,633,385
2000		8,795,700		16,252,342		22,245,754		548,745		47,842,541
2001		9,658,700		20,012,662		28,727,914		784,595		59,183,871
2002		9,038,100		6,495,327		31,018,790		1,761,782		48,313,999
2003		9,679,200		5,048,900		27,200,101		1,950,799		43,879,000
2004		10,153,500		4,413,875		29,362,729		2,581,737		46,511,841

* Beginning with fiscal year 1994, the certified levy no longer includes the amount for Homestead Agriculture Credit Aid (HACA). Levies for the City have been adjusted accordingly.

Unaudited

SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS

TABLE 8

Fiscal Year	Special Assessment Billings	Assessments Collected	Total Outstanding Assessments
1995	\$ 2,673,026	\$ 1,161,250	\$ 7,831,200
1996	1,029,247	1,208,251	7,742,544
1997	1,708,730	1,453,581	8,026,568
1998	2,668,613	1,637,756	9,161,738
1999	2,300,996	2,134,311	9,298,755
2000	1,954,584	2,018,695	8,926,461
2001	2,149,797	1,943,409	9,316,401
2002	1,914,846	2,860,602	8,443,092
2003	1,602,014	2,105,138	8,063,185
2004	5,029,227	2,208,339	10,767,457

Unaudited

CITY OF DULUTH, MINNESOTA
 PERCENTAGE OF NET GENERAL OBLIGATION BONDED DEBT TO
 TAX CAPACITY RATE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
 LAST TEN FISCAL YEARS

TABLE 9

Fiscal Year	Population	Tax Capacity	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Percent of Net Bonded Debt to Tax Capacity	Net Bonded Debt per Capita
1995	85,865	\$ 39,741,369	\$ 18,054,900	\$ 3,442,707	\$ 14,612,193	36.77%	\$ 170.57
1996	85,511	41,566,117	18,221,400	2,766,391	15,455,009	37.18%	180.74
1997	85,225	41,806,889	18,185,900	2,301,076	15,884,824	38.00%	186.39
1998	85,249	39,587,883	19,552,900	3,063,890	16,499,010	41.68%	193.54
1999	84,891	39,781,799	31,930,500	3,345,682	28,584,818	71.85%	337.52
2000	86,918	43,824,886	30,460,500	3,445,464	27,015,046	61.64%	310.81
2001	86,125	35,491,474	34,157,800	3,623,861	30,533,939	86.03%	354.53
2002	86,044	37,866,927	35,268,100	1,881,129	33,386,971	88.17%	388.02
2003	86,082	43,734,705	32,798,400	4,880,479	27,917,921	63.83%	324.32
2004*	85,782	51,263,771	35,632,400	5,903,348	29,729,052	58.00%	346.57

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.

Unaudited

PERCENTAGE OF ANNUAL DEBT SERVICE EXPENDITURES
 FOR GENERAL OBLIGATION BONDED DEBT
 TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
 General, Special Revenue, Debt Service and Capital Projects Funds
 LAST TEN FISCAL YEARS

TABLE 10

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Percentage of Debt Service to General Governmental Expenditures
1995	\$ 2,701,200	\$ 1,011,756	\$ 3,712,956	\$ 67,284,861	5.52%
1996	2,336,500	929,300	3,265,800	89,454,664	4.70%
1997	2,640,000	1,243,626	3,883,626	89,221,411	5.51%
1998	3,007,000	1,174,023	4,181,023	75,871,782	5.53%
1999	3,822,400	1,411,357	5,233,757	77,124,277	6.79%
2000	3,455,000	1,497,565	4,952,565	83,619,054	5.92%
2001	3,717,700	1,465,041	5,172,741	89,822,310	5.76%
2002	4,086,700	1,509,486	5,595,186	116,425,238	4.81%
2003	4,776,700	1,802,266	6,578,966	110,551,533	5.95%
2004	5,018,000	1,897,389	6,715,389	116,720,441	5.75%

* Capital Projects Funds were not included prior to 2002, the year Governmental Accounting Standards Board Statement No. 34 was first implemented.

