

# **The City of Duluth, Minnesota Comprehensive Annual Financial Report**



For the fiscal year ended December 31, 2006

# City of Duluth Minnesota

Comprehensive Annual Financial Report  
for the Fiscal Year Ending  
December 31, 2006



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, 2006**

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## CITY OF DULUTH

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Director of Finance

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June 21, 2007

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

State law and the City Charter mandate the City of Duluth have an annual audit of its financial statements. State law requires the audit to be conducted within 180 days after fiscal year end. This report was prepared to satisfy these requirements for the fiscal year ended December 31, 2006.

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

The Minnesota Office of the State Auditor has issued an unqualified opinion on the City of Duluth's financial statements for the year ended December 31, 2006. The independent auditor's report is located at the front of the financial section of this report.

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

### GOVERNMENT PROFILE

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

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

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

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

## LOCAL ECONOMY

Once dependent on heavy industry for its economic health, Duluth has diversified and is now a strong regional center for shipping, tourism, education, health care, retail sales, technology, and aviation. According to the Minnesota Department of Economic Security, Duluth had 56,880 non-agricultural jobs in December 1996. In December 2006, Duluth had 64,683 non-agricultural jobs. This is the highest December figure in the city's history and just off the all-time monthly high, set in the preceding month.

Duluth also showed improvement in its signature industry, shipping. The Seaway Port Authority of Duluth reports that 1,187 ships used the port last year, an increase of 23 ships from 2005. But more importantly, tonnage carried by those vessels was up, to 47,000,000 tons. This is the largest tonnage figure since 1979. These numbers include 137 foreign-flag vessels, 246 Canadian-flag vessels and 805 U.S.-flag vessels.

Duluth continues to excel in the key industry of tourism. Duluth's efforts in this area resulted in 43 conventions hosted by the Duluth Entertainment Convention Center (DECC) during 2006. Over 24,500 people attended these conventions, placing an estimated \$15.5 million directly into the Duluth economy. The DECC remains in the top twenty nationwide in terms of convention center business and is uniquely located on the world's largest inland port.

Legislative approval is also expected during 2007 on a third expansion for this fine facility, to house a new home for the University of Minnesota-Duluth's men's and women's hockey teams and attract even more, and even bigger, conventions to the city. This expansion is expected to be in the \$70 million range.

According to survey results from the Minnesota Board of Trade and 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 has been called a "hidden gem" by the Washington Post in its "100 Schools To Consider." UMD and St. Scholastica are regularly ranked in the top tier of midwestern universities by *U.S. News and World Report*. With a student population of 11,200, UMD provides bachelor degrees in 75 majors, 27 graduate programs, and doctor of education (Ed.D.) degree. Lake Superior College has grown by more than 50% over the past decade and will open a major campus expansion during the fall semester of 2007.

Increased opportunities for growth also exist during 2006. The new Sheraton Hotel located in downtown Duluth will open in May 2007. The city's Housing 1000 initiative, which holds the goal of creating 1,000 new housing units in the city with an emphasis on affordable housing, now boasts completed projects such as the San Marco Apartments, Village Place, the Matterhorn Project and a Harbor Highlands project that is revitalizing the city's HUD housing.

When complete, projects funded by the HOPE-VI neighborhood revitalization will have added over \$100 million in new construction in the city.

Work also continues on the Heritage Hockey Center project, a combined hockey facility, hotel complex and museum which will provide unparalleled opportunities for Duluth's youth and help the city claim its rightful place as a capital city in the State of Hockey.

## LONG-TERM FINANCIAL PLANNING

Unreserved, undesignated fund balance in the general fund (4.6 percent of total general fund expenditures and transfers) does not fall within the policy guidelines set by the Administration and Council for budgetary and planning purposes. According to the policy, unreserved, undesignated fund balance should fall within the following range of general fund expenditures and transfers; 5% as a minimum, 7% as a moderate scenario, with 10% regarded as optimum. The City will develop a fund balance recovery initiative to work towards rebuilding unreserved, undesignated fund balance to meet policy requirements during 2007.

## RELEVANT FINANCIAL POLICIES

The City established a Community Investment Fund in 1994. The Fund is financed by the City's share of revenues generated from the operation of the Fond-du-Luth Casino administered by the Fond du Lac Band of Lake Superior Chippewa. Investment earnings from the Community Investment Fund are applied towards the City's Street Improvement Program. All other monies appropriated from the Fund must be approved by resolution by at least seven members of the nine-member City Council.

As of December 31, 2006, the City Council has approved resolutions authorizing the use of \$ 4.2 million of future Community Investment Fund revenues for a variety of projects including the creation of affordable housing and the construction of recreational facilities. In addition, in 2007, the City Council authorized the transfer of \$10 million from the Community Investment Fund into a trust fund for funding the City's other post employment benefits obligation.

## MAJOR INITIATIVES

In 2006, the City completed construction of a parking ramp as part of a development agreement with St. Mary's/Duluth Clinic to construct a medical campus expansion. The medical campus expansion cost exceeded \$75 million and created 200 additional jobs in the medical field. The medical district expansion will add to Duluth's reputation as a leader in the field of medical care.

In 2007, the City approved a special state law that authorizes the City to invest monies accumulated in its Community Investment Fund with the Minnesota State Board of Investment (SBI). Investing with SBI will allow the City to earn higher rates of return on its investments because the types of securities available for investing are unlimited.

## AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Duluth, for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 2005. This was the thirty-first consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR whose contents conform to both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City of Duluth also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the year 2006. In order to qualify for the Distinguished Budget Presentation Award, a governmental unit's budget must be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.



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

Respectfully submitted,

*/s/ Genevieve A. Stark*

Genevieve A. Stark  
Director of Finance

*/s/ Wayne W. Parson*

Wayne W. Parson, CPA  
City Auditor

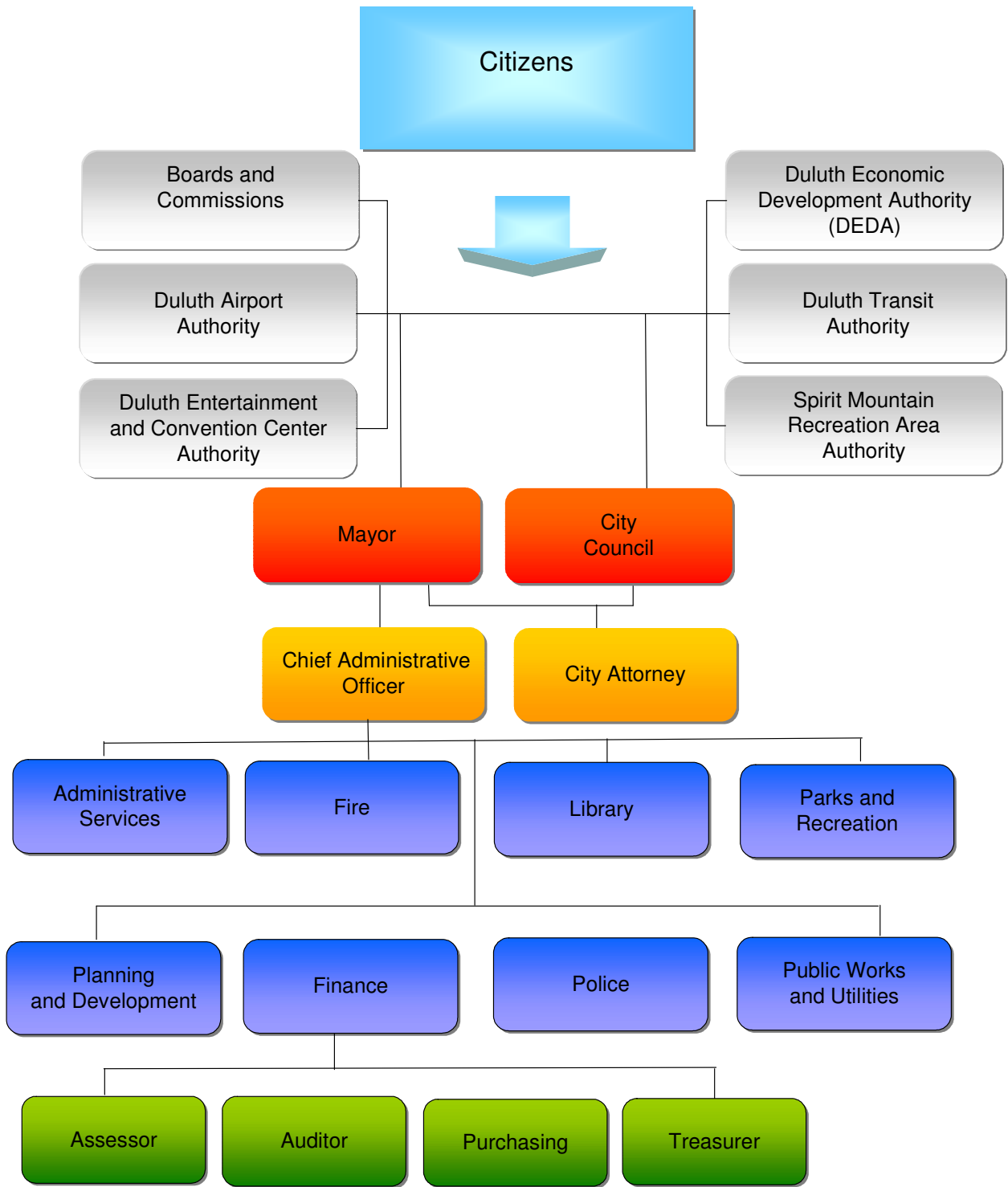
**ELECTED AND APPOINTED OFFICIALS  
CITY OF DULUTH, MINNESOTA  
2006**

<b>ELECTED POSITIONS</b>	<b>DISTRICT</b>	<b>TERM EXPIRES</b>
Mayor Herb W. Bergson, Jr.		2008
City Council		
Timothy Little	At large	2008
Donald Ness	At large	2008
Roger Reinert	At large	2010
James Stauber	At large	2010
Laurie Johnson	1	2008
Greg Gilbert	2	2010
Russell Stewart	3	2008
Garry Krause	4	2010
Russel Stover	5	2008

\*All terms expire in January

**APPOINTED POSITIONS**

Chief Administrative Officer	John Hall
Attorney	Bryan Brown
Director, Administrative Services	Mark McShane
Director, Finance	Genevieve Stark
Director, Parks & Recreation	Carl Seehus
Director, Planning	Robert Bruce
Director, Public Libraries	Elizabeth Kelly
Director, Public Works and Utilities	James Benning
Fire Chief	John Strongitharm
Police Chief	Gordon Ramsay
Assessor	John Gellatly
Auditor	Wayne Parson
Clerk	Jeffrey Cox
Treasurer	Larry Jeneson



# 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, 2005

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



A handwritten signature in black ink, appearing to read "Ronald J. Moran".

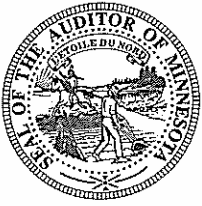
President

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

Executive Director

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# Financial Section



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**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 years ended December 31, 2006, 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, 2006. 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 represent 5.6 percent, 7.9 percent, and 9.3 percent, respectively, of the assets, net assets, and revenues of the business-type activities; and 10.8 percent, 17.6 percent, and 11.8 percent, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Steam District #2 Enterprise Fund, is based solely upon the report of the other auditors.

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

An Equal Opportunity Employer

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, 2006, including the Spirit Mountain Recreation Area Authority as of April 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis 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 by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated June 21, 2007, on our consideration of the City of Duluth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/ Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/ Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 21, 2007



# Management's Discussion and Analysis (MD & A)

**CITY OF DULUTH, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006**

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, 2006 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, 2006 by \$389.9 million; this amount is identified as net assets. Of this amount, \$91.0 million is unrestricted and may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$30.6 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, 2006, the City's governmental funds reported combined ending fund balances of \$100.6 million, a decrease of \$4.5 million compared to 2005. Although \$59.6 million is reported as unreserved-undesignated fund balance, which is considered available for spending at the City's discretion, 98% 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, 2006, the General Fund's undesignated, unreserved balance was \$3.5 million, or 5.0% of total General Fund expenditures.

**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, 2006**

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.

**CITY OF DULUTH, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006**

**Proprietary Funds**

The City maintains two different types of proprietary funds. The first type is enterprise funds, which are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the Water, Gas, Sewer, and Steam District #1 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 (69 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.

**CITY OF DULUTH, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006**

An additional portion of the City's net assets (8 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 (23 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):

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 144,037	\$ 151,316	\$ 37,493	\$ 41,626	\$ 181,530	\$ 192,942
Capital assets	275,342	251,479	147,410	136,817	422,752	388,296
<b>Total assets</b>	<b>\$ 419,379</b>	<b>\$ 402,795</b>	<b>\$ 184,903</b>	<b>\$ 178,443</b>	<b>\$ 604,282</b>	<b>\$ 581,238</b>
Long-term liabilities outstanding	\$ 137,593	\$ 147,859	\$ 52,022	\$ 45,569	\$ 189,615	\$ 193,428
Other liabilities	13,872	15,381	10,949	13,202	24,821	28,583
<b>Total liabilities</b>	<b>\$ 151,465</b>	<b>\$ 163,240</b>	<b>\$ 62,971</b>	<b>\$ 58,771</b>	<b>\$ 214,436</b>	<b>\$ 222,011</b>
Net assets:						
Invested in capital assets net of related debt	\$ 171,676	\$ 155,699	\$ 95,017	\$ 91,987	\$ 266,693	\$ 247,686
Restricted	29,935	28,531	2,202	2,182	32,137	30,713
Unrestricted	66,303	55,325	24,713	25,503	91,016	80,828
<b>Total net assets</b>	<b>\$ 267,914</b>	<b>\$ 239,555</b>	<b>\$ 121,932</b>	<b>\$ 119,672</b>	<b>\$ 389,846</b>	<b>\$ 359,227</b>

Overall, the City's financial position improved from 2005. The City's net assets grew by \$30.6 million, an increase of 8.5%. This increase was due primarily to an increase in the City's investment in capital assets in both governmental activities and business-type activities and an increase in the City's governmental activities unrestricted net assets. The City's investment in capital assets, net of debt, increased by \$19.0 million and was the result of the City's ongoing street improvement program and utility infrastructure improvements. The City's unrestricted net assets increase of \$10.2 million was caused primarily by the continued accumulation of assets in the Community Investment Fund.

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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):

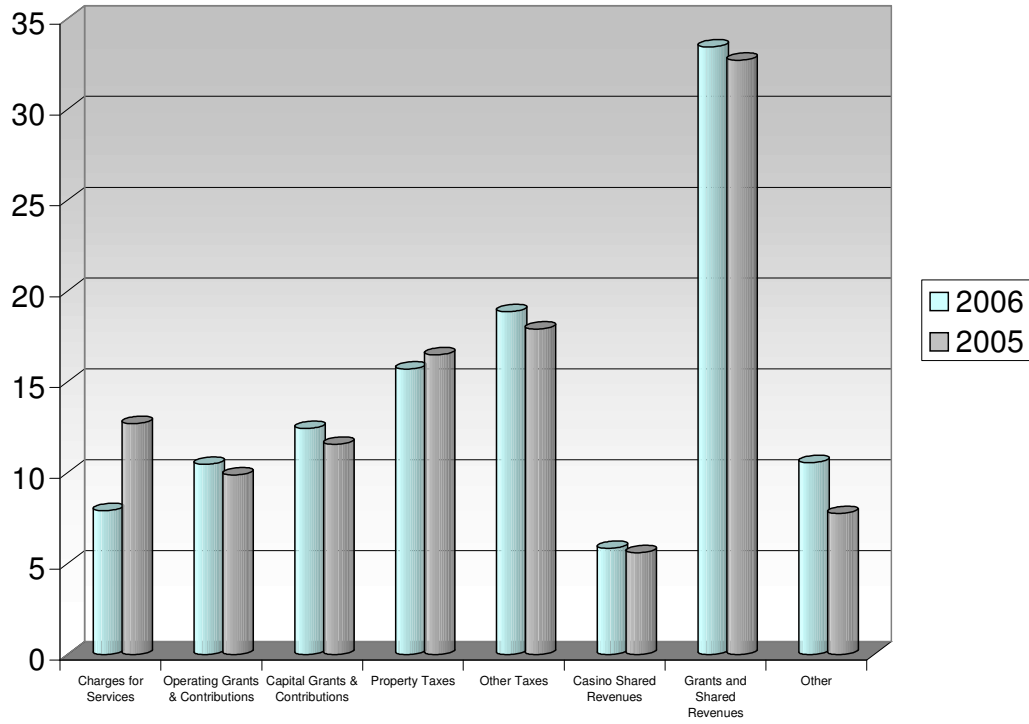
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 7,922	\$ 12,711	\$ 92,704	\$ 95,686	\$ 100,626	\$ 108,397
Operating grants and contributions	10,470	9,884	-	-	10,470	9,884
Capital grants and contributions	12,445	11,566	2,961	2,179	15,406	13,745
General Revenues:						
Property taxes	15,710	16,489	-	-	15,710	16,489
Other taxes	18,867	17,910	-	-	18,867	17,910
Casino shared revenues	5,845	5,609	-	-	5,845	5,609
Grants and shared revenues not restricted to specific programs	33,434	32,703	-	-	33,434	32,703
Other	10,564	7,759	854	717	11,418	8,476
<b>Total revenues</b>	<b>115,257</b>	<b>114,631</b>	<b>96,519</b>	<b>98,582</b>	<b>211,776</b>	<b>213,213</b>
Expenses:						
General government	20,903	21,287	-	-	20,903	21,287
Public safety	28,481	28,069	-	-	28,481	28,069
Public works	13,823	13,721	-	-	13,823	13,721
Culture and recreation	9,107	7,401	-	-	9,107	7,401
Urban and economic development	12,773	23,677	-	-	12,773	23,677
Interest	7,427	6,749	-	-	7,427	6,749
Water	-	-	9,827	9,463	9,827	9,463
Gas	-	-	45,278	50,492	45,278	50,492
Sewer	-	-	14,928	13,455	14,928	13,455
Stormwater	-	-	2,777	2,508	2,777	2,508
Steam District #1	-	-	4,628	4,224	4,628	4,224
Steam District #2	-	-	9,315	8,920	9,315	8,920
Golf	-	-	1,890	1,908	1,890	1,908
<b>Total expenses</b>	<b>92,514</b>	<b>100,904</b>	<b>88,643</b>	<b>90,970</b>	<b>181,157</b>	<b>191,874</b>
Increase in net assets before transfers	22,743	13,727	7,876	7,612	30,619	21,339
Transfers	5,616	4,071	(5,616)	(4,071)	-	-
Increase in net assets	28,359	17,798	2,260	3,541	30,619	21,339
Net assets, January 1, restated	239,555	221,757	119,672	116,131	359,227	337,888
<b>Net assets, December 31</b>	<b>\$ 267,914</b>	<b>\$ 239,555</b>	<b>\$ 121,932</b>	<b>\$ 119,672</b>	<b>\$ 389,846</b>	<b>\$ 359,227</b>

Even though there was a rate increase in the fall of 2006 for the City's utility funds, business-type activities revenues decreased by \$2.1 million due to a revenue decrease in the Gas Enterprise Fund. The gas revenue decrease was due to a significant decline in the cost of natural gas which is passed along to customers as a reduction in gas rates.

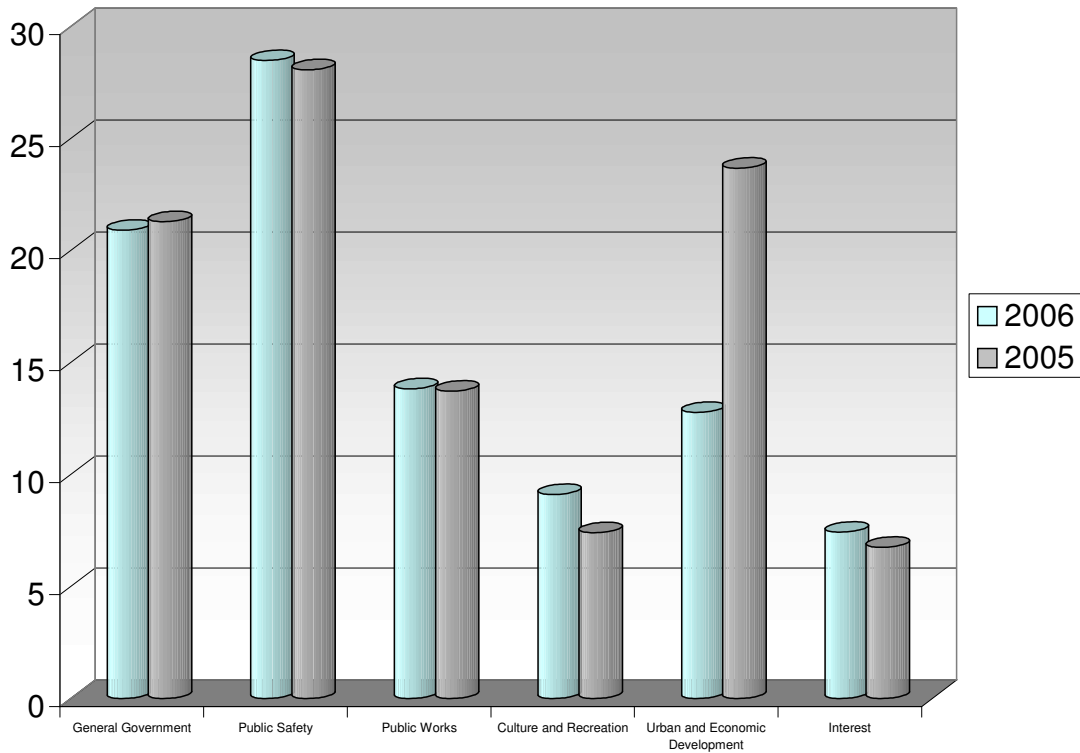
The \$2.3 million decrease in business-type activities expenses, was due to a large decrease in the cost of natural gas. The natural gas cost decrease was partially offset by an increase in operating expenses due to inflationary pressures and repairs & maintenance costs.

The slight increase in governmental activities revenues was due primarily to an increase in investment income. The governmental activities expense decrease of \$8.4 million was due primarily to the completion of a mixed income housing development project in 2005. Housing development project expenses incurred in 2005 were approximately \$7.3 million.

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



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



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**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, 2006, the City's governmental funds reported combined ending fund balances of \$100.6 million, a decrease of \$4.5 million from 2005. Of the total fund balance amount, \$76.5 million, or 76%, is reported as unreserved fund balance, which is available for spending at the City's discretion. Of the unreserved amount, \$16.8 million is already designated for specific purposes, with the largest amount, \$8.1 million, set aside for debt service. Of the \$59.6 million reported as unreserved, undesignated fund balance, 98% 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 \$24.2 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 \$7.3 million; 2) to pay \$12.0 million for debt service; and 3) \$4.9 million for a variety of other restricted purposes.

The General Fund is the main operating fund of the City of Duluth. At December 31, 2006, fund balance of the General Fund was \$5.0 million, with \$4.2 million, or 84% reported as unreserved. The undesignated portion of unreserved fund balance was \$3.5 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 5.0% and total fund balance is 7.1% of total General Fund expenditures. The fund balance of the General Fund increased slightly in 2006 which corresponds with the balanced 2006 budget.

The Community Investment Special Revenue fund balance increased by \$5.0 million in 2006, 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 December 31		Increase (Decrease) Net Assets December 31	
	2006	2005	2006	2005
Water	\$ 4,349	\$ 4,219	\$ 799	\$ 708
Gas	13,087	12,893	242	1,663
Sewer	5,048	5,639	1,136	2,233
Steam District #1	583	1,178	(29)	111



**CITY OF DULUTH, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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Unrestricted net assets decreased for Sewer and Steam District #1 because of the planned investment in capital assets financed by operating revenues. The decrease in the change in net assets for Gas was due to a reduction in gas sales due to warm winter weather and the payment in lieu of taxes (PILT) calculation. The PILT is calculated based upon previous year revenues which were unusually high. The decrease in the change in net assets for Sewer was due to unusual repair costs that did not meet capitalization requirements.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year there was a \$1,973,480 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$600,000 supplemental appropriation for salaries and benefits for vacation payoffs for the unprecedented number of employees that retired during 2006.
- \$240,747 appropriation increase for sales tax administration costs incurred by the State of Minnesota for collecting city sales taxes.
- \$807,917 appropriation increase for prior year carryovers.
- \$150,736 appropriation for grants, gifts and donations.

The increase was possible due to additional anticipated revenues, primarily earnings on investments and sales tax, and utilization of prior year fund balance reserves and designations.

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

- Revenues and other financing sources exceeded budget by \$350,709. Significant favorable variances in building inspection services and investment income were partially offset by an unfavorable variance in parking fines. The building inspection revenue increase was due to new commercial building activity. The growth in investment income was due largely to increasing interest rates. Parking fines were under budget because a planned fine increase was not adopted by the City Council.
- Expenditures and transfers were under budget by \$505,676 due primarily to delays in planned capital improvements.

**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, 2006 was \$422.8 million, net of accumulated depreciation. This investment includes land and improvements, buildings, equipment, roads and bridges, traffic signals, and utility-related infrastructure. In 2006, the City's total investment in capital assets, net of accumulated depreciation, increased by \$34.5 million. Capital assets related to governmental activities increased by \$23.9 million and was due primarily to the City's ongoing street improvement program and construction of the medical district parking ramp. Capital assets related to business-type activities increased by \$10.6 million. The increase was due primarily to replacement of water and sewer lines, work on a sanitary system overflow storage project and improvements to Steam District #1. Additional information related to the City's

**CITY OF DULUTH, MINNESOTA  
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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	
	2006	2005	2006	2005
Capital Assets:				
Land and improvements	\$ 25,107	\$ 25,115	\$ 856	\$ 856
Buildings	51,532	53,800	17,815	18,656
Equipment	6,255	5,880	19,059	15,562
Infrastructure	153,904	137,016	92,303	71,979
Construction in progress	38,544	29,668	17,377	29,764
Total	<u>\$ 275,342</u>	<u>\$ 251,479</u>	<u>\$ 147,410</u>	<u>\$ 136,817</u>

**LONG-TERM DEBT**

The City of Duluth had \$148.9 million of bonded debt outstanding as of December 31, 2006. Of this amount, \$43.5 million is debt backed by the full faith and credit of the City. \$53.6 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 \$46.8 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, 2005 and 2006 (dollars in thousands).

	Balance 12/31/06	Balance 12/31/05
Governmental Activities:		
General Obligation Bonds	\$ 32,439	\$ 33,813
General Obligation Tax Increment Bonds	6,381	7,282
General Obligation Tax Abatement Bonds	310	310
Tax Increment Revenue Bonds	2,543	3,919
Lease Revenue Bonds	1,640	1,770
Special Assessment Debt with Government Commitment	53,600	53,919
General Obligation Certificates	4,395	3,915
Total Governmental Activities Bonded Debt	<u>\$ 101,308</u>	<u>\$ 104,928</u>
Business-type Activities:		
Revenue Bonds	800	920
Revenue and General Obligation Bonds	46,815	40,340
Total Business-type Activities Bonded Debt	<u>\$ 47,615</u>	<u>\$ 41,260</u>

During 2006, the City's total debt decreased by \$ 1.1 million, or .6%. In 2006, the City issued \$.9 million of general obligation bonds, \$14.4 million special assessment debt with government commitment, \$1.8 million of general obligation certificates, and \$9.5 million utility revenue and general obligation bonds. The City also issued \$.2 million of general obligation notes, \$1.3 million revenue notes and \$.5 million capital lease. The City has an "Aa3" rating from Moody's Investors Service and an "AA-" rating from Standard and Poors.

**CITY OF DULUTH, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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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 \$101.2 million, which is significantly higher than the City's net debt of \$29.3 million. Additional information about the City's long-term debt can be found in Note 11 of the notes to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The final approved 2007 General Fund budget of \$78,538,700 is \$3.53 million or 4.7% more than the 2006 approved budget. State local government aid (LGA) payments are anticipated to supply 35% of General Fund revenues. State aid payments are the single biggest financing source for the General Fund.

In the 2003 state legislative session, the Legislature reduced local government aid to cities across the state as part of the solution to the State's \$4 billion budget deficit. For Duluth, that meant a decrease of \$3.7 million in LGA over what had been certified for 2003. This reduction carried over into the 2004 LGA allocation. For 2005 and beyond, the Legislature enacted significant changes to the LGA program. The amount of dollars allocated to the program has been reduced and the Legislature also eliminated the automatic inflationary increase that had been in place since 1993. The greatest change to the program however, was the adoption of a new formula which measures each city's expenditure need based on a number of statistical variables. Once a city's need is calculated, it is compared to a city's ability to pay or revenue raising capacity. Cities that have spending needs that exceed their ability to pay receive a share of the LGA distribution. This figure is then compared to ten percent of a city's prior year property tax levy, with the final certified aid amount being the lesser of the two. For Duluth's 2007 allocation, the formula aid was greater than the property tax number, resulting in an increase of \$1.112 million for a total of \$27.84 million.

In 2005, the City contracted with an actuary to calculate its actuarial accrued liability for post employment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. The actuarial accrued liability was calculated to be \$280 million as of January 1, 2005. GASB Statement No. 45 does not become effective until January 1, 2007. The actuarial accrued liability is driven by a number of factors including plan provisions and the discount rate.

In 2006 and 2007, the City's administration negotiating changes in plan provisions with two of its bargaining units eliminating eligibility for post employment benefits for new hires and consolidated health plan options to one health plan that features significant deductibles and co-payments. These plan provision changes will result in a significant reduction in the actuarial accrued liability.

In 2007, the City Council approved new state legislation that allows plan assets to be invested in a trust that will be invested through the State Board of Investment (SBI). This trust arrangement will increase the yield on plan assets significantly which impacts the discount rate used by the actuary. The actuary has determined that a one percent increase in the discount rate would reduce the actuarial accrued liability by \$44 million.

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

**REQUESTS FOR INFORMATION**

This financial report is meant to provide a general overview of the City 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](mailto:wparson@ci.duluth.mn.us).

# Basic Financial Statements

**CITY OF DULUTH, MINNESOTA  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 96,180,522	\$ 15,088,817	\$ 111,269,339	\$ 5,990,811
Assets held by trustee	2,988,224	-	2,988,224	-
Receivables, net	30,036,766	11,724,880	41,761,646	875,663
Due from primary government	-	-	-	97,586
Internal balances	4,113,690	(4,113,690)	-	-
Due from component units	224,238	-	224,238	-
Due from other governments	8,519,772	426,495	8,946,267	594,422
Inventories	207,882	1,794,073	2,001,955	450,002
Prepays	736,481	3,403,648	4,140,129	425,558
Restricted assets:				
Cash and cash equivalents	-	6,235,926	6,235,926	5,018,741
Accounts receivable	-	-	-	105,227
Loans receivable	-	2,508,647	2,508,647	-
Grants receivable	-	-	-	2,570,990
Assets held by trustee	-	110,366	110,366	83,185
Deferred charges	1,030,029	313,625	1,343,654	728,211
Capital assets (Note 6):				
Non-depreciable	63,650,514	18,232,799	81,883,313	35,851,564
Depreciable, net	211,691,346	129,177,515	340,868,861	80,458,760
<b>Total assets</b>	<b>419,379,464</b>	<b>184,903,101</b>	<b>604,282,565</b>	<b>133,250,720</b>
<b>LIABILITIES</b>				
Accounts payable and other short-term liabilities	7,510,500	7,728,926	15,239,426	4,007,311
Accrued interest payable	4,081,386	701,208	4,782,594	111,426
Due to component units	97,586	-	97,586	-
Due to primary government	-	-	-	132,292
Due to other government	1,739,101	718,075	2,457,176	28,646
Unearned revenues	443,586	1,800,082	2,243,668	5,020,928
Liabilities payable from restricted assets	-	-	-	258,379
Noncurrent liabilities (Note 11):				
Due within one year	18,999,443	4,597,990	23,597,433	1,854,797
Due in more than one year	118,593,885	47,424,333	166,018,218	6,098,542
<b>Total liabilities</b>	<b>151,465,487</b>	<b>62,970,614</b>	<b>214,436,101</b>	<b>17,512,321</b>
<b>NET ASSETS</b>				
Investment in capital assets, net of related debt	171,675,354	95,017,361	266,692,715	109,931,244
Restricted for:				
Debt service	25,074,462	-	25,074,462	83,185
Capital projects	1,765,287	-	1,765,287	299,764
Special projects	2,247,359	260,280	2,507,639	-
Loans	747,033	1,941,568	2,688,601	-
Other	101,021	-	101,021	2,902,917
Unrestricted	66,303,461	24,713,278	91,016,739	2,521,289
<b>Total net assets</b>	<b>\$ 267,913,977</b>	<b>\$ 121,932,487</b>	<b>\$ 389,846,464</b>	<b>\$ 115,738,399</b>

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

**CITY OF DULUTH, MINNESOTA  
STATEMENT OF ACTIVITIES  
DECEMBER 31, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 20,902,934	\$ 1,804,560	\$ 20,736	\$ -
Public safety	28,480,845	3,305,117	1,264,847	426,267
Public works	13,823,001	1,096,718	1,262,587	11,377,978
Culture and recreation	9,107,022	807,245	252,164	-
Urban and economic development	12,773,203	908,279	7,669,410	640,835
Interest	7,427,045	-	-	-
Total governmental activities	<u>92,514,050</u>	<u>7,921,919</u>	<u>10,469,744</u>	<u>12,445,080</u>
Business-type activities:				
Water	9,827,419	11,025,294	-	68,741
Gas	45,278,118	49,534,016	-	18,827
Sewer	14,928,433	15,507,006	-	701,885
Stormwater	2,776,726	3,098,403	-	168,611
Steam district #1	4,628,019	4,686,723	-	-
Steam district #2	9,314,893	6,959,000	-	2,002,917
Golf	1,889,657	1,893,564	-	-
Total business-type activities	<u>88,643,265</u>	<u>92,704,006</u>	<u>-</u>	<u>2,960,981</u>
Total primary government	<u>\$ 181,157,315</u>	<u>\$ 100,625,925</u>	<u>\$ 10,469,744</u>	<u>\$ 15,406,061</u>
<b>Component units :</b>				
Duluth Entertainment and Convention Center Authority	\$ 9,325,502	\$ 7,012,299	\$ -	\$ -
Duluth Airport Authority	5,555,032	3,724,553	46,042	12,413,583
Duluth Transit Authority	12,754,050	2,120,076	6,655,762	2,915,952
Spirit Mountain Recreation Area Authority	4,172,491	4,215,168	-	225,000
Total component units	<u>\$ 31,807,075</u>	<u>\$ 17,072,096</u>	<u>\$ 6,701,804</u>	<u>\$ 15,554,535</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA  
STATEMENT OF ACTIVITIES  
DECEMBER 31, 2006**

<u>Functions/Programs</u>	<b>Net (Expense) Revenue and Changes in Net Assets</b>			
	<b>Primary Government</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ (19,077,638)	\$ -	\$ (19,077,638)	\$ -
Public safety	(23,484,614)	-	(23,484,614)	-
Public works	(85,718)	-	(85,718)	-
Culture and recreation	(8,047,613)	-	(8,047,613)	-
Urban and economic development	(3,554,679)	-	(3,554,679)	-
Interest	(7,427,045)	-	(7,427,045)	-
Total governmental activities	<u>(61,677,307)</u>	<u>-</u>	<u>(61,677,307)</u>	<u>-</u>
Business-type activities:				
Water	-	1,266,616	1,266,616	-
Gas	-	4,274,725	4,274,725	-
Sewer	-	1,280,458	1,280,458	-
Stormwater	-	490,288	490,288	-
Steam district #1	-	58,704	58,704	-
Steam district #2	-	(352,976)	(352,976)	-
Golf	-	3,907	3,907	-
Total business-type activities	<u>-</u>	<u>7,021,722</u>	<u>7,021,722</u>	<u>-</u>
Total primary government	<u>(61,677,307)</u>	<u>7,021,722</u>	<u>(54,655,585)</u>	<u>-</u>
<b>Component units :</b>				
Duluth Entertainment and Convention Center Authority	-	-	-	(2,313,203)
Duluth Airport Authority	-	-	-	10,629,146
Duluth Transit Authority	-	-	-	(1,062,260)
Spirit Mountain Recreation Area Authority	-	-	-	267,677
Total component units	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,521,360</u>
<b>General Revenues:</b>				
Property taxes	15,709,840	-	15,709,840	2,198,247
Market value credit aid	1,184,399	-	1,184,399	-
Sales taxes	16,860,351	-	16,860,351	-
Other taxes	2,006,659	-	2,006,659	-
Casino shared revenues	5,844,787	-	5,844,787	-
Grants and shared revenues not restricted to specific programs	32,249,900	-	32,249,900	1,609,212
Investment income	5,131,090	824,428	5,955,518	244,900
Gain on sale or disposition of capital assets	262,367	30,268	292,635	8,714
Miscellaneous	5,170,612	-	5,170,612	299,743
Transfers	5,616,094	(5,616,094)	-	-
Total general revenues and transfers	<u>90,036,099</u>	<u>(4,761,398)</u>	<u>85,274,701</u>	<u>4,360,816</u>
Change in net assets	28,358,792	2,260,324	30,619,116	11,882,176
Net assets - beginning, as restated (Note 1)	<u>239,555,185</u>	<u>119,672,163</u>	<u>359,227,348</u>	<u>103,856,223</u>
Net assets - ending	<u>\$ 267,913,977</u>	<u>\$ 121,932,487</u>	<u>\$ 389,846,464</u>	<u>\$ 115,738,399</u>