Unaudited

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

TABLE 11

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1995	\$ 7,071,844	\$ 5,322,225	\$ 1,749,619	\$ 825,000	\$ 456,446	\$ 1,281,446	1.37
1996	6,875,817	5,879,508	996,309	700,000	407,040	1,107,040	0.90
1997	8,021,377	5,878,645	2,342,732	585,000	325,834	910,834	2.57
1998	8,191,660	6,100,744	2,090,916	565,000	410,754	975,754	2.14
1999	7,889,933	6,179,369	1,710,564	515,000	362,239	877,239	1.95
2000	7,863,335	6,373,536	1,489,799	* 2,450,000	326,440	2,776,440	0.54
2001	8,409,390	6,809,669	1,799,721	650,000	264,633	914,633	1.97
2002	9,787,215	6,801,830	3,185,385	685,000	328,420	1,013,420	3.14
2003	9,841,217	7,318,249	2,522,968	882,000	304,781	1,186,781	2.13
2004	10,041,273	7,165,410	2,875,863	918,000	269,155	1,187,155	2.42

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

GAS REVENUE BOND

2001	\$ 41,036,149	\$ 39,003,580	\$ 2,032,569	\$ 0	\$ 155,865	\$ 155,865	13.04
2002	38,394,277	33,626,427	4,767,850	235,000	338,116	573,116	8.32
2003	42,313,867	37,357,082	4,956,785	455,000	493,552	948,552	5.23
2004	46,272,089	40,575,751	4,696,338	757,000	544,805	1,301,805	3.61

SEWER REVENUE BOND

1995	\$ 11,026,613	\$ 9,808,561	\$ 1,418,052	\$ 445,000	\$ 343,782	\$ 788,782	1.80
1996	13,243,047	11,518,812	1,724,235	780,000	294,109	1,074,109	1.61
1997	13,950,842	12,585,110	1,365,732	810,000	257,657	1,067,657	1.28
1998	14,164,851	14,250,391	-85,540	1,245,000	279,903	1,524,903	-0.06
1999	14,363,703	13,494,549	869,154	715,000	279,637	994,637	0.87
2000	14,898,053	13,425,754	1,472,299	875,000	291,510	1,166,510	1.26
2001	15,553,393	13,908,314	1,645,079	825,000	301,776	1,126,776	1.46
2002	16,580,152	13,815,859	2,744,293	925,000	396,905	1,321,905	2.08
2003	16,913,297	14,380,362	2,532,935	714,000	365,128	1,079,128	2.35
2004	16,407,422	13,705,780	2,701,642	760,000	441,383	1,191,383	2.27

(continued)

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

TABLE 11
(continued)

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<u>STORMWATER REVENUE BOND</u>							
2002	\$ 2,774,284	\$ 1,869,425	\$ 904,859	\$ 0	\$ 47,999	\$ 47,999	18.85
2003	2,861,113	2,147,125	713,988	74,000	51,437	125,437	5.69
2004	2,904,664	2,220,714	683,950	75,000	49,575	124,575	5.49
<u>STEAM DISTRICT #1 REVENUE BOND</u>							
1995	\$ 3,286,375	\$ 2,956,153	\$ 330,222	\$ 185,000	\$ 84,095	\$ 269,095	1.23
1996	3,291,437	2,771,159	520,278	190,000	74,720	264,720	1.97
1997	3,168,977	2,815,583	353,394	195,000	64,900	259,900	1.36
1998	2,866,971	2,589,815	277,166	200,000	62,612	262,612	1.06
1999	2,910,592	2,682,859	227,733	230,000	55,266	285,266	0.80
2000	3,118,008	2,737,336	380,672	235,000	54,422	289,422	1.32
2001	3,223,089	2,976,532	246,557	270,000	46,261	316,261	0.78
2002	3,548,873	3,008,319	540,554	300,000	45,309	345,309	1.57
2003	3,686,289	3,225,286	461,003	90,000	115,822	205,822	2.24
2004	4,021,712	3,373,137	648,575	135,000	118,620	253,620	2.56
<u>GOLF REVENUE BOND</u>							
1995	\$ 913,536	\$ 683,217	\$ 230,319	\$ 175,000	\$ 214,031	\$ 389,031	0.59
1996	1,180,693	886,385	294,308	200,000	187,243	387,243	0.76
1997	1,320,831	1,032,807	288,024	215,000	175,443	390,443	0.74
1998	1,518,541	1,123,075	395,466	225,000	162,758	387,758	1.02
1999	1,428,238	1,063,938	364,300	240,000	149,483	389,483	0.94
2000	1,634,898	1,220,726	414,172	260,000	135,323	385,323	1.07
2001	1,564,975	1,274,932	290,048	265,000	120,573	375,573	0.77
2002	1,487,619	1,392,197	95,422	265,000	105,528	370,528	0.26
2003	1,572,912	1,411,583	161,329	275,000	89,893	364,893	0.44
2004	1,735,653	1,441,402	294,251	120,000	31,595	151,595	1.94

Notes:

(1) Includes operating revenue and interest earnings.
(2) Includes cost of goods sold and operating expenses, excluding depreciation.