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

**CITY OF DULUTH, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>General Fund</b>	<b>Community Investment</b>	<b>Special Assessment Debt Service</b>	<b>Street Improvement Debt Service</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 56,384,415	\$ 695,527	\$ 2,184,281
Assets held by trustee	503,986	-	-	-
Receivables, net:				
Taxes	2,538,396	-	-	-
Accounts	343,445	1,472,274	-	-
Assessments	1,066,616	-	7,360,422	3,950,491
Loans	261,005	-	-	-
Grants	-	-	-	-
Accrued interest	398,268	889,656	-	-
Deposits	-	-	-	-
Due from other funds	2,693,896	-	-	32,260
Due from component units	99,053	-	-	-
Interfund loan receivable	1,495,357	-	-	5,224,099
Due from other governments	694,064	-	-	-
Prepays	-	-	-	-
Total assets	<u>\$ 10,094,086</u>	<u>\$ 58,746,345</u>	<u>\$ 8,055,949</u>	<u>\$ 11,391,131</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 1,032,587	\$ -	\$ -	\$ 34,008
Contracts payable	179,065	-	-	-
Due to other funds	1,172,466	63,616	-	-
Due to component units	-	-	-	-
Interfund loan payable	-	-	-	-
Loans payable	-	-	-	-
Due to other governments	124,747	-	-	-
Accrued salaries payable	997,976	-	-	-
Deferred revenue	1,533,391	-	7,349,571	3,944,303
Total liabilities	<u>5,040,232</u>	<u>63,616</u>	<u>7,349,571</u>	<u>3,978,311</u>
Fund balances:				
Reserved for:				
Encumbrances	254,396	-	-	-
Debt service	-	-	-	-
Special accounts	562,062	-	-	-
Unreserved:				
Designated for, reported in:				
Debt service	-	-	706,378	7,412,820
Capital improvements	260,978	-	-	-
Special accounts	457,655	-	-	-
Special revenue funds	-	-	-	-
Debt service funds	-	-	-	-
Capital project funds	-	-	-	-
Undesignated, reported in:				
General fund	3,518,763	-	-	-
Special revenue funds	-	58,682,729	-	-
Capital project funds	-	-	-	-
Total fund balances	<u>5,053,854</u>	<u>58,682,729</u>	<u>706,378</u>	<u>7,412,820</u>
Total liabilities and fund balances	<u>\$ 10,094,086</u>	<u>\$ 58,746,345</u>	<u>\$ 8,055,949</u>	<u>\$ 11,391,131</u>

(continued)

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



**CITY OF DULUTH, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 26,072,522	\$ 85,336,745
Assets held by trustee	-	2,484,238	2,988,224
Receivables, net:			
Taxes	23,633	1,249,212	3,811,241
Accounts	-	636,454	2,452,173
Assessments	-	-	12,377,529
Loans	-	8,572,141	8,833,146
Grants	-	1,277,499	1,277,499
Accrued interest	-	-	1,287,924
Deposits	-	250,000	250,000
Due from other funds	2,292,135	8,681,531	13,699,822
Due from component units	-	-	99,053
Interfund loan receivable	-	386,510	7,105,966
Due from other governments	5,060,499	2,481,429	8,235,992
Prepays	-	736,481	736,481
	<u>\$ 7,376,267</u>	<u>\$ 52,828,017</u>	<u>\$ 148,491,795</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 1,497	\$ 371,423	\$ 1,439,515
Contracts payable	772,728	2,882,342	3,834,135
Due to other funds	691,813	7,549,395	9,477,290
Due to component units	-	97,586	97,586
Interfund loan payable	4,720,617	1,457,664	6,178,281
Loans payable	-	781,397	781,397
Due to other governments	1,501,050	76,420	1,702,217
Accrued salaries payable	-	40,906	1,038,882
Deferred revenue	1,782,109	8,699,937	23,309,311
	<u>9,469,814</u>	<u>21,957,070</u>	<u>47,858,614</u>
Fund balances:			
Reserved for:			
Encumbrances	4,872,701	2,227,566	7,354,663
Debt service	-	11,956,761	11,956,761
Special accounts	-	4,306,228	4,868,290
Unreserved:			
Designated for, reported in:			
Debt service	-	-	8,119,198
Capital improvements	-	-	260,978
Special accounts	-	-	457,655
Special revenue funds	-	3,171,305	3,171,305
Debt service funds	-	849,554	849,554
Capital project funds	-	3,983,599	3,983,599
Undesignated, reported in:			
General fund	-	-	3,518,763
Special revenue funds	-	3,916,585	62,599,314
Capital project funds	(6,966,248)	459,349	(6,506,899)
	<u>(2,093,547)</u>	<u>30,870,947</u>	<u>100,633,181</u>
Total liabilities and fund balances	<u>\$ 7,376,267</u>	<u>\$ 52,828,017</u>	<u>\$ 148,491,795</u>

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

**CITY OF DULUTH, MINNESOTA  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

Fund Balance--total governmental funds		\$ 100,633,181
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 \$393,284,908, and the accumulated depreciation is \$118,477,219.		274,807,689
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		22,485,819
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 \$4,773,473 less \$878,028 attributed to business-type activities.		3,895,445
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:		
Bonds and Notes payable, net of issuance costs	104,976,620	
Revenue pledge	15,205,000	
PERA police and fire pension liability	9,767,082	
Interest accrued on long-term debt	<u>4,068,263</u>	
		(134,016,965)
Other assets that are not available to pay for current period expenditures, and therefore, are not reported in the funds.		<u>108,808</u>
Net assets of governmental activities		<u>\$ 267,913,977</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, 2006**

	<u>General Fund</u>	<u>Community Investment</u>	<u>Special Assessment Debt Service</u>	<u>Street Improvement Debt Service</u>
<b>REVENUES</b>				
Taxes:				
Property taxes	\$ 6,200,714	\$ -	\$ -	\$ -
Sales taxes	11,314,984	-	-	-
Other taxes	1,991,261	-	-	-
Licenses and permits	987,464	-	-	-
Intergovernmental revenues	34,823,584	-	-	-
Charges for services	8,523,107	-	-	-
Fines and forfeits	905,324	-	-	-
Special assessments	380,492	-	1,421,473	1,163,018
Investment income	539,355	2,604,314	89	259,376
Miscellaneous revenues	535,801	5,844,787	1,224	-
	<u>66,202,086</u>	<u>8,449,101</u>	<u>1,422,786</u>	<u>1,422,394</u>
<b>EXPENDITURES</b>				
Current:				
General government	20,998,949	90,000	-	-
Public safety	32,313,261	-	-	-
Public works	9,854,556	-	-	-
Culture and recreation	6,663,976	-	-	-
Urban and economic development	601,496	-	-	-
Debt service:				
Principal retirement	130,000	-	1,200,300	3,123,000
Interest and fiscal fees	121,335	-	431,050	1,664,465
Revenue pledge	-	-	-	-
Bond issuance costs	-	-	-	99,162
Capital outlay	-	-	-	-
	<u>70,683,573</u>	<u>90,000</u>	<u>1,631,350</u>	<u>4,886,627</u>
Excess (deficiency) of revenues over expenditures	<u>(4,481,487)</u>	<u>8,359,101</u>	<u>(208,564)</u>	<u>(3,464,233)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of bonds	-	-	-	9,030,000
Premium on sale of bonds	-	-	-	144,999
Loan proceeds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	(10,626,155)
Transfers in	10,323,586	-	782,842	4,653,594
Transfers out	(5,663,227)	(3,367,616)	-	(198,227)
	<u>4,660,359</u>	<u>(3,367,616)</u>	<u>782,842</u>	<u>3,004,211</u>
Net change in fund balance	178,872	4,991,485	574,278	(460,022)
Fund balance - January 1, 2006	<u>4,874,982</u>	<u>53,691,244</u>	<u>132,100</u>	<u>7,872,842</u>
Fund balance - December 31, 2006	<u>\$ 5,053,854</u>	<u>\$ 58,682,729</u>	<u>\$ 706,378</u>	<u>\$ 7,412,820</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, 2006**

	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes:			
Property taxes	\$ 439,620	\$ 8,828,995	\$ 15,469,329
Sales taxes	-	5,545,367	16,860,351
Other taxes	-	15,398	2,006,659
Licenses and permits	-	-	987,464
Intergovernmental revenues	6,337,235	10,306,573	51,467,392
Charges for services	-	195,508	8,718,615
Fines and forfeits	-	-	905,324
Special assessments	-	-	2,964,983
Investment income	-	1,173,416	4,576,550
Miscellaneous revenues	-	8,596,242	14,978,054
	<u>6,776,855</u>	<u>34,661,499</u>	<u>118,934,721</u>
<b>EXPENDITURES</b>			
Current:			
General government	-	159,553	21,248,502
Public safety	-	863,737	33,176,998
Public works	503,873	-	10,358,429
Culture and recreation	-	314,654	6,978,630
Urban and economic development	-	12,093,365	12,694,861
Debt service:			
Principal retirement	-	10,722,205	15,175,505
Interest and fiscal fees	-	3,373,007	5,589,857
Revenue pledge	-	1,383,363	1,383,363
Bond issuance costs	-	170,027	269,189
Capital outlay	8,709,194	22,022,352	30,731,546
	<u>9,213,067</u>	<u>51,102,263</u>	<u>137,606,880</u>
Excess (deficiency) of revenues over expenditures	<u>(2,436,212)</u>	<u>(16,440,764)</u>	<u>(18,672,159)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of bonds	-	8,020,000	17,050,000
Premium on sale of bonds	-	142,587	287,586
Loan proceeds	-	1,482,000	1,482,000
Payment to refunded bond escrow agent	-	-	(10,626,155)
Transfers in	636,465	12,446,877	28,843,364
Transfers out	(4,285)	(13,656,130)	(22,889,485)
	<u>632,180</u>	<u>8,435,334</u>	<u>14,147,310</u>
Net change in fund balance	(1,804,032)	(8,005,430)	(4,524,849)
Fund balance - January 1, 2006	<u>(289,515)</u>	<u>38,876,377</u>	<u>105,158,030</u>
Fund balance - December 31, 2006	<u>\$ (2,093,547)</u>	<u>\$ 30,870,947</u>	<u>\$ 100,633,181</u>

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

**CITY OF DULUTH, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds \$ (4,524,849)

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	33,344,628	
Depreciation expense	<u>(9,354,988)</u>	
Excess of capital outlay over depreciation expense		23,989,640

Miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and other disposals) decreased net assets. (200,294)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net loss of \$26,905 from internal funds plus \$29,299 attributed to business-type activities is reported with governmental activities. 2,394

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 \$142,588 less issuance costs of \$170,027.	9,474,561	
Refunding bonds, including a bond premium of \$144,998 less issuance costs of \$99,162.	<u>9,075,836</u>	
Total bond proceeds		(18,550,397)

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	15,595,505	
PERA police and fire liability	2,759,441	
Payments to the bond refunding agent	<u>10,390,000</u>	
Total long-term debt repayment		28,744,946

Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year. (1,447,405)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Net decrease in accrued interest	357,503	
Amortization of deferred amounts:		
for bond premiums	128,418	
for bond issuance costs	(99,542)	
on refundings	<u>(41,622)</u>	
Total additional expenditures		<u>344,757</u>

Change in net assets of governmental activities \$ 28,358,792

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, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u> <u>(Note 2)</u>
<b>REVENUES</b>			
Taxes	\$ 20,077,700	\$ 20,318,474	\$ 19,506,959
Licenses and permits	1,026,000	1,026,000	987,464
Intergovernmental revenues	34,396,200	34,504,568	34,823,584
Charges for services	7,842,400	7,905,961	8,523,107
Fines and forfeits	1,334,100	1,351,939	905,324
Special assessments	433,000	433,000	380,492
Investment income	1,500,000	2,100,000	539,355
Miscellaneous revenues	612,500	731,021	535,801
	<u>67,221,900</u>	<u>68,370,963</u>	<u>66,202,086</u>
<b>EXPENDITURES</b>			
Current:			
General government	19,840,500	20,430,771	21,062,174
Public safety	31,100,600	32,448,165	32,380,438
Public works	9,628,600	9,721,993	9,854,556
Culture and recreation	6,601,600	6,541,909	6,663,976
Urban and economic development	586,400	632,263	601,496
Debt service:			
Capital lease obligation - principal	147,000	147,000	130,000
Capital lease obligation - interest	102,200	104,400	121,335
	<u>68,006,900</u>	<u>70,026,501</u>	<u>70,813,975</u>
Excess (deficiency) of revenues over expenditures	<u>(785,000)</u>	<u>(1,655,538)</u>	<u>(4,611,889)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	7,787,500	7,804,000	10,323,586
Transfers out	(7,002,500)	(6,956,379)	(5,663,227)
	<u>785,000</u>	<u>847,621</u>	<u>4,660,359</u>
Net change in fund balance - budgetary basis	-	(807,917)	48,470
Net adjustments to reflect operations in accordance with generally accepted accounting principles			<u>130,402</u>
Net change in fund balance - GAAP basis	-	(807,917)	178,872
Fund balance - January 1, 2006	<u>4,874,982</u>	<u>4,874,982</u>	<u>4,874,982</u>
Fund balance - December 31, 2006	<u>\$ 4,874,982</u>	<u>\$ 4,067,065</u>	<u>\$ 5,053,854</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, 2006**

**Business-type Activities - Enterprise Funds**

	<u>Water</u>	<u>Gas</u>	<u>Sewer</u>	<u>Steam District #1</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,271,229	\$ 5,192,082	\$ 4,810,764	\$ 340,920
Restricted cash and cash equivalents:				
Customer deposits	56,982	898,798	-	-
Construction	1,088,598	170,162	323,572	1,528,887
Loans	-	2,014,389	-	-
Restricted assets held by trustee	-	-	-	-
Receivables, net:				
Accounts	767,232	7,500,792	1,089,556	602,076
Restricted loans	-	254,619	-	-
Assessments	195,239	23,100	17,958	-
Due from other funds	43,225	94,974	96,323	14,753
Due from component units	-	-	-	-
Due from other governments	97,087	1,049	98,392	-
Inventories	672,825	836,308	-	218,247
Prepays	-	3,318,359	-	-
Total current assets	<u>6,192,417</u>	<u>20,304,632</u>	<u>6,436,565</u>	<u>2,704,883</u>
Capital assets, net	<u>35,982,992</u>	<u>39,635,664</u>	<u>40,417,793</u>	<u>8,688,093</u>
Noncurrent assets:				
Assessments receivable	547,521	93,448	158,842	-
Due from other governments	-	-	-	25,000
Restricted loans receivable	-	2,254,028	-	-
Issuance costs	24,280	18,947	79,115	76,117
Planning and development costs	-	-	-	-
Total other assets	<u>571,801</u>	<u>2,366,423</u>	<u>237,957</u>	<u>101,117</u>
Total noncurrent assets	<u>36,554,793</u>	<u>42,002,087</u>	<u>40,655,750</u>	<u>8,789,210</u>
Total assets	<u>42,747,210</u>	<u>62,306,719</u>	<u>47,092,315</u>	<u>11,494,093</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	203,090	3,692,772	58,621	429,478
Contracts payable	89,225	200,597	621,107	250,654
Claims payable	-	-	-	-
Notes payable	172,322	-	85,979	7,507
Leases payable	-	-	-	-
Due to other funds	1,444,008	422,950	1,957,997	3,079
Interfund loan payable	-	-	-	-
Due to other governments	65,088	76,190	567,643	8,935
Accrued interest payable	112,346	212,367	250,231	78,289
Accrued salaries payable	82,665	99,990	48,481	-
Unearned revenue	-	1,712,670	-	-
Deposits	10,000	898,798	-	-
Revenue bonds payable	989,000	844,000	1,192,000	265,000
Total current liabilities	<u>3,167,744</u>	<u>8,160,334</u>	<u>4,782,059</u>	<u>1,042,942</u>
Noncurrent liabilities:				
Notes payable	2,220,546	-	1,038,454	17,822
Claims payable	-	-	-	-
Compensated absences	276,145	337,887	168,836	-
Leases payable	-	-	-	-
Revenue bonds payable	5,165,000	13,021,000	14,289,000	8,145,000
Less unamortized bond discount	(73,116)	(151,485)	(148,341)	(6,103)
Total noncurrent liabilities	<u>7,588,575</u>	<u>13,207,402</u>	<u>15,347,949</u>	<u>8,156,719</u>
Total liabilities	<u>10,756,319</u>	<u>21,367,736</u>	<u>20,130,008</u>	<u>9,199,661</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	27,642,298	25,910,132	21,912,040	1,711,409
Restricted for special accounts	-	-	2,117	-
Restricted for loans	-	1,941,568	-	-
Unrestricted	4,348,593	13,087,283	5,048,150	583,023
Total net assets	<u>\$ 31,990,891</u>	<u>\$ 40,938,983</u>	<u>\$ 26,962,307</u>	<u>\$ 2,294,432</u>

(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, 2006**

	<b>Business-type Activities - Enterprise Funds</b>		<b>Governmental Activities -</b>
	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,473,822	\$ 15,088,817	\$ 10,843,777
Restricted cash and cash equivalents:			
Customer deposits	-	955,780	-
Construction	154,538	3,265,757	-
Loans	-	2,014,389	-
Restricted assets held by trustee	110,366	110,366	-
Receivables, net:			
Accounts	729,116	10,688,772	36,487
Restricted loans	-	254,619	-
Assessments	-	236,297	-
Due from other funds	8,835	258,110	971,246
Due from component units	-	-	125,185
Due from other governments	204,967	401,495	283,780
Inventories	66,693	1,794,073	207,882
Prepays	85,289	3,403,648	-
Total current assets	<u>2,833,626</u>	<u>38,472,123</u>	<u>12,468,357</u>
Capital assets, net	<u>22,685,772</u>	<u>147,410,314</u>	<u>534,171</u>
Noncurrent assets:			
Assessments receivable	-	799,811	-
Due from other governments	-	25,000	-
Restricted loans receivable	-	2,254,028	-
Issuance costs	70,166	268,625	-
Planning and development costs	45,000	45,000	-
Total other assets	<u>115,166</u>	<u>3,392,464</u>	<u>-</u>
Total noncurrent assets	<u>22,800,938</u>	<u>150,802,778</u>	<u>534,171</u>
Total assets	<u>25,634,564</u>	<u>189,274,901</u>	<u>13,002,528</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	797,901	5,181,862	128,923
Contracts payable	208,850	1,370,433	269,473
Claims payable	-	-	1,936,143
Notes payable	-	265,808	-
Leases payable	86,925	86,925	34,160
Due to other funds	832,159	4,660,193	791,695
Interfund loan payable	589,634	589,634	338,051
Due to other governments	219	718,075	36,884
Accrued interest payable	47,975	701,208	13,123
Accrued salaries payable	36,697	267,833	18,175
Unearned revenue	87,412	1,800,082	18,134
Deposits	-	908,798	-
Revenue bonds payable	205,000	3,495,000	-
Total current liabilities	<u>2,892,772</u>	<u>20,045,851</u>	<u>3,584,761</u>
Noncurrent liabilities:			
Notes payable	-	3,276,822	-
Claims payable	-	-	892,279
Compensated absences	124,143	907,011	3,559,015
Leases payable	282,069	282,069	193,000
Revenue bonds payable	3,500,000	44,120,000	-
Less unamortized bond discount	(32,267)	(411,312)	-
Total noncurrent liabilities	<u>3,873,945</u>	<u>48,174,590</u>	<u>4,644,294</u>
Total liabilities	<u>6,766,717</u>	<u>68,220,441</u>	<u>8,229,055</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	17,841,482	95,017,361	307,012
Restricted for special accounts	258,163	260,280	-
Restricted for loans	-	1,941,568	-
Unrestricted	768,202	23,835,251	4,466,461
Total net assets	<u>\$ 18,867,847</u>	<u>121,054,460</u>	<u>\$ 4,773,473</u>
Amounts reported for business-type activities in the statement of net assets are different because of the consolidation of internal service fund activities related to enterprise funds.		<u>878,027</u>	
Net assets of business-type activities		<u>\$ 121,932,487</u>	

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, 2006**

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water</u>	<u>Gas</u>	<u>Sewer</u>	<u>Steam Dist #1</u>
<b>OPERATING REVENUES</b>				
Sales	\$ -	\$ 48,521,685	\$ -	\$ -
Charges for services	10,725,519	500,905	15,403,040	4,606,300
Miscellaneous revenues	190,924	488,061	95,683	80,423
Total operating revenues	<u>10,916,443</u>	<u>49,510,651</u>	<u>15,498,723</u>	<u>4,686,723</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and services	-	35,703,140	-	-
Personal services	4,869,295	5,617,632	2,610,983	-
Supplies	868,680	623,781	281,489	1,793,884
Utilities	997,163	32,303	88,334	289,804
Other services and charges	1,662,689	1,724,114	10,692,529	1,903,901
Amortization	1,681	52	6,418	6,936
Depreciation	1,124,151	999,663	649,863	460,676
Medical and insurance claims	-	-	-	-
Total operating expenses	<u>9,523,659</u>	<u>44,700,685</u>	<u>14,329,616</u>	<u>4,455,201</u>
Operating income	<u>1,392,784</u>	<u>4,809,966</u>	<u>1,169,107</u>	<u>231,522</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	187,751	379,946	201,775	532
Intergovernmental revenue	108,851	23,365	8,283	-
Gain (Loss) on sale or disposition of capital assets	(4,599)	(8,202)	9,867	-
Interest expense	(307,361)	(523,749)	(631,622)	(172,875)
Total non-operating revenue (expenses)	<u>(15,358)</u>	<u>(128,640)</u>	<u>(411,697)</u>	<u>(172,343)</u>
Income before contributions and transfers	1,377,426	4,681,326	757,410	59,179
Capital contributions	68,741	18,827	701,885	-
Transfers out	(646,977)	(4,457,746)	(323,315)	(88,000)
Change in net assets	799,190	242,407	1,135,980	(28,821)
Total net assets - January 1, 2006, as restated (Note 1)	<u>31,191,701</u>	<u>40,696,576</u>	<u>25,826,327</u>	<u>2,323,253</u>
Total net assets - December 31, 2006	<u>\$ 31,990,891</u>	<u>\$ 40,938,983</u>	<u>\$ 26,962,307</u>	<u>\$ 2,294,432</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Business-type Activities - Enterprise Funds</u>		<u>Governmental Activities - Internal Service Fund</u>
	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	
<b>OPERATING REVENUES</b>			
Sales	\$ 516,209	\$ 49,037,894	\$ 857,918
Charges for services	11,319,046	42,554,810	24,416,358
Miscellaneous revenues	22,371	877,462	1,630,119
Total operating revenues	<u>11,857,626</u>	<u>92,470,166</u>	<u>26,904,395</u>
<b>OPERATING EXPENSES</b>			
Cost of sales and services	263,032	35,966,172	789,691
Personal services	1,925,723	15,023,633	5,205,917
Supplies	968,792	4,536,626	754,721
Utilities	1,123,638	2,531,242	-
Other services and charges	6,773,133	22,756,366	2,881,935
Amortization	36,440	51,527	-
Depreciation	2,738,627	5,972,980	41,304
Medical and insurance claims	-	-	17,287,980
Total operating expenses	<u>13,829,385</u>	<u>86,838,546</u>	<u>26,961,548</u>
Operating income	<u>(1,971,759)</u>	<u>5,631,620</u>	<u>(57,153)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment income	54,424	824,428	379,411
Intergovernmental revenue	93,341	233,840	5,836
Gain (Loss) on sale or disposition of capital assets	33,202	30,268	-
Interest expense	(139,813)	(1,775,420)	(17,214)
Total non-operating revenue (expenses)	<u>41,154</u>	<u>(686,884)</u>	<u>368,033</u>
Income before contributions and transfers	(1,930,605)	4,944,736	310,880
Capital contributions	2,171,528	2,960,981	-
Transfers out	(100,056)	(5,616,094)	(337,785)
Change in net assets	140,867	2,289,623	(26,905)
Total net assets - January 1, 2006, as restated (Note 1)	<u>18,726,980</u>	<u>118,764,837</u>	<u>4,800,378</u>
Total net assets - December 31, 2006	<u>\$ 18,867,847</u>	<u>\$ 121,054,460</u>	<u>\$ 4,773,473</u>

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

Change in net assets	\$ 2,289,623
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>(29,299)</u>
Change in net assets of business-type activities	<u>\$ 2,260,324</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, 2006**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water</b>	<b>Gas</b>	<b>Sewer</b>	<b>Steam District #1</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 10,806,005	\$ 54,419,200	\$ 15,461,164	\$ 4,827,076
Cash paid to suppliers	(3,527,823)	(40,743,200)	(10,841,624)	(3,853,056)
Cash paid to employees	(4,887,054)	(5,644,810)	(2,613,321)	-
Other operating revenues	141,995	132,876	43,661	7,940
Net cash provided (used) by operating activities	<u>2,533,123</u>	<u>8,164,066</u>	<u>2,049,880</u>	<u>981,960</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	(115,028)	(4,187,190)	(152,845)	(88,000)
Operating grants	16,918	23,365	8,283	-
Interfund financing	-	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(98,110)</u>	<u>(4,163,825)</u>	<u>(144,562)</u>	<u>(88,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital grants and contributions	21,518	-	1,585,255	-
Interest received on capital	-	-	-	-
Issuance of revenue bonds and notes	1,138,266	1,192,097	946,682	4,571,267
Proceeds from capital lease	-	-	-	-
Principal paid on bonds, notes and capitalized leases	(1,155,124)	(825,000)	(1,057,876)	(193,274)
Interest paid on bonds, notes and capitalized leases	(295,663)	(519,365)	(564,506)	(166,767)
Transfer to trustee debt service account	-	-	-	-
Payment of bond issuance costs	(17,802)	(18,999)	(15,048)	(54,904)
Special assessments received	227,949	47,463	58,998	-
Sale of capital assets	18,761	15,504	9,866	-
Acquisition or construction of capital assets	(734,314)	(1,264,430)	(3,207,913)	(3,823,481)
Net cash provided (used) by capital and related financing activities	<u>(796,409)</u>	<u>(1,372,730)</u>	<u>(2,244,542)</u>	<u>332,841</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment interest	143,031	373,412	191,114	532
Net increase (decrease) in cash and cash equivalents	1,781,635	3,000,923	(148,110)	1,227,333
Cash and cash equivalents - January 1, 2006	2,635,174	5,274,508	5,282,446	642,474
Cash and cash equivalents - December 31, 2006	<u>\$ 4,416,809</u>	<u>\$ 8,275,431</u>	<u>\$ 5,134,336</u>	<u>\$ 1,869,807</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Net operating income (loss)	<u>\$ 1,392,784</u>	<u>\$ 4,809,966</u>	<u>\$ 1,169,107</u>	<u>\$ 231,522</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	1,125,832	999,715	656,281	467,612
Change in assets and liabilities:				
Decrease (increase) in receivables	79,625	3,246,327	274,163	150,693
Decrease (increase) in inventory	19,796	6,875	-	(12,018)
Decrease (increase) in prepaid items	-	1,742,246	-	-
Increase (decrease) in payables	(71,778)	(3,542,340)	(49,671)	144,151
Increase (decrease) in deferred revenues	(13,136)	901,277	-	-
Total adjustments	<u>1,140,339</u>	<u>3,354,100</u>	<u>880,773</u>	<u>750,438</u>
Net cash provided (used) by operating activities	<u>\$ 2,533,123</u>	<u>\$ 8,164,066</u>	<u>\$ 2,049,880</u>	<u>\$ 981,960</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Business-type Activities - Enterprise Funds</b>		<b>Governmental Activities - Internal Service Fund</b>
	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 11,911,215	\$ 97,424,660	\$ 26,862,229
Cash paid to suppliers	(9,221,546)	(68,187,249)	(21,987,387)
Cash paid to employees	(1,930,453)	(15,075,638)	(4,231,819)
Other operating revenues	6,779	333,251	2,415
Net cash provided (used) by operating activities	<u>765,995</u>	<u>14,495,024</u>	<u>645,438</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	(5,778)	(4,548,841)	(173,079)
Operating grants	53,704	102,270	5,836
Interfund financing	75,270	75,270	(3,466)
Net cash provided (used) by noncapital financing activities	<u>123,196</u>	<u>(4,371,301)</u>	<u>(170,709)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital grants and contributions	2,171,528	3,778,301	-
Interest received on capital	1,145	1,145	-
Issuance of revenue bonds and notes	1,711,928	9,560,240	-
Proceeds from capital lease	463,005	463,005	-
Principal paid on bonds, notes and capitalized leases	(206,754)	(3,438,028)	(33,108)
Interest paid on bonds, notes and capitalized leases	(55,889)	(1,602,190)	(17,019)
Transfer to trustee debt service account	(142,803)	(142,803)	-
Payment of bond issuance costs	(36,137)	(142,890)	-
Special assessments received	-	334,410	-
Sale of capital assets	-	44,131	-
Acquisition or construction of capital assets	(4,468,260)	(13,498,398)	(88,714)
Net cash provided (used) by capital and related financing activities	<u>(562,237)</u>	<u>(4,643,077)</u>	<u>(138,841)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment interest	45,430	753,519	379,411
Net increase (decrease) in cash and cash equivalents	372,384	6,234,165	715,299
Cash and cash equivalents - January 1, 2006	1,255,976	15,090,578	10,128,478
Cash and cash equivalents - December 31, 2006	<u>\$ 1,628,360</u>	<u>\$ 21,324,743</u>	<u>\$ 10,843,777</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Net operating income (loss)	\$ (1,971,759)	\$ 5,631,620	\$ (57,152)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	2,775,067	6,024,507	41,304
Change in assets and liabilities:			
Decrease (increase) in receivables	(5,367)	3,745,441	(30,157)
Decrease (increase) in inventory	(27,365)	(12,712)	(797)
Decrease (increase) in prepaid items	(25,826)	1,716,420	-
Increase (decrease) in payables	(51,896)	(3,571,534)	701,835
Increase (decrease) in deferred revenues	73,141	961,282	(9,595)
Total adjustments	<u>2,737,754</u>	<u>8,863,404</u>	<u>702,590</u>
Net cash provided (used) by operating activities	<u>\$ 765,995</u>	<u>\$ 14,495,024</u>	<u>\$ 645,438</u>

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, 2006**

	<b>Agency Funds</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,508,343
Receivables:	
Taxes	502
Loans	2,087,962
Due from other governments	5,333
Other assets	<u>349,462</u>
 Total assets	 <u><u>\$ 3,951,602</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 7,811
Due to other governments	39,860
Due to agency	<u>3,903,931</u>
 Total liabilities	 <u><u>\$ 3,951,602</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, 2006**

	<b>Duluth Entertainment &amp; Convention Center Authority</b>	<b>Duluth Airport Authority</b>	<b>Duluth Transit Authority</b>	<b>Spirit Mountain Recreation Area Authority</b>	<b>Totals</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 146,295	\$ 1,456,121	\$ 3,554,915	\$ 833,480	\$ 5,990,811
Receivables, net					
Taxes	-	-	69,717	-	69,717
Accounts	296,784	405,343	27,207	18,757	748,091
Grants	-	57,855	-	-	57,855
Due from primary government	97,586	-	-	-	97,586
Due from other governments	-	-	594,422	-	594,422
Inventories	162,421	64,759	182,547	40,275	450,002
Prepays	20,507	49,375	321,564	34,112	425,558
Deferred charges	11,221	663,915	-	53,075	728,211
Restricted assets:					
Cash and cash equivalents	231,743	4,487,234	-	299,764	5,018,741
Accounts receivable	29,955	75,272	-	-	105,227
Grants receivable	-	2,570,990	-	-	2,570,990
Assets held by trustee	83,185	-	-	-	83,185
Capital assets, net:					
Non-depreciable	930,601	32,151,871	222,367	2,546,725	35,851,564
Depreciable	38,600,790	24,662,676	14,919,802	2,275,492	80,458,760
<b>Total assets</b>	<b>40,611,088</b>	<b>66,645,411</b>	<b>19,892,541</b>	<b>6,101,680</b>	<b>133,250,720</b>
<b>LIABILITIES</b>					
Accounts payable and other short-term liabilities	329,732	91,801	586,159	101,045	1,108,737
Contracts payable	-	2,898,574	-	-	2,898,574
Accrued interest payable	31,673	52,904	-	26,849	111,426
Due to primary government	10,520	29,939	-	91,833	132,292
Due to other government	-	24,573	-	4,073	28,646
Deferred revenue	214,920	4,563,133	57,759	185,116	5,020,928
Deposits	258,379	-	-	-	258,379
Non-current liabilities:					
Due within one year	897,598	83,901	480,313	357,300	1,819,112
Due in more than one year	3,563,387	980,701	-	1,590,139	6,134,227
<b>Total liabilities</b>	<b>5,306,209</b>	<b>8,725,526</b>	<b>1,124,231</b>	<b>2,356,355</b>	<b>17,512,321</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	35,242,215	56,438,991	15,142,169	3,107,869	109,931,244
Restricted for:					
Debt service	83,185	-	-	-	83,185
Capital projects	-	-	-	299,764	299,764
Other	-	-	2,871,967	30,950	2,902,917
Unrestricted	(20,521)	1,480,894	754,174	306,742	2,521,289
<b>Total net assets</b>	<b>\$ 35,304,879</b>	<b>\$ 57,919,885</b>	<b>\$ 18,768,310</b>	<b>\$ 3,745,325</b>	<b>\$ 115,738,399</b>

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, 2006**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Duluth Entertainment &amp; Convention Center Authority</b>				
Business-type activities:				
Entertainment and convention facility	\$ 9,325,502	\$ 7,012,299	\$ -	\$ -
<b>Duluth Airport Authority</b>				
Business-type activities:				
Airport facility	5,555,032	3,724,553	46,042	12,413,583
<b>Duluth Transit Authority</b>				
Business-type activities:				
Public transportation	12,754,050	2,120,076	6,655,762	2,915,952
<b>Spirit Mountain Recreation Area Authority</b>				
Business-type activities:				
Ski hill operations	4,172,491	4,215,168	-	225,000
<b>Total component units</b>	<b>\$ 31,807,075</b>	<b>\$ 17,072,096</b>	<b>\$ 6,701,804</b>	<b>\$ 15,554,535</b>

(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, 2006**

<u>Functions/Programs</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>				<u>Totals</u>
	<u>Duluth Entertainment &amp; Convention Center Authority</u>	<u>Duluth Airport Authority</u>	<u>Duluth Transit Authority</u>	<u>Spirit Mountain Recreation Area Authority</u>	
<b>Duluth Entertainment &amp; Convention Center Authority</b>					
Business-type activities:					
Entertainment and convention facility	\$ (2,313,203)	\$ -	\$ -	\$ -	\$ (2,313,203)
<b>Duluth Airport Authority</b>					
Business-type activities:					
Airport facility	-	10,629,146	-	-	10,629,146
<b>Duluth Transit Authority</b>					
Business-type activities:					
Public transportation	-	-	(1,062,260)	-	(1,062,260)
<b>Spirit Mountain Recreation Area Authority</b>					
Business-type activities:					
Ski hill operations	-	-	-	267,677	267,677
<b>Total component units</b>					<u>7,521,360</u>
General revenues:					
Property taxes	881,349	-	1,316,898	-	2,198,247
Grants and shared revenues not restricted to specific programs	-	-	1,609,212	-	1,609,212
Investment income	8,673	91,401	132,359	12,467	244,900
Gain on sale of capital assets	-	-	-	8,714	8,714
Miscellaneous	247,891	-	-	51,852	299,743
Total general revenues and transfers	1,137,913	91,401	3,058,469	73,033	4,360,816
Change in net assets	(1,175,290)	10,720,547	1,996,209	340,710	11,882,176
Net assets - beginning	36,480,169	47,199,338	16,772,101	3,404,615	103,856,223
Net assets - ending	\$ 35,304,879	\$ 57,919,885	\$ 18,768,310	\$ 3,745,325	\$ 115,738,399

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, 2006**

Guide to Notes

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**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

**REPORTING ENTITY**

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

**BLENDED COMPONENT UNIT**

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

**DISCRETELY PRESENTED COMPONENT UNITS**

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

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

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

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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, 2006**

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 an 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.