Unaudited

CITY OF DULUTH, MINNESOTA
DEMOGRAPHIC STATISTICS
LAST TEN FISCAL YEARS

TABLE 12

Fiscal Year	Population	Effective Buying Income	School Enrollment	Unemployment Rate
1995	85,665	29,138	13,834	5.3%
1996	85,511	25,035	13,738	5.5%
1997	85,225	26,224	13,134	4.5%
1998	85,249	27,430	12,885	3.5%
1999	84,691	28,418	12,528	3.6%
2000	86,918	25,558	12,166	4.3%
2001	86,125	29,218	12,464	4.1%
2002	86,044	33,731	12,555	4.2%
2003	86,082	31,163	12,321	5.3%
2004	85,782	n/a	11,979	5.4%

Sources: The unemployment rates were provided by the Minnesota Department of Economic Security.
The effective buying income was provided by the Sales and Marketing Management's "Survey of Buying Power."

The school enrollment figures were provided by the Duluth School District.
The population figures are estimates of the State Demographer.

Unaudited

PROPERTY VALUE AND CONSTRUCTION
LAST TEN FISCAL YEARS

TABLE 13

Fiscal Year	Residential Construction (1)			Non-Residential Construction (1)			Property Value (2)		
	Number of Units	Value	Number of Units	Value	Commercial	Residential			
1995	63	\$ 9,146,856	311	\$ 26,492,305	\$ 664,872,200	\$ 1,364,493,000			
1996	167	6,689,643	303	12,800,847	687,362,600	1,445,657,600			
1997	130	9,387,176	357	14,347,342	756,726,405	1,580,654,195			
1998	150	11,696,929	307	10,887,897	763,263,626	1,655,545,374			
1999	291	18,282,474	305	62,534,795	799,032,925	1,710,614,075			
2000	166	9,425,229	310	25,299,582	835,573,800	1,822,898,700			
2001	105	17,815,488	339	10,302,806	940,009,858	1,959,760,242			
2002	233	26,916,804	331	28,025,559	994,619,763	2,167,857,037			
2003	162	23,898,699	324	28,061,984	1,189,513,319	2,445,641,281			
2004	385	48,002,711	295	80,197,242	1,487,720,042	2,831,215,488			

Sources: (1) Building Inspection Division, City of Duluth
(2) Assessor's Office, City of Duluth

Unaudited

CITY OF DULUTH, MINNESOTA
PRINCIPAL TAXPAYERS
DECEMBER 31, 2004

TABLE 14

Taxpayer *	Type of Business	2004 Estimated Market Valuation	Percentage of Total Estimated Market Valuation
Minnesota Power	Electric utility	\$ 83,502,400	1.96%
StoraEnso North America	Paper mill	46,313,600	1.08%
Simon Property, Inc.	Shopping mall	33,352,200	0.78%
Duluth Clinic LTD	Medical center	21,124,300	0.49%
Northwest Air	Airbus maintenance	14,823,100	0.35%
IRET Properties	Property management	12,188,000	0.29%
Tech Village	Office/Tech building	9,782,100	0.23%
Bradley Operating Limited	Strip mall	9,686,300	0.23%
JMM Limited Partnership	Retail/hotel	9,224,700	0.22%
US Bank	Bank/Office building	8,783,100	0.21%
Menard Inc	Retail	<u>8,776,500</u>	<u>0.21%</u>
		<u>\$ 257,556,300</u>	<u>6.05%</u>

* "Taxpayer" is an aggregate of all properties under one fee ownership.