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

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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 is reported as interfund loans receivable/payable. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)  
RECEIVABLES

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

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

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

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

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

**INVENTORIES AND PREPAID ITEMS**

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

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

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

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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, 2006**

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.

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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

As of January 1, 2006, the City determined that Steam District #1 Enterprise Fund accounts payable for coal purchases was understated by \$137,454. This restatement had the following impact on previously reported balances:

<u>Statement of Activities</u>	<u>Business-type Activities</u>
Net Assets, January 1, 2006, as previously reported	\$ 119,809,617
Accounts payable understatement	<u>(137,454)</u>
Net Assets, January 1, 2006, restated	<u>\$ 119,672,163</u>
<u>Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds</u>	<u>Enterprise Funds</u>
Balance January 1, 2006, as previously reported	\$ 118,902,291
Accounts payable understatement	<u>(137,454)</u>
Balance January 1, 2006, restated	<u>\$ 118,764,837</u>

In addition, several account balances were reclassified for the year ended December 31, 2005, as previously reported. These reclassifications were required for the comparability to the current year's financial statements and must be considered when comparing the financial statements of this report with those of prior reports.

USE OF ESTIMATES

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY  
BUDGETARY INFORMATION

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

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

The budget ordinance approved by the Council establishes appropriations for the General Fund. The total of all appropriations within a department are defined as a budget item and form the legal level of budgetary control, as defined in the budget ordinance. The Mayor, Chief Administrative Officer, or a designee may make transfers between appropriations; however, the total of all transfers to or from any budget item in excess of ten percent of that budget item must be approved by the City Council. The budget ordinance allows the budget to be increased for reimbursements received for damages or repairs to city property or work done for others and not anticipated in the original budget; it also allows for grants accepted by City Council resolution to

**CITY OF DULUTH, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY  
BUDGETARY INFORMATION (continued)

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 \$2,093,547 and \$519,757, respectively, at December 31, 2006. These deficits are a result of deferring grant revenues not considered available and expenditures for projects to be bonded in the future.

The DEDA Operating Special Revenue Fund deficit fund balance of \$809,039 as of December 31, 2006 is expected to be eliminated by future grants, transfers and loan proceeds.

The Self Insurance Internal Service Fund had negative assets of \$567,178 at December 31, 2006 due to an unusual amount of 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, 2006; an auditor's report on compliance and internal accounting control will be issued at a later date.

3. DEPOSITS AND INVESTMENTS

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

Government-wide statement of net assets		
Governmental Activities		
Cash and cash equivalents	\$	96,180,522
Assets held by trustee		2,988,224
Business-type activities		
Cash and cash equivalents		15,088,817
Cash and cash equivalents - restricted assets		6,235,926
Assets held by trustee		110,366
Discrete Component Units		
Cash and cash equivalents		5,990,811
Cash and cash equivalents - restricted assets		5,018,741
Assets held by trustee		83,185
Statement of fiduciary net assets		
Cash and cash equivalents		<u>1,508,343</u>
Total Cash and Investments	\$	<u><u>133,204,935</u></u>

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

3. DEPOSITS AND INVESTMENTS (continued)  
DEPOSITS

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

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

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy to obtain pledged collateral for all deposits in excess of FDIC insurance. As of December 31, 2006; deposits with financial institutions were fully insured or collateralized by securities held in the City's name.

INVESTMENTS

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

- 1) governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities defined in Minnesota Statutes Section 118A.04 Subd. 6), and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- 2) any security which is a (1) general obligation of any state or local government with taxing powers which is rated "A" or better by a national bond rating service; (2) any security which is a revenue obligation of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service; and (3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.
- 3) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.
- 4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States banks.
- 5) in general obligation temporary bonds of the same governmental entity issued under Minnesota Statutes Sections 429.091, Subd. 7, 469.178, Subd. 5, or 475.61, Subd. 6.

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

3. DEPOSITS AND INVESTMENTS  
INVESTMENTS (continued)

- 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, 2006**

3. DEPOSITS AND INVESTMENTS  
INVESTMENTS (continued)

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

At December 31, 2006 the City had the following investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>
U.S. Government Agency Securities	\$ 83,047,294	\$ 6,972,462	\$ 32,125,938	\$ 43,948,894
Commercial Paper	39,883,897	39,883,897		
Negotiable Certificates of Deposit	290,012	290,012		
Mutual Funds	2,837,176	2,837,176		
Total Investments	\$ 126,058,379	\$ 49,983,547	\$ 32,125,938	\$ 43,948,894
Deposits	\$ 7,146,556			
Total Deposits and Investments*	\$ 133,204,935			

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

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

The City's exposure to credit risk as of December 31, 2006 is as follows:

<u>S &amp; P Rating</u>	<u>Fair Value</u>
AAA	\$ 83,047,294
A1+	11,450,180
A1	20,450,913
<u>Moody's Rating</u>	
Aaa	2,837,176
P1	7,982,804
Total	\$ 125,768,367

*Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2006 none of the City's investments were subject to custodial credit risk.

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

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Bank	\$ 46,929,219
Federal National Mortgage Association	26,610,925

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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, 2006 was 97.6%.

5. RECEIVABLES

Receivables, net of uncollectible amounts, are reported in the governmental, proprietary, and fiduciary financial statements for goods and services, taxes, assessments, loans, grants and interest. The amount of delinquent assessments included for the current fiscal year is \$1,379,982. The uncollectible amounts related to the revenues of the City's utility enterprise funds at December 31, 2006 are as follows:

Water	\$ 122,461
Gas	592,547
Sewer	175,087
Steam District #1	<u>3,436</u>
Total Uncollectibles	<u>\$ 893,531</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, 2006:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes	\$ 983,929	\$ -
Grants	3,161,912	110,670
Assessments	12,633,376	-
Loans	4,898,364	294,735
Deposits	-	20,047
Other	<u>1,206,278</u>	<u>-</u>
Total for Governmental Funds	<u>\$ 22,883,859</u>	<u>\$ 425,452</u>

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**6. CAPITAL ASSETS**

Capital Asset activity for the year ended December 31, 2006 was as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 25,114,729	\$ 25,900	\$ 34,211	\$ 25,106,418
Construction in progress	29,667,872	36,046,765	27,170,541	38,544,096
Total capital assets, not being depreciated	<u>54,782,601</u>	<u>36,072,665</u>	<u>27,204,752</u>	<u>63,650,514</u>
Capital assets, being depreciated:				
Buildings	86,666,829	-	10,940	86,655,889
Equipment	20,075,268	1,877,951	1,271,538	20,681,681
Infrastructure	200,632,289	22,653,267	-	223,285,556
Total capital assets being depreciated	<u>307,374,386</u>	<u>24,531,218</u>	<u>1,282,478</u>	<u>330,623,126</u>
Less accumulated depreciation for:				
Buildings	32,866,479	2,268,012	10,940	35,123,551
Equipment	14,195,225	1,362,557	1,131,353	14,426,429
Infrastructure	63,616,077	5,765,723	-	69,381,800
Total accumulated depreciation	<u>110,677,781</u>	<u>9,396,292</u>	<u>1,142,293</u>	<u>118,931,780</u>
Total capital assets, being depreciated, net	<u>196,696,605</u>	<u>15,134,926</u>	<u>140,185</u>	<u>211,691,346</u>
Governmental activities capital assets, net	<u>\$ 251,479,206</u>	<u>\$ 51,207,591</u>	<u>\$ 27,344,937</u>	<u>\$ 275,341,860</u>
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land and land improvements	\$ 855,473	\$ -	\$ -	\$ 855,473
Construction in progress	29,764,070	12,120,443	24,507,187	17,377,326
Total capital assets, not being depreciated	<u>30,619,543</u>	<u>12,120,443</u>	<u>24,507,187</u>	<u>18,232,799</u>
Capital assets, being depreciated:				
Buildings	33,995,436	-	52,296	33,943,140
Equipment	65,280,884	6,722,680	1,737,118	70,266,446
Infrastructure	103,450,520	22,273,874	91,620	125,632,774
Total capital assets, being depreciated	<u>202,726,840</u>	<u>28,996,554</u>	<u>1,881,034</u>	<u>229,842,360</u>
Less accumulated depreciation for:				
Buildings	15,339,000	806,694	17,540	16,128,154
Equipment	49,718,870	3,216,469	1,728,066	51,207,273
Infrastructure	31,471,220	1,949,817	91,619	33,329,418
Total accumulated depreciation	<u>96,529,090</u>	<u>5,972,980</u>	<u>1,837,225</u>	<u>100,664,845</u>
Total capital assets, being depreciated, net	<u>106,197,750</u>	<u>23,023,574</u>	<u>43,809</u>	<u>129,177,515</u>
Business-type activities capital assets, net	<u>\$ 136,817,293</u>	<u>\$ 35,144,017</u>	<u>\$ 24,550,996</u>	<u>\$ 147,410,314</u>



**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

6. CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 636,185
Public safety	619,920
Public works, including depreciation of general infrastructure assets	6,178,173
Culture and recreation	858,979
Urban and economic development	1,061,731
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets.	<u>41,304</u>
Total depreciation expense - governmental activities	<u>\$ 9,396,292</u>
Business-type activities:	
Water	\$ 1,124,151
Gas	999,663
Sewer	649,863
Stormwater	250,563
Steam #1	460,676
Steam #2	2,339,049
Golf	<u>149,015</u>
Total depreciation expense - business-type activities	<u>\$ 5,972,980</u>

**Component Units**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 5,785,542	\$ 669,904	\$ -	\$ 6,455,446
Construction in progress	20,731,532	13,050,188	4,385,602	29,396,118
Total capital assets, not being depreciated	<u>26,517,074</u>	<u>13,720,092</u>	<u>4,385,602</u>	<u>35,851,564</u>
Capital assets, being depreciated:				
Buildings	95,611,315	329,631	90,565	95,850,381
Equipment	42,826,234	3,895,397	1,942,731	44,778,900
Infrastructure	37,852,310	3,991,307	-	41,843,617
Other	431,901	-	26,437	405,464
Total capital assets being depreciated	<u>176,721,760</u>	<u>8,216,335</u>	<u>2,059,733</u>	<u>182,878,362</u>
Less accumulated depreciation for:				
Buildings	42,493,701	2,747,413	82,911	45,158,203
Equipment	30,714,409	2,729,728	1,894,598	31,549,539
Infrastructure	23,858,162	1,559,516	-	25,417,678
Other	300,070	20,050	25,938	294,182
Total accumulated depreciation	<u>97,366,342</u>	<u>7,056,707</u>	<u>2,003,447</u>	<u>102,419,602</u>
Total capital assets, being depreciated, net	<u>79,355,418</u>	<u>1,159,628</u>	<u>56,286</u>	<u>80,458,760</u>
Component unit capital assets, net	<u>\$ 105,872,492</u>	<u>\$ 14,879,720</u>	<u>\$ 4,441,888</u>	<u>\$ 116,310,324</u>

Depreciation expense was charged to component units as follows:

Duluth Airport Authority	\$ 2,188,723
Duluth Entertainment and Convention Center Authority	2,051,156
Duluth Transit Authority	2,421,279
Spirit Mountain Recreation Area Authority	<u>395,549</u>
Total Depreciation expense - component units	<u>\$ 7,056,707</u>

**CITY OF DULUTH, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006**

7. COMMITMENTS  
CONSTRUCTION COMMITMENTS

At December 31, 2006, the City had construction commitments of approximately \$10,247,915 for various projects and street improvements. The Duluth Airport Authority component unit had construction commitments of \$8,485,113 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 \$780,000 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 \$780,000 retention limit.

The accrued liability for workers' compensation is estimated by the benefits administrator at the time an injury or illness is reported. Interest cost is not included in the estimate. The estimated liability for general liability matters is accrued if the City determines settlement is probable, based on a case-by-case evaluation. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims incurred but not reported have been considered in the sense that management's experience has shown that they do not affect the predictions. An actuary was not used in determining the liabilities, but actuarial guidelines were used. The estimated liability for claims payable at year end is present valued at 5%. In addition, the City Attorney estimated settlements to be \$264,429 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 2005 and 2006 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>
2005	\$ 1,482,110	\$ 2,273,497	\$ 2,075,631	\$ 1,679,976
2006	1,679,976	307,111	940,048	1,047,039

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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 \$225,000 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 2005 and 2006 were as follows:

	<u>Liability January 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Liability December 31</u>
2005	\$ 1,122,806	\$ 13,797,444	\$ 13,600,309	\$ 1,319,941
2006	1,319,941	16,474,470	16,013,028	1,781,383

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 2006:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Component Units</u>
Police garage	\$ 15,356	\$ -
Land and right-of-way	38,695	-
Buildings	343,898	-
Equipment	465,116	2,040
Total rental expenses	<u>\$ 863,065</u>	<u>\$ 2,040</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, 2006:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2007	\$ 51,079
2008	51,079
2009	51,079
2010	51,079
2011	68,457
2012-2016	377,890
2017-2021	250,784
2022-2026	91,375
2027-2031	76,780
Total minimum payments required	<u>\$ 1,069,602</u>

Component unit subleases of noncancelable operating leases provide for future minimum rentals to be received totaling \$564,264 at December 31, 2006.

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

9. LEASE OBLIGATIONS (continued)  
CAPITAL LEASES

Capitalized leases for the City of Duluth and its component units at December 31, 2006, 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	-	466,136	791,866
Total	750,000	466,136	2,536,200
Less: Accumulated amortization	<u>(316,667)</u>	<u>(41,952)</u>	<u>(892,957)</u>
Capital assets, net	<u>\$ 433,333</u>	<u>\$ 424,184</u>	<u>\$ 1,643,243</u>

Minimum future lease payments are:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
2007	\$ 52,210	\$ 100,848	\$ 305,456
2008	52,210	100,848	270,098
2009	52,210	100,848	267,847
2010	52,210	100,722	239,005
2011	52,210	-	155,000
2012-2016	<u>26,107</u>	<u>-</u>	<u>650,413</u>
Total minimum lease payments	287,157	403,266	1,887,819
Less: Imputed interest	<u>(59,997)</u>	<u>(34,272)</u>	<u>(350,999)</u>
Present value of minimum lease payments	<u>\$ 227,160</u>	<u>\$ 368,994</u>	<u>\$ 1,536,820</u>

10. SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2006 follows:

	<u>Balance 01/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/06</u>
Governmental Activities:				
Loans Payable	\$ 1,400,000	\$ -	\$ 618,603	\$ 781,397
Tax and Aid Certificates	-	13,000,000	13,000,000	-
Total Governmental Activities Short-term Debt	<u>\$ 1,400,000</u>	<u>\$ 13,000,000</u>	<u>\$ 13,618,603</u>	<u>\$ 781,397</u>

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

General Obligation Tax and Aid Anticipation Certificates were issued to fund governmental activities in anticipation of collection of taxes levied and state aids receivable for the City's General Fund. The obligations were general obligations of the City for which the City pledged its full faith and taxing power. The certificates matured on December 30, 2006.

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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

Long-term liability activity for the year ended December 31, 2006 follows:

	Balance 01/01/06	Additions	Deletions	Balance 12/31/06	Due Within One Year
<b>Governmental Activities:</b>					
<b>Bonds Payable:</b>					
General Obligation Bonds	\$ 33,812,900	\$ 895,000	\$ 2,268,700	\$ 32,439,200	\$ 2,863,000
General Obligation Bonds - Tax Increment	7,282,800	-	902,000	6,380,800	927,000
General Obligation - Tax Abatement	310,000	-	-	310,000	-
Tax Increment Revenue Bonds	3,919,413	-	1,375,925	2,543,488	1,303,486
Lease Revenue Bonds	1,770,000	-	130,000	1,640,000	135,000
Special Assessment Debt with Government Commitment	53,919,300	14,370,000	14,689,300	53,600,000	3,825,000
General Obligation Certificates	3,915,000	1,785,000	1,305,000	4,395,000	1,110,000
<b>Add deferred amounts:</b>					
For Bond Premium	171,950	287,586	128,418	331,118	-
Tax Increment Revenue Notes	860,623	-	215,580	645,043	315,043
Public Facilities Authority Note	325,000	-	24,000	301,000	24,000
Greater Minnesota Housing Fund Note	-	200,000	-	200,000	-
Revenue Notes	6,594,000	1,282,000	4,655,000	3,221,000	85,000
Tax Increment Revenue Pledge	6,420,000	-	160,000	6,260,000	170,000
Revenue Pledge	9,205,000	-	260,000	8,945,000	275,000
Capital Leases	260,268	-	33,108	227,160	34,160
Compensated Absences	3,566,626	3,628,348	3,635,959	3,559,015	3,002,617
Claims and Judgments	2,999,917	16,781,581	16,953,076	2,828,422	1,936,143
PERA Police and Fire Pension Liability	12,526,523	-	2,759,441	9,767,082	2,993,994
<b>Total Governmental Activity Long-Term Liabilities</b>	<b>\$ 147,859,320</b>	<b>\$ 39,229,515</b>	<b>\$ 49,495,507</b>	<b>\$ 137,593,328</b>	<b>\$ 18,999,443</b>
<b>Business-Type Activities:</b>					
<b>Bonds Payable:</b>					
Revenue Bonds	\$ 920,000	\$ -	\$ 120,000	\$ 800,000	\$ 125,000
Revenue and General Obligation Bonds	40,340,000	9,485,000	3,010,000	46,815,000	3,370,000
<b>Less deferred amounts:</b>					
For Issuance Discounts	(568,176)	-	(156,864)	(411,312)	-
General Obligation Notes	3,790,020	16,281	289,000	3,517,301	258,301
Leases Payable	36,744	463,005	130,755	368,994	86,925
Loans	33,603	-	8,274	25,329	7,507
Compensated Absences	1,016,725	758,219	867,933	907,011	750,257
<b>Total Business-Type Activity Long-Term Liabilities</b>	<b>\$ 45,568,916</b>	<b>\$ 10,722,505</b>	<b>\$ 4,269,098</b>	<b>\$ 52,022,323</b>	<b>\$ 4,597,990</b>
<b>Component Unit Activities:</b>					
<b>Duluth Entertainment and Convention Center Authority</b>					
<b>Bonds Payable</b>					
General Obligation Bonds	\$ 4,195,000	\$ -	\$ 630,000	\$ 3,565,000	\$ 655,000
<b>Less deferred amounts:</b>					
For Issuance Discounts	(15,745)	-	(4,396)	(11,349)	-
On Refunding	(507,317)	-	(85,752)	(421,565)	-
Capital Leases	1,315,544	-	158,454	1,157,090	133,293
Compensated Absences	142,762	171,809	142,762	171,809	109,305
<b>Duluth Transit Authority</b>					
Compensated Absences	455,792	480,313	455,792	480,313	480,313
<b>Duluth Airport Authority</b>					
Notes Payable	497,379	-	-	497,379	-
Loans Payable	-	400,000	24,444	375,556	26,667
Compensated Absences	40,289	57,234	40,289	57,234	57,234
Deferred Revenue	172,238	-	37,805	134,433	35,685
<b>Spirit Mountain Recreation Authority</b>					
Revenue Bond Payable	1,494,156	-	159,538	1,334,618	166,798
<b>Less deferred amounts:</b>					
For Issuance Discounts	(14,255)	-	(14,255)	-	-
Capital Leases	371,977	381,410	373,657	379,730	93,426
Due to Primary Government	206,512	-	24,997	181,515	45,500
Compensated Absences	51,271	51,576	51,271	51,576	51,576
<b>Total Component Unit Activities Long-Term Liabilities</b>	<b>\$ 8,405,603</b>	<b>\$ 1,542,342</b>	<b>\$ 1,994,606</b>	<b>\$ 7,953,339</b>	<b>\$ 1,854,797</b>

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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

Governmental Activities Long-Term Debt

General Obligation Bonds and Certificate Covenants

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

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

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

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

Year Ending 31-Dec	General Obligation Bonds		General Obligation Tax Increment		General Obligation Certificates		General Obligation Tax Abatement	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2007	\$ 1,096,325	\$ 2,863,000	\$ 600,980	\$ 927,000	\$ 125,490	\$ 1,110,000	\$ 12,230	\$ -
2008	1,215,939	3,347,071	320,020	1,162,929	110,178	1,070,000	12,230	-
2009	1,146,259	3,393,707	224,736	201,293	74,734	860,000	12,230	-
2010	1,007,286	3,427,275	214,405	212,725	43,494	600,000	12,230	-
2011	874,313	2,924,808	203,172	225,192	20,663	370,000	11,780	25,000
2012-2016	2,771,936	9,820,859	829,118	1,199,141	6,978	385,000	45,128	130,000
2017-2021	1,267,472	3,368,402	538,215	1,096,598	-	-	16,867	155,000
2022-2026	468,690	3,294,078	195,464	1,355,922	-	-	-	-
Total	\$ 9,848,220	\$ 32,439,200	\$ 3,126,110	\$ 6,380,800	\$ 381,537	\$ 4,395,000	\$ 122,695	\$ 310,000

Greater Minnesota Housing Notes

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

Tax Increment Revenue Bond and Notes

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

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

Year Ending 31-Dec	Duluth Economic Development Tax Increment Revenue Bonds		Duluth Economic Development Tax Increment Revenue Notes	
	Interest	Principal	Interest	Principal
2007	\$ 665,164	\$ 1,303,486	\$ 41,325	\$ 315,043
2008	625,547	1,065,002	18,253	120,000
2009	12,400	40,000	10,545	50,000
2010	9,000	45,000	7,553	55,000
2011	5,400	45,000	4,417	55,000
2012-2016	1,800	45,000	1,425	50,000
Total	\$ 1,319,311	\$ 2,543,488	\$ 83,518	\$ 645,043

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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 \$1,640,000 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 follow:

Year Ending 31-Dec	Lease Revenue Bonds	
	Interest	Principal
2007	\$ 110,980	\$ 135,000
2008	102,340	145,000
2009	92,480	155,000
2010	81,940	165,000
2011	70,720	180,000
2012-2016	136,000	860,000
Total	<u>\$ 594,460</u>	<u>\$ 1,640,000</u>

United States Department of Housing and Urban Development Revenue Notes

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

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

Year Ending 31-Dec	United States Dept. of Housing and Urban Development Revenue Notes	
	Interest	Principal
2007	\$ 159,191	\$ 85,000
2008	176,339	55,000
2009	173,583	55,000
2010	170,855	60,000
2011	167,861	60,000
2012-2016	790,168	255,000
2017-2021	754,634	60,000
2022-2026	587,340	2,591,000
Total	<u>\$ 2,979,971</u>	<u>\$ 3,221,000</u>

**CITY OF DULUTH, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006**

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

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

The City has a contingent liability against its full faith and credit on \$53,600,000 of special assessment bonds. The general credit of the City is obligated only to the extent that collections from special assessments and parking revenues are insufficient to retire outstanding bonds.

General Obligation Public Facilities Authority Notes

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

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

Year Ending December 31	Special Assessment Bonds		G.O. Revenue Notes Public Facilities Authority	
	Interest	Principal	Interest	Principal
2007	\$ 1,904,472	\$ 3,825,000	\$ 3,010	\$ 24,000
2008	1,906,041	5,105,000	2,770	24,000
2009	1,721,126	4,995,000	2,530	24,000
2010	1,530,809	5,185,000	2,290	24,000
2011	1,339,655	4,700,000	2,050	25,000
2012-2016	4,006,908	19,980,000	6,490	127,000
2017-2021	856,934	9,505,000	800	53,000
2022-2026	<u>6,100</u>	<u>305,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 13,272,045</u>	<u>\$ 53,600,000</u>	<u>\$ 19,940</u>	<u>\$ 301,000</u>

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 \$8,945,000 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 \$6,260,000 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.

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



**CITY OF DULUTH, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006**

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

Business-type Activities Long-Term Debt

Revenue and General Obligation Bonds

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

Revenue Bonds

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

General Obligation Public Facilities Authority Revenue Notes

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

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

Year Ending 31-Dec	Revenue and General Obligation Bonds		Revenue Bonds		G.O. Revenue Notes Public Facilities Authority	
	Interest	Principal	Interest	Principal	Interest	Principal
2007	\$ 1,692,138	\$ 3,370,000	\$ 26,435	\$ 125,000	\$ 78,873	\$ 258,301
2008	1,689,043	3,570,000	23,185	125,000	73,228	265,000
2009	1,561,780	3,345,000	19,435	130,000	67,326	271,000
2010	1,439,193	3,300,000	15,210	135,000	61,278	276,000
2011	1,317,332	3,130,000	10,620	140,000	55,113	283,000
2012-2016	4,567,741	17,190,000	5,510	145,000	177,506	1,511,000
2017-2021	1,230,383	11,740,000	-	-	22,241	653,000
2022-2026	33,512	1,170,000	-	-	-	-
Total	<u>\$ 13,531,122</u>	<u>\$ 46,815,000</u>	<u>\$ 100,395</u>	<u>\$ 800,000</u>	<u>\$ 535,565</u>	<u>\$ 3,517,301</u>

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

Component Unit Long-Term Debt

Spirit Mountain Recreation Area Authority

Revenue Bonds

\$1,646,750 City of Duluth Gross Revenue Recreational Facility 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.

**CITY OF DULUTH, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006**

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

Component Unit Long-Term Debt

Spirit Mountain Recreation Area Authority (continued)

The annual requirements to service the debt follow:

<u>Fiscal Year Ended April 30</u>	<u>Interest</u>	<u>Principal</u>
2007	\$ 58,202	\$ 166,798
2008	50,612	174,388
2009	42,676	182,324
2010	34,379	190,620
2011	25,705	199,295
2012-2016	<u>23,790</u>	<u>421,193</u>
Total	<u>\$ 235,364</u>	<u>\$ 1,334,618</u>

Duluth Entertainment and Convention Center Authority

General Obligation Bonds

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

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

<u>Year Ending December 31</u>	General Obligation Refunding Revenue Bonds	
	<u>Interest</u>	<u>Principal</u>
2007	\$ 145,075	\$ 655,000
2008	118,875	685,000
2009	91,475	710,000
2010	63,075	740,000
2011	<u>32,550</u>	<u>775,000</u>
Total	<u>\$ 451,050</u>	<u>\$ 3,565,000</u>

**CITY OF DULUTH, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006**

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

Component Unit Long-Term Debt (continued)

Duluth Airport Authority

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

The annual requirements to service the debt follow:

Year Ended 31-Dec	Airport Facility Revenue Note	
	Interest	Principal
2007	\$ 60,000	\$ -
2008	75,000	-
2009	52,830	22,170
2010	41,327	33,673
2011	38,281	36,719
2012-2016	135,152	239,848
2017-2021	22,531	164,969
Total	<u>\$ 425,121</u>	<u>\$ 497,379</u>

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**11. LONG-TERM DEBT (continued)  
DEBT LIMIT**

**SCHEDULE OF BONDED INDEBTEDNESS  
December 31, 2006**

	Issue Date	Amount Outstanding	Total
<b>Governmental Activities:</b>			
<b>General Obligation Bonds Payable -</b>			
Duluth Transit Authority	09-01-97	\$ 125,000	
Street Overlay (60%) Refunding	05-01-98	150,000	
West Michigan Street Improvements	12-01-98	1,075,000	
Duluth Entertainment & Convention Center Authority	02-01-99	4,865,000	
Parking Improvement Tax Increment	06-01-99	210,000	
Technology Village Parking Ramp Tax Increment (72%)	06-01-99	1,845,000	
Great Lakes Aquarium	12-01-99	1,210,000	
Bayfront Festival Park	04-01-01	1,880,000	
Duluth Transit Authority	09-01-01	370,000	
Airport Improvement G.O. Bonds	02-01-02	2,890,000	
Leif Erickson Park Tax Increment (80%) Refunding	09-01-02	180,000	
Duluth Entertainment & Convention Center Authority Refunding	03-01-03	1,425,000	
Bayfront Festival Park	12-01-03	330,000	
G. O. Improvement	03-01-04	720,000	
Airpark Improvement	09-01-04	900,000	
Capital Improvement	06-01-05	1,255,000	
Medical District (69%)	12-16-05	8,864,200	
Lake Superior Center Refunding	12-19-05	1,765,000	
Zoo Refunding Issue	12-19-05	1,485,000	
Capital Improvement	09-07-06	895,000	
<b>Total General Obligation Bonds Payable</b>			<b>\$ 32,439,200</b>
<b>General Obligation Tax Increment</b>			
Canal Park Tax Increment Refunding	09-01-97	550,000	
Great Lakes Aquarium Tax Increment	05-01-99	1,155,000	
Technology Village Parking Ramp Tax Increment (28%)	06-01-99	710,000	
Leif Erickson Park Tax Increment Refunding (20%)	09-01-02	45,000	
Medical District Tax Increment (31%)	12-16-05	3,920,800	
<b>Total General Obligation - Tax Increment Bonds Payable</b>			<b>6,380,800</b>
<b>General Obligation Tax Abatement</b>			
Lake Walk Homes Tax Abatement Bonds	10-01-05	310,000	
<b>Total General Obligation - Tax Abatement Bonds Payable</b>			<b>310,000</b>
<b>Revenue Bonds Payable -</b>			
<b>Tax Increment Revenue Bonds -</b>			
Cirrus Tax Increment Revenue	03-01-94	255,000	
Tax Increment Revenue Refunding	04-15-98	695,400	
Tax Increment Revenue Refunding	05-04-99	1,593,088	
<b>Lease Revenue Bonds</b>	05-01-95	1,640,000	
<b>Total Revenue Bonds Payable</b>			<b>4,183,488</b>
<b>Special Assessment Debt with Government Commitment</b>	25 issues		<b>53,600,000</b>
<b>General Long-Term Debt Certificates Payable:</b>			
General Obligation Certificates Payable -	5 issues		4,395,000
<b>Total Governmental Activities Debt</b>			<b>101,308,488</b>
<b>Business-type Activities Debt:</b>			
<b>Revenue Bonds Payable:</b>			
Golf Fund	1 issue	800,000	\$ 800,000
<b>Revenue and General Obligation Bonds Payable:</b>			
Water Fund	7 issues	6,154,000	
Gas Fund	5 issues	13,865,000	
Steam District #1	6 issues	8,410,000	
Sewer Fund	11 issues	15,481,000	
Stormwater Fund	2 issues	2,905,000	
<b>Total Revenue and General Obligation Bonds Payable</b>			<b>46,815,000</b>
<b>Total Business-type Activities Debt</b>			<b>47,615,000</b>
<b>Total Bonds Payable</b>			<b>\$ 148,923,488</b> (continued)

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**11. LONG-TERM DEBT  
DEBT LIMIT**

**SCHEDULE OF BONDED INDEBTEDNESS (continued)  
December 31, 2006**

	<u>Issue Date</u>	<u>Amount Outstanding</u>	<u>Total</u>
Deductions Allowable:			
Technology Village Parking Ramp Tax Increment (72%)	06-01-99	1,845,000	
Bayfront Festival Park	04-01-01	1,880,000	
Airport Improvement G.O. Bonds	02-01-02	2,890,000	
Airpark Improvement	09-01-04	900,000	
Canal Park Tax Increment Refunding	09-01-97	550,000	
Great Lakes Aquarium Tax Increment	05-01-99	1,155,000	
Technology Village Parking Ramp Tax Increment (28%)	06-01-99	710,000	
Leif Erickson Park Tax Increment Refunding (20%)	09-01-02	45,000	
Medical District Tax Increment	12-16-05	3,920,800	
Lake Walk Homes Tax Abatement Bonds	10-01-05	310,000	
Cirrus Tax Increment Revenue	03-01-94	255,000	
Tax Increment Revenue Refunding	04-15-98	695,400	
Tax Increment Revenue Refunding	05-04-99	1,593,088	
Lease Revenue Bond	05-01-95	1,640,000	
Special Assessment		53,600,000	
Golf Fund	12-14-04	800,000	
Water Fund		6,154,000	
Gas Fund		13,865,000	
Steam District #1		8,410,000	
Sewer Fund		15,481,000	
Stormwater Fund		2,905,000	
Total Deductions Allowable			<u>119,604,288</u>
Net Debt			<u>\$ 29,319,200</u>
Legal Debt Margin for Duluth Taxable Market Value (\$ 5,062,237,600 X 2%)			<u>\$ 101,244,752</u>

Overlapping Debt to Duluth

<u>Unit</u>	<u>General Obligation Debt</u>	<u>Percent Chargeable to City</u>	<u>Amount Chargeable to City</u>
Independent School District 709	\$ 29,275,000	93.30%	\$ 27,313,575
Independent School District 704	12,220,000	6.20%	757,640
St. Louis County	45,095,000	37.90%	17,091,005
Western Lake Superior Sanitary District	56,827,738	74.09%	42,103,671
			<u>\$ 87,265,891</u>

**REFUNDING BOND ISSUES**

**Current Refunding Bonds**

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

In 2006 the City issued \$5,840,000 in General Obligation Improvement Refunding Bonds with the obligations to be paid by special assessments and from interest earnings on community trust funds. The transaction resulted in a net present value savings of \$240,884 and a reduction of \$ 1,250,816 in future debt service payments. An escrow account was established from the proceeds and amounts in the escrow account are invested in special obligations of the United States Treasury or other obligations of the United States or its agencies, which mature in such amounts and at such times to be available to meet the refunded bonds' principal and interest requirements. All current refunded debt is fully defeased.

**CITY OF DULUTH, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006**

11. LONG-TERM DEBT  
 REFUNDING BOND ISSUES

Current Refunding Bonds (continued)

The following refunded bonds are scheduled to be recalled February 1, 2007:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
1996A	7/15/96	G.O. Improvement	\$ 2,820,000
1998C	8/1/98	G.O. Improvement	3,895,000

All other current refunded bonds have been paid in full.

Advance Refunding Bonds

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

In 2006 the City issued \$3,190,000 in General Obligation Improvement Refunding Bonds with the obligations to be paid by special assessments and from interest earnings on community trust funds. The transaction resulted in a net present value savings of \$157,901 and a reduction of \$ 809,766 in future debt service payments.

The following refunded bonds are scheduled to be recalled February 1, 2007:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
1996B	7/15/96	Lake Superior Center	\$ 1,705,000

The following refunded bonds are scheduled to be recalled February 1, 2008:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
2000A	9/1/2000	G. O. Improvement	\$ 3,675,000

All other advance refunded bonds have been paid in full.