** Estimated market valuation includes both real and personal property.

Unaudited

**CITY OF DULUTH, MINNESOTA
PRINCIPAL EMPLOYERS
DECEMBER 31, 2004**

TABLE 15

Employer	Type of Business	Employees
St. Mary's Med Center/Duluth Clinic/Miller Dwan	Healthcare/hospital	5,816
St. Luke's Hospital	Healthcare/hospital	2,032
University of Minnesota-Duluth	Education	1,500
I.S.D. No. 709	Education	1,583
St. Louis County	Government	1,385
City of Duluth/Authorities	Government	933
Uniprise	Claims processing	923
Minnesota Power	Electric utility	669
Cirrus Design	Aviation	721
U. S. Postal Service	Government/postal encoding center	436
College of St. Scholastica	Education	456
Minnesota Air National Guard	Government/national security	327
Adv anstar	Publishing	408
StoraEnso North America	Paper mill	280
Fond DuLuth Casino	Gaming casino	272
Northwest Airlines Maintenance Facility	Airplane maintenance	228
		<u>17,969</u>

Source: City of Duluth
Business Development Office

Unaudited

**CITY OF DULUTH, MINNESOTA
MISCELLANEOUS STATISTICAL DATA
DECEMBER 31, 2004**

TABLE 16

Date of Incorporation	1887
Form of Government	Mayor/Council
Number of employees (excluding police and fire)	604
Area in square miles	67.29
CITY OF DULUTH FACILITIES AND SERVICES PROVIDED BY:	
PRIMARY GOVERNMENT -	
Public Safety -	
Fire Department -	
Number of stations	9
Number of employees	134
Number of calls answered	7,345
Number of inspections conducted	1,200
Police department -	
Number of employees	167
Number of violations:	
Criminal offenses	16,352
Traffic violations	5,978
Parking violations	69,906
Adult and juvenile arrests	4,042
Public Works -	
Miles of streets and alleys -	
Streets - paved	466.63
Streets - unpaved	78.56
Sidewalks	380.83
Number of street lights -	
Ornamental lamps (no. of bulbs)	3,241
Overhead street lamps	3,740
Construction permits -	
Permits issued in 2004	2,456
Estimated cost of construction during 2004	\$175,360,742
Sewage System -	
Miles of sanitary sewers	404.00
Miles of storm sewers	311.00
Number of service connections	28,835
Daily average treatment in gallons	16,500,000
Maximum daily capacity of treatment plant in gallons	86,570,000
Culture and recreation -	
Parks and Recreation Department -	
Number of parks	129
Park acreage	11,862
Number of ski hills	2
Number of municipal golf courses	2
Number of municipal tennis courts	9
Community clubs/field houses operated	27
Number of athletic fields	70
Library Department -	
Libraries/branches	3
Registered borrowers	63,851
Cataloged items in collection	341,034
Items loaned	970,342
Reference/research questions answered	237,517

(continued)

**CITY OF DULUTH FACILITIES AND SERVICES PROVIDED BY:
 PRIMARY GOVERNMENT (continued) -**

Department of Water and Gas -

Water Fund -

Number of hydrants	2,279
Average number of gallons treated per month	537,703,000
Miles of water mains	406.24
Meters in service	27,696
Daily average consumption in gallons	17,630,000
Maximum daily capacity of plant in gallons	32,000,000

Gas Fund -

MMBTU sold	5,066,848
Miles of gas mains	482.2
Meters in service	24,970

COMPONENT UNITS -

Duluth Entertainment and Convention Center (DECC) -

Number of events	522
Number of conventions	44

Duluth Airport Authority -

Number of passengers	316,912
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Duluth Transit Authority -

Number of buses	66
Number of routes	17
Number of passengers	2,647,051
Service area (square miles)	143

**FACILITIES AND SERVICES NOT INCLUDED IN THE CITY OF DULUTH
 REPORTING ENTITY:**

Education -

Duluth Public Schools -

Number of elementary schools	13
Number of elementary school teachers	297
Number of elementary school students	4,285
Number of middle schools	4
Number of middle school teachers	181
Number of middle school students	2,539
Number of high schools	3
Number of high school teachers	196
Number of high school students	3,884
Number of alternative schools	9
Number of alternative school teachers	90
Number of alternative school students	371
Number of specialized teachers	0
Number of adult basic education students	900

Other -

Number of community colleges/technical schools	1
Number of universities	2

Health care -

Number of hospitals

2

Number of patient beds

647

Number of bassinets (neonatal intensive care)

66

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