Crossover Advance Refunding Bonds

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

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

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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	\$ 1,593,088
General Obligation Tax Increment	09-01-02	127,000	45,000
General Obligation Tax Increment	09-01-02	508,000	180,000
General Obligation Improvement	09-01-02	1,080,000	345,000
Zoo General Obligation	12-19-05	1,485,000	1,485,000
General Obligation Improvement	12-19-05	3,020,000	3,020,000
Street Improvement	12-19-06	2,395,000	2,395,000
Street Improvement	12-19-06	3,445,000	3,445,000
Advance Refunding Bonds:			
Canal Park Tax Increment Bond	09-01-97	3,040,000	550,000
Tax Increment Revenue Bond	04-15-98	4,149,906	695,400
Duluth Entertainment and Convention Center Authority	03-01-03	2,405,000	1,425,000
Street Improvement (1994)	03-01-03	818,000	475,100
Street Improvement (1995)	03-01-03	3,118,400	1,811,100
General Obligation and Improvement	03-01-03	583,600	338,800
Lake Superior Center General Obligation	12-19-05	1,765,000	1,765,000
Street Improvement	12-19-06	3,190,000	3,190,000
Crossover Advance Refunding Bonds:			
General Obligation Improvement	05-01-98	<u>2,660,000</u>	<u>530,000</u>
Total Governmental activities		<u>\$ 41,791,439</u>	<u>\$ 23,288,488</u>
Business-type Activities:			
Current Refunding Bonds:			
Golf Course	12-04-04	\$ 1,040,000	\$ 800,000
Advance Refunding Bonds:			
Water Utility Revenue and G.O.	09-01-97	2,455,000	575,000
Water Utility Revenue and G.O.	03-01-03	625,000	370,000
Sewer Utility Revenue and G.O.	03-01-03	1,240,000	740,000
Crossover Advance Refunding Bonds:			
Water Utility Revenue and G.O.	05-01-98	1,955,000	355,000
Sewer Utility Revenue and G.O.	05-01-98	<u>530,000</u>	<u>150,000</u>
Total Business-type Activities		<u>\$ 7,845,000</u>	<u>\$ 2,990,000</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>\$ 3,565,000</u>
		Total	<u>\$ 29,843,488</u>

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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

Bonds, certificates, and notes payable at December 31, 2006, are comprised of the following individual issues:

	<u>Interest Rate and Dates</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>	
<b>BONDS AND CERTIFICATES BY ISSUE</b>						
Governmental Activities:						
General Obligation Bonds Payable -						
General Obligation						
Duluth Transit Authority	4.55 to 4.85%	02/01; 08/01	09-01-97	02-01-08	\$ 525,000	\$ 125,000
Street Overlay (60%) Refunding	4.10 to 4.55%	02/01; 08/01	05-01-98	02-01-08	639,000	150,000
West Michigan Street Improvements	3.40 to 4.70%	02/01; 08/01	12-01-98	02-01-14	1,745,000	1,075,000
Duluth Entertainment and Convention Center Authority	3.00 to 4.45%	02/01; 08/01	02-01-99	08-01-14	8,000,000	4,865,000
Parking Improvement Tax Increment	4.25 to 5.00%	02/01; 08/01	06-01-99	02-01-15	310,000	210,000
Technology Village Parking Ramp Tax Increment (72%)	4.25 to 5.00%	02/01; 08/01	06-01-99	02-01-15	2,590,000	1,845,000
Great Lakes Aquarium	4.50 to 4.88%	02/01; 08/01	12-01-99	02-01-10	2,475,000	1,210,000
Bayfront Festival Park	3.50 to 4.25%	02/01; 08/01	04-01-01	02-01-12	3,135,000	1,880,000
Duluth Transit Authority	2.65 to 4.10%	02/01; 08/01	09-01-01	02-01-11	615,000	370,000
Airport Improvement	4.00 to 6.25%	02/01; 08/01	02-01-02	02-01-17	3,400,000	2,890,000
Leif Erickson Park Tax Increment Refunding (80%)	2.00 to 3.25%	02/01; 08/01	09-01-02	02-01-08	508,000	180,000
Duluth Entertainment & Convention Center Authority Refund	2.00 to 4.10%	02/01; 08/01	03-01-03	02-01-10	2,405,000	1,425,000
Bayfront Festival Park Improvement	2.00 to 3.60%	02/01; 08/01	12-01-03	02-01-12	425,000	330,000
Improvement	2.00 to 3.40%	02/01; 08/01	03-01-04	02-01-14	800,000	720,000
Airpark Improvement	2.00 to 4.20%	02/01; 08/01	09-01-04	02-01-20	945,000	900,000
Capital Improvement	2.80 to 3.70%	02/01; 08/01	06-01-05	02-01-15	1,255,000	1,255,000
Medical District (69%)	5.25 to 5.50%	02/01; 08/01	12-16-05	02-01-26	8,864,200	8,864,200
Lake Superior Center Refunding	3.25 to 4.00%	02/01; 08/01	12-19-05	02-01-17	1,765,000	1,765,000
Zoo Refunding Issue	3.20 to 4.00%	02/01; 08/01	12-19-05	02-01-12	1,485,000	1,485,000
Capital Improvement	4.00%	02/01; 08/01	09-07-06	02-01-16	895,000	895,000
<b>Total General Obligation</b>				<b>\$ 42,781,200</b>	<b>\$ 32,439,200</b>	
General Obligation -Tax Increment						
Canal Park Tax Increment Refunding	3.60 to 4.75%	02/01; 08/01	09-01-97	02-01-08	\$ 3,040,000	\$ 550,000
Great Lakes Aquarium Tax Increment	3.30 to 4.20%	02/01; 08/01	05-01-99	02-01-08	4,530,000	1,155,000
Technology Village Parking Ramp Tax Increment (28%)	4.25 to 5.00%	02/01; 08/01	06-01-99	02-01-15	1,000,000	710,000
Leif Erickson Park Tax Increment Refunding (20%)	2.00 to 3.25%	02/01; 08/01	09-01-02	02-01-08	127,000	45,000
Medical District Tax Increment (31%)	5.25 to 5.50%	02/01; 08/01	12-16-05	02-01-26	3,920,800	3,920,800
<b>Total General Obligation - Tax Increment</b>				<b>\$ 12,617,800</b>	<b>\$ 6,380,800</b>	
General Obligation -Tax Abatement						
Lake Walk Homes Tax Abatement Bonds	3.60 to 4.30 %	02/01; 08/01	10-01-05	02-01-21	\$ 310,000	\$ 310,000
<b>Total General Obligation - Tax Abatement</b>				<b>\$ 310,000</b>	<b>\$ 310,000</b>	
<b>Total General Obligation Bonds Payable</b>				<b>\$ 55,709,000</b>	<b>\$ 39,130,000</b>	
Revenue Bonds Payable -						
Tax Increment Revenue Bonds Payable -						
Cirrus Tax Increment Revenue	7.00 to 8.00%	02/01; 08/01	03-01-94	02-01-12	\$ 645,000	\$ 255,000
Tax Increment Revenue Refunding	3.75 to 4.90%	02/01; 08/01	04-15-98	08-01-08	4,149,906	695,400
Tax Increment Revenue Refunding	4.30 to 5.20%	02/01; 08/01	05-04-99	08-01-08	8,001,533	1,593,088
<b>Total Tax Increment Revenue Bonds Payable</b>				<b>\$ 12,796,439</b>	<b>\$ 2,543,488</b>	
Lease Revenue Bonds Payable -						
Artspace Community Center	5.00 to 6.80%	02/01; 08/01	05-01-95	08-01-14	\$ 2,720,000	\$ 1,640,000
<b>Total Revenue Bonds Payable</b>				<b>\$ 15,516,439</b>	<b>\$ 4,183,488</b>	
Special Assessment Debt with Government Commitment -						
Street Overlay (40%) Refunding	4.10 to 4.55%	02/01; 08/01	05-01-98	02-01-08	\$ 426,000	\$ 100,000
General Obligation Improvement Refunding	4.20 to 4.45%	02/01; 08/01	05-01-98	02-01-07	1,595,000	280,000
General Obligation Improvement	3.40 to 4.80%	02/01; 08/01	12-01-98	02-01-15	1,005,000	675,000
Street Improvement	4.00 to 5.00%	02/01; 08/01	06-01-99	02-01-15	6,675,000	4,295,000
General Obligation Improvement	4.50 to 5.25%	02/01; 08/01	12-01-99	02-01-15	1,220,000	840,000
General Obligation Improvement	3.30 to 4.85%	02/01; 08/01	04-01-01	02-01-16	1,405,000	1,025,000
Street Improvement	3.50 to 4.70%	02/01; 08/01	09-01-01	02-01-17	4,800,000	3,655,000
Street Improvement	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	3,860,000	3,170,000
General Obligation Improvement Refunding	2.25 to 3.15%	02/01; 08/01	09-01-02	02-01-08	1,080,000	345,000
General Obligation Improvement	3.50 to 4.55%	02/01; 08/01	12-01-02	02-01-18	2,220,000	1,880,000
Street Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	3,118,400	1,811,100
Street Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	818,000	475,100
General Obligation Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	583,600	338,800
Street Improvement	2.00 to 4.50%	02/01; 08/01	09-01-03	02-01-19	5,035,000	4,475,000
General Obligation Improvement	2.50 to 4.20%	02/01; 08/01	12-01-03	02-01-19	2,010,000	1,805,000
Street Improvement	2.25 to 4.63%	02/01; 08/01	09-01-04	02-01-20	4,785,000	4,505,000
General Obligation Improvement	3.50 to 4.00%	02/01; 08/01	06-01-05	02-01-20	2,275,000	2,275,000
Street Improvement	3.50 to 4.25%	02/01; 08/01	10-01-05	02-01-21	4,260,000	4,260,000
General Obligation Improvement Refunding	4.00%	02/01; 08/01	12-19-05	02-01-08	200,000	200,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-05	02-01-12	2,820,000	2,820,000
General Obligation Improvement	4.00%	02/01; 08/01	09-07-06	02-01-21	1,985,000	1,985,000
Street Improvement	4.00%	02/01; 08/01	09-07-06	02-01-22	3,355,000	3,355,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-06	02-01-12	2,395,000	2,395,000
Street Improvement Refunding	3.75 to 4.00%	02/01; 08/01	12-19-06	02-01-14	3,445,000	3,445,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-06	02-01-16	3,190,000	3,190,000
<b>Total Special Assessment Debt with Government Commitment</b>				<b>\$ 64,561,000</b>	<b>\$ 53,600,000</b>	

(continued)



**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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

Bonds, certificates, and notes payable at December 31, 2006, are comprised of the following individual issues:

	<u>Interest Rate and Dates</u>		<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
BONDS AND CERTIFICATES BY ISSUE (continued)						
Governmental Activities (continued):						
General Obligation Certificates Payable -						
Equipment	2.50 to 3.00%	06/19; 12/19	12-19-02	12-19-07	\$ 1,780,000	\$ 380,000
Equipment	2.00 to 2.50%	06/19; 12/19	12-19-03	12-19-08	1,200,000	495,000
Equipment	3.00 to 3.25%	06/20; 12/20	02-20-04	12-20-09	1,355,000	830,000
Equipment	4.00%	06/19; 12/19	12-19-05	12-19-10	1,110,000	905,000
Equipment	3.63%	06/19; 12/19	12-19-06	02-01-12	1,785,000	1,785,000
Total General Obligation Certificates Payable					\$ 7,230,000	\$ 4,395,000
Total Governmental Activities Bonds and Certificates Payable					\$ 143,016,439	\$ 101,308,488
Business-type Activities:						
Revenue Bonds Payable -						
Golf Fund -						
Revenue Recreation Facility Refunding	2.00 to 3.80%	06/01; 12/01	12-04-04	12-01-12	\$ 1,040,000	\$ 800,000
Revenue and General Obligation Bonds Payable -						
Water Fund -						
Water Utility Revenue and General Obligation Refunding	4.00 to 4.80%	02/01; 08/01	09-01-97	02-01-08	\$ 2,455,000	\$ 575,000
Water Utility Revenue and General Obligation Refunding	4.20 to 4.45%	02/01; 08/01	05-01-98	02-01-07	1,955,000	355,000
Water Utility Revenue and General Obligation	4.40 to 5.25%	02/01; 08/01	12-01-00	02-01-16	1,530,000	1,145,000
Water Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	1,690,000	1,424,000
Water Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	12-01-18	1,385,000	1,165,000
Water Utility Revenue and General Obligation	2.00 to 3.25%	02/01; 08/01	03-01-03	02-01-10	625,000	370,000
Water Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	1,120,000	1,120,000
Total Water Fund					\$ 10,760,000	\$ 6,154,000
Gas Fund -						
Gas Utility Revenue and General Obligation	4.00 to 4.75%	02/01; 08/01	12-01-01	02-01-17	\$ 5,300,000	\$ 4,195,000
Gas Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	2,132,000	1,795,000
Gas Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	02-01-18	1,425,000	1,205,000
Gas Utility Revenue and General Obligation	2.50 to 4.20%	02/01; 08/01	12-01-03	02-01-19	6,090,000	5,480,000
Gas Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	13,865,000	1,190,000
Total Gas Fund					\$ 28,812,000	\$ 13,865,000
Steam District # 1 Fund -						
Steam Utility Revenue and General Obligation	3.40 to 4.30%	02/01; 08/01	12-01-98	02-01-09	\$ 310,000	\$ 105,000
Steam Utility Revenue and General Obligation	5.25 to 5.50%	02/01; 08/01	12-01-00	02-01-11	325,000	185,000
Steam Utility Revenue and General Obligation	4.30 to 4.50%	02/01; 08/01	02-01-02	02-01-12	345,000	230,000
Steam Utility Revenue and General Obligation	2.25 to 4.75%	02/01; 08/01	09-01-03	02-01-23	2,250,000	2,115,000
Steam Utility Revenue and General Obligation	2.80 to 4.15%	02/01; 08/01	06-01-05	02-01-20	1,250,000	1,250,000
Steam Utility Revenue and General Obligation	4.00 to 4.13%	02/01; 08/01	12-19-06	02-01-22	4,525,000	4,525,000
Total Steam District # 1 Fund					\$ 9,005,000	\$ 8,410,000
Sewer Fund -						
Sewer Utility Revenue and General Obligation Refunding	4.15 to 4.55%	02/01; 08/01	05-01-98	02-01-08	\$ 530,000	\$ 150,000
Sewer Utility Revenue and General Obligation	3.40 to 4.30%	02/01; 08/01	12-01-98	02-01-09	1,080,000	375,000
Sewer Utility Revenue and General Obligation	4.50 to 5.25%	02/01; 08/01	12-01-99	02-01-15	1,745,000	1,200,000
Sewer Utility Revenue and General Obligation	4.40 to 5.25%	02/01; 08/01	12-01-00	02-01-16	570,000	430,000
Sewer Utility Revenue and General Obligation	4.00 to 4.75%	02/01; 08/01	12-01-01	02-01-17	1,330,000	1,050,000
Sewer Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	2,003,000	1,686,000
Sewer Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	02-01-18	1,825,000	1,540,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.25%	02/01; 08/01	03-01-03	02-01-10	1,240,000	740,000
Sewer Utility Revenue and General Obligation	3.00 to 4.20%	02/01; 08/01	12-01-04	02-01-20	4,045,000	3,850,000
Sewer Utility Revenue and General Obligation	3.50 to 4.30%	02/01; 08/01	12-19-05	02-01-21	3,515,000	3,515,000
Sewer Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	945,000	945,000
Total Sewer Fund					\$ 18,828,000	\$ 15,481,000
Stormwater Fund -						
Stormwater Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	\$ 1,425,000	\$ 1,200,000
Stormwater Utility Revenue and General Obligation	4.00%	02/01; 08/01	09-07-06	02-01-22	1,705,000	1,705,000
Total Stormwater Fund					\$ 3,130,000	\$ 2,905,000
Total Revenue and General Obligation Bonds Payable					\$ 70,535,000	\$ 46,815,000
Total Business-type Activities Bonds Payable					\$ 71,575,000	\$ 47,615,000
Component Units:						
Spirit Mountain Recreation Area						
Revenue Bonds Payable -						
Spirit Mountain Recreation Area	4.50 to 4.50%	06/01; 12/01	03-31-03	12-01-12	\$ 1,646,750	\$ 1,334,618
Duluth Entertainment and Convention Center Authority						
General Obligation Bonds Payable -						
Duluth Entertainment and Convention Center Refunding	3.50 to 4.20%	06/01; 12/01	04-01-01	02-01-11	\$ 6,970,000	\$ 3,565,000
Total Component Units Bonds Payable					\$ 8,616,750	\$ 4,899,618

(continued)

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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

Bonds, certificates, and notes payable at December 31, 2006, are comprised of the following individual issues:

	<u>Interest Rate and Dates</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>	
<b>NOTES PAYABLE BY ISSUE</b>						
<b>Governmental Activities:</b>						
<b>General Obligation</b>						
Public Facilities Authority Note	1.00%	02/20; 08/20	07-24-02	08-20-18	\$ 364,195	\$ 301,000
Greater Minnesota Housing Fund Note	None	Note 1	11-06-06	11-06-16	<u>200,000</u>	<u>200,000</u>
<b>Total General Obligation</b>					<u>\$ 564,195</u>	<u>\$ 501,000</u>
<b>Revenue Note</b>						
U.S. Dept. of Housing and Urban Development	5.23 to 5.77%	01/22; 07/22	08-01-05	08-01-25	<u>\$ 6,594,000</u>	<u>\$ 3,221,000</u>
<b>Tax Increment Revenue</b>						
Canal Park Tax Increment	8.00%	02/01; 08/01	12-01-91	02-01-08	\$ 325,000	\$ 120,000
Cirrus Tax Increment Taxable	8.75%	02/01; 08/01	03-06-97	08-01-07	885,000	230,043
Fremont Tax Increment Limited Revenue	5.70%	02/01; 08/01	07-01-97	02-01-12	<u>650,000</u>	<u>295,000</u>
<b>Total Tax Increment Revenue</b>					<u>\$ 1,860,000</u>	<u>\$ 645,043</u>
<b>Total Governmental Activities</b>					<u>\$ 9,018,195</u>	<u>\$ 4,367,043</u>
<b>Business-type Activities:</b>						
<b>General Obligation:</b>						
<b>Water Fund -</b>						
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03	08-20-18	\$ 870,000	\$ 734,567
Public Facilities Authority Note*	2.530%	02/20; 08/20	07-02-04	08-20-18	<u>1,971,532</u>	<u>1,658,301</u>
<b>Total Water Fund</b>					<u>\$ 2,841,532</u>	<u>\$ 2,392,868</u>
<b>Sewer Fund -</b>						
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03	08-20-18	\$ 100,000	\$ 84,433
Public Facilities Authority Note	1.340%	02/20; 08/20	10-17-03	08-20-18	<u>1,179,115</u>	<u>1,040,000</u>
<b>Total Sewer Fund</b>					<u>\$ 1,279,115</u>	<u>\$ 1,124,433</u>
<b>Total Business-type Activities</b>					<u>\$ 4,120,647</u>	<u>\$ 3,517,301</u>
<b>Component Units:</b>						
Duluth Airport Authority						
Revenue Note	8.85%	06/01;12/01	11-01-05	06-01-19	<u>\$ 497,379</u>	<u>\$ 497,379</u>

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

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

**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, 2006 are:

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General	Street Improvement Debt Service	\$ 32,260
	Permanent Improvement	59,711
	Steam Enterprise	14,753
	Nonmajor Governmental Funds	262,019
	Nonmajor Enterprise Funds	1,800
	Internal Service Funds	801,923
Community Investment Trust	General	63,616
Permanent Improvement	General	691,813
Nonmajor Governmental Funds	General	1,236,937
	Permanent Improvement	11,080
	Water Enterprise	25,480
	Gas Enterprise	17,021
	Sewer Enterprise	89,768
	Other Nonmajor Governmental Funds	6,157,390
	Nonmajor Enterprise Funds	6,828
	Internal Service Funds	4,891
Water Enterprise	General	28,209
	Permanent Improvement	616,426
	Nonmajor Governmental Funds	781,838
	Internal Service Funds	17,535
Gas Enterprise	General	36,664
	Permanent Improvement	42,139
	Nonmajor Governmental Funds	312,171
	Internal Service Funds	31,976
Sewer Enterprise	General	23,255
	Permanent Improvement	1,155,974
	Nonmajor Governmental Funds	763,505
	Internal Service Funds	15,263
Steam District #1 Enterprise	Internal Service Funds	3,079
Nonmajor Enterprise Funds	General	9,782
	Permanent Improvement	406,805
	Nonmajor Governmental Funds	404,608
	Internal Service Funds	10,964
Internal Service Funds	General	603,620
	Water Enterprise	17,745
	Gas Enterprise	77,953
	Sewer Enterprise	6,555
	Nonmajor Enterprise Funds	207
	Other Internal Service Funds	85,615
	Total	<u>\$ 14,929,178</u>
Due from other funds, reported in	Balance Sheet - Governmental Funds	\$ 13,699,822
	Statement of Net Assets- Proprietary Funds:	
	Business-type Activities - Enterprise Funds	258,110
	Governmental Activities- Internal Service Funds	971,246
	Total	<u>\$ 14,929,178</u>

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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, 2006, with the exception of the Spirit Mountain Recreation Authority, whose fiscal year ended April 30, 2006.

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government: General Fund	Component Unit: Spirit Mountain Recreation Area Authority Duluth Entertainment and Convention Center Authority	\$ 88,533  10,520
Internal Service Funds	Duluth Area Airport Authority Spirit Mountain Recreation Area Authority	29,939 <u>95,246</u>
Total Due from Component Units		<u>\$ 224,238</u>
Due to Primary Government: Current Liability		\$ 132,292
Non-Current Liability		<u>181,515</u>
Total Due to Primary Government		313,807
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2006		(273,348)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2006		<u>183,779</u>
		<u>\$ 224,238</u>
Component Unit: Duluth Entertainment and Convention Center Authority	Primary Government: Nonmajor Governmental Funds	  \$ 97,586
Total Due from Primary Government		<u>\$ 97,586</u>
Total Due to Component Units		<u>\$ 97,586</u>

**INTERFUND LOAN RECEIVABLES/PAYABLES**

These balances are a result of temporary interfund financing at year-end. Balances at December 31, 2006 are:

<u>Receivable Fund</u>	<u>Amount</u>
General	\$ 1,495,357
Street Improvement Debt Service	5,224,099
Nonmajor Governmental Funds	<u>386,510</u>
Total	<u>\$ 7,105,966</u>
 <u>Payable Fund</u>	
Permanent Improvement Capital Projects	\$ 4,720,617
Nonmajor Governmental Funds	1,457,664
Nonmajor Enterprise Funds	589,634
Internal Service Funds	<u>338,051</u>
Total	<u>\$ 7,105,966</u>

**CITY OF DULUTH, MINNESOTA**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

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, 2006 are as follows:

<u>Transfer to, reported in fund:</u>	<u>Transfer from, reported in fund:</u>	<u>Amount</u>
General	Community Investment Trust	\$ 2,767,616
	Street Improvement Debt Service	192,879
	Water Enterprise	115,028
	Gas Enterprise	4,187,190
	Sewer Enterprise	152,845
	Steam Enterprise	88,000
	Nonmajor Governmental Funds	2,445,349
	Nonmajor Enterprise Funds	36,894
	Internal Service Funds	337,785
Special Assessment Debt Service	Street Improvement Debt Service	5,348
	Nonmajor Governmental Funds	777,494
Street Improvement Debt Service	General	4,269,860
	Nonmajor Governmental Funds	383,734
Permanent Improvement	General	34,581
	Water Enterprise	420,349
	Gas Enterprise	42,139
	Sewer Enterprise	76,970
	Nonmajor Governmental Funds	30,864
	Nonmajor Enterprise Funds	31,562
Nonmajor Governmental Funds	General	1,358,786
	Community Investment Trust	600,000
	Permanent Improvement	4,285
	Water Enterprise	111,600
	Gas Enterprise	228,417
	Sewer Enterprise	93,500
	Other Nonmajor Governmental Funds	10,018,689
	Nonmajor Enterprise Funds	31,600
	Total	<u>\$ 28,843,364</u>
Transfers out, reported in	Statement of Revenues, Expenditures, and Changes in Fund Balance:	
	Governmental Funds	\$ 22,889,485
	Statement of Revenues, Expenses, and Changes in Fund Net Assets:	
	Business-type Activities - Enterprise Funds	5,616,094
	Governmental Activities - Internal Service Funds	337,785
	Total	<u>\$ 28,843,364</u>

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

13. PENSION PLANS (continued)  
FUNDING POLICY

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. Statutory contribution rates of annual covered payroll for the plans are:

	<u>2006 Statutory Rates</u>		<u>2007 Statutory Rates</u>	
	<u>Employees</u>	<u>Employer</u>	<u>Employees</u>	<u>Employer</u>
Public Employees Retirement Fund				
Basic Members	9.10%	11.78%	9.10%	11.78%
Coordinated Members	5.50%	6.00%	5.75%	6.25%
Public Employees Police and Fire Fund	7.00%	10.50%	7.80%	11.70%

The City's contributions for the years ending December 31, 2006, 2005, and 2004 for the Public Employees Retirement Fund and Public Employees Police and Fire Fund were:  
(Dollar amounts in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Public Employees Retirement Fund	\$ 1,862	\$ 1,743	\$ 1,656
Public Employees Police and Fire Fund	<u>5,750</u>	<u>5,486</u>	<u>5,421</u>
Totals	<u>\$ 7,612</u>	<u>\$ 7,229</u>	<u>\$ 7,077</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 2006 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 2006 annual report.

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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; 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, 2006 is presented below.

	<u>Stormwater</u>	<u>Golf</u>
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	\$ 1,698,102	\$ 203,379
Due from other funds	7,035	1,800
Capital assets	10,712,312	2,552,370
Noncurrent assets	<u>80,548</u>	<u>34,618</u>
Total assets	<u>12,497,997</u>	<u>2,792,167</u>
Liabilities		
Current liabilities	464,376	831,291
Due to other funds	832,159	-
Noncurrent liabilities	<u>2,911,420</u>	<u>962,525</u>
Total liabilities	<u>4,207,955</u>	<u>1,793,816</u>
Net assets		
Invested in capital assets, net of related debt	7,010,265	1,410,127
Restricted for special accounts	-	108,163
Unrestricted	<u>1,279,777</u>	<u>(519,939)</u>
Total net assets	<u>\$ 8,290,042</u>	<u>\$ 998,351</u>

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

Operating revenues (expenses)		
Charges (pledged against bonds)	\$ 3,005,062	\$ 1,893,564
Depreciation expense	(250,563)	(149,015)
Other operating expenses	<u>(2,442,658)</u>	<u>(1,672,256)</u>
Operating income	311,841	72,293
Nonoperating revenues (expenses)		
Investment earnings	45,430	7,849
Intergovernmental	93,341	-
Gain (Loss) on sale or disposition of capital assets	-	33,202
Interest Expense	(70,454)	(69,359)
Capital contributions	168,611	-
Transfers out	<u>(100,056)</u>	<u>-</u>
Change in net assets	448,713	43,985
Beginning net assets	<u>7,841,329</u>	<u>954,366</u>
Ending net assets	<u>\$ 8,290,042</u>	<u>\$ 998,351</u>

CONDENSED STATEMENT OF CASH FLOWS

Net Cash provided (used) by		
Operating activities	\$ 773,888	\$ 161,303
Noncapital financing activities	16,810	106,386
Capital and related financing activities	(295,693)	(267,689)
Investing activities	<u>45,430</u>	<u>-</u>
Net increase (decrease)	540,435	-
Beginning cash and cash equivalents	<u>937,925</u>	<u>-</u>
Ending cash and cash equivalents	<u>\$ 1,478,360</u>	<u>\$ -</u>



**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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 1<sup>st</sup>.

LITIGATION

The City of Duluth is negotiating a consent decree to settle an administrative enforcement action of the Environmental Protection Agency for sewage overflows over the past many years that have violated the Clean Water Act. The proposed consent decree currently includes a penalty to the City in the amount of \$425,000. The City has made a counterproposal that the penalty be reduced to \$104,000. The final amount of the penalty has not been settled as of the date of the audit.

The proposed consent decree also requires the City to make certain improvements to prevent future sewage overflows. The City has consented to these improvements which will be made over a number of years. The improvements are estimated to cost \$56 million and are expected to be financed primarily by federal and state grants.

TAX INCREMENT DISTRICTS

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

FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS

The City has received significant financial assistance from numerous federal governmental agencies in the form of grants and entitlements. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material effect on the City's financial position at December 31, 2006.

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, 822 retirees meet the eligibility requirements.

**CITY OF DULUTH, MINNESOTA  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006**

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

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 \$7,019,170 in 2006 and \$6,313,493 in 2005. 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 \$7,910,472 for postemployment health care benefits and \$77,454 for life insurance coverage were recognized. There was a \$1,226,641 increase in health expenses from the previous year. Twelve City retirees, who retired prior to January 1, 1983, are paying their own medical premiums with no deductible.

In 2005, the City contracted with an actuary to calculate its actuarial accrued liability for post employment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. The actuarial accrued liability was \$279,934,736 as of January 1, 2005. GASB Statement No. 45 does not become effective until January 1, 2007 and provides for prospective implementation – that is, the City's net OPEB obligation will be zero as of January 1, 2007.

**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, 2006, is:

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

**RELATED ORGANIZATION**

The Duluth Housing and Redevelopment Authority is a legally separate organization from the City of Duluth with its own rights and powers. Although the Mayor of the City of Duluth appoints all Authority Board members, there is no financial accountability necessary for including this organization as a component unit of the City of Duluth. Related party transactions are limited to payments by the City on various contracts for services entered into with the Authority. The City made payments on various contracts totaling \$776,269 to the Duluth Housing and Redevelopment Authority in 2006.

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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, 2006, follows:

- Augusta Building - \$268,321
- Fifth Street Redevelopment - \$551,539
- Hampton Inn - \$158,960
- Inn on the Lake - \$128,210
- Ramsey Townhouses - \$1,485,000
- Sherman Associates Hotel/Condominium - \$5,000,000
- Spirit Bay - \$129,042
- 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
- Irving School Project - annual payment not to exceed 100% of captured tax increment
- Jefferson Square - annual payment not to exceed 20% of captured tax increment

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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, 2006, are as follows:

<u>Entity</u>	<u>Series</u>	<u>Issued</u>	<u>Principal Outstanding</u>
Duluth Radisson Hotel	1995A	\$ 8,470,000	\$ 5,390,000
St. Mary's Medical Center	2004	140,400,000	137,565,000
	1993C	45,795,000	31,790,000
Miller Dwan Medical Center	1997	20,000,000	15,100,000
ECUMEN	1998	11,750,000	9,420,000
Aftenro Home	2006	2,575,000	2,460,000
Residential Services	2000B	576,421	393,997
	2000C	330,919	226,031
Center for Alcohol & Drug Treatment	2000A	2,600,000	2,184,138
St. Luke's Hospital	2002	55,000,000	52,330,000
Merritt School LLC	2004	660,000	615,748
Miller Hill 47 Limited Partnership	2004	2,000,000	1,934,539

**NORTHWEST MAINTENANCE FACILITY**

The City has included in its long-term debt, revenue pledges made to the State of Minnesota for repayment of certain State issued revenue bonds (See Note 11). The State bonds were issued to finance the construction of an aircraft maintenance facility at Duluth International Airport. The facility is owned by DEDA and is leased to Northwest Airlines (NWA). In addition to lease payments to the State, NWA pays property taxes to St Louis County which is passed through as tax increments to the City and pledged towards bond repayment. In addition, the City has pledged future state aids towards bond repayment if revenue pledges are insufficient.

NWA filed for bankruptcy on September 14, 2005 and is delinquent on its property taxes which reduced the tax increment available to make debt payments. However, on May 21, 2007, a settlement agreement between NWA and various debtors including the State of Minnesota, the City of Duluth, and DEDA, was approved by the United States Bankruptcy Court. The settlement agreement grants the State of Minnesota general unsecured claims in NWA in amounts sufficient to allow the State to redeem all outstanding debt. The redemption of debt will eliminate the revenue pledges made by the City and DEDA. The facility will continue to be owned by DEDA, free of debt obligations, which will allow DEDA to remarket the facility.

**CITY OF DULUTH, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

16. SUBSEQUENT EVENTS  
TAX AND AID ANTICIPATION CERTIFICATES

Pursuant to the authority contained in Sections 55 through 59 of the Charter, the City sold \$17,000,000 of General Obligation Tax and Aid Anticipation Certificates dated February 7, 2007. The taxes levied in 2006 and collectible in 2007 are pledged for the payment of these certificates due December 31, 2007. The proceeds of the sale will be used to improve the cash flow requirements of the General Fund during 2007.

REFUNDING BONDS

Pursuant to Minnesota Statutes, Chapter 469, the Duluth Economic Development Authority sold \$1,380,000 of Lease Revenue Refunding Bonds, dated February 7, 2007, to refund, on a current basis, Lease Revenue Bonds, Series 1995A, dated May 1, 1995.

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

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

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

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

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

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

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

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

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

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

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

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

**Other Post Employment Benefits (OPEB)** – to account for monies that will be transferred into an irrevocable trust for funding the City's actuarial accrued liability for post employment benefits.



## NON-MAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS (continued)

**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.

### 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.

**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.

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

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

**CITY OF DULUTH, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>				
	<b>Home Investment Partnership Program</b>	<b>Community Development</b>	<b>Workforce Development</b>	<b>Senior Employment</b>	<b>Senior Nutrition</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 106,938	\$ 405,845	\$ -	\$ -
Assets held by trustee	-	-	-	-	-
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	4,731	2,753	4,913	-	6,012
Loans	186,450	2,703,749	-	-	-
Grants	-	-	-	50,316	-
Deposits	-	-	-	-	-
Due from other funds	12,367	21,734	2,784	-	71,510
Interfund loan receivable	-	-	-	-	-
Due from other governments	325,010	658,147	168,559	-	40,152
Prepays	-	-	-	-	-
Total assets	<u>\$ 528,558</u>	<u>\$ 3,493,321</u>	<u>\$ 582,101</u>	<u>\$ 50,316</u>	<u>\$ 117,674</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ -	\$ 506	\$ 21,402	\$ -	\$ 1,545
Contracts payable	271,574	415,798	3,360	-	26,163
Due to other funds	21,616	73,260	1,126	2,411	-
Due to component units	-	-	-	-	-
Interfund loan payable	15,638	-	-	45,113	25,952
Loans payable	-	-	-	-	-
Due to other governments	-	3,974	17,221	-	-
Accrued salaries payable	-	7,463	22,725	2,792	3,264
Deferred revenue	219,730	2,661,052	18,922	-	-
Total liabilities	<u>528,558</u>	<u>3,162,053</u>	<u>84,756</u>	<u>50,316</u>	<u>56,924</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	-	-	-
Special accounts	-	-	465,848	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	331,268	31,497	-	60,750
Capital project funds	-	-	-	-	-
Total fund balances	<u>-</u>	<u>331,268</u>	<u>497,345</u>	<u>-</u>	<u>60,750</u>
Total liabilities and fund balances	<u>\$ 528,558</u>	<u>\$ 3,493,321</u>	<u>\$ 582,101</u>	<u>\$ 50,316</u>	<u>\$ 117,674</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>				
	<b>Special Projects</b>	<b>Police Grant Programs</b>	<b>Housing Investment</b>	<b>GMHF Revolving Fund</b>	<b>Recovery Loan Program</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 323,337	\$ 119,785	\$ 155,236	\$ 200,000	\$ 108,750
Assets held by trustee	-	-	-	-	-
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	21,960	-	-	-	-
Loans	-	-	524,514	-	66,283
Grants	-	477,183	-	-	-
Deposits	-	-	-	-	-
Due from other funds	462	1,224	-	-	622,000
Interfund loan receivable	-	-	-	-	-
Due from other governments	7,936	-	-	-	-
Prepays	-	-	-	-	-
Total assets	<u>\$ 353,695</u>	<u>\$ 598,192</u>	<u>\$ 679,750</u>	<u>\$ 200,000</u>	<u>\$ 797,033</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 10,970	\$ 116,792	\$ -	\$ -	\$ -
Contracts payable	-	28,728	79,750	-	-
Due to other funds	7,936	399,987	-	-	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	-
Loans payable	-	-	-	-	-
Due to other governments	68	3,486	-	-	50,000
Accrued salaries payable	241	-	-	-	-
Deferred revenue	-	44,282	524,514	-	16,283
Total liabilities	<u>19,215</u>	<u>593,275</u>	<u>604,264</u>	<u>-</u>	<u>66,283</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	-	-	-
Special accounts	-	4,917	-	200,000	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	334,480	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	-	75,486	-	730,750
Capital project funds	-	-	-	-	-
Total fund balances	<u>334,480</u>	<u>4,917</u>	<u>75,486</u>	<u>200,000</u>	<u>730,750</u>
Total liabilities and fund balances	<u>\$ 353,695</u>	<u>\$ 598,192</u>	<u>\$ 679,750</u>	<u>\$ 200,000</u>	<u>\$ 797,033</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>				
	<b>Bayfront Festival Park</b>	<b>Library Special Accounts</b>	<b>Capital Equipment</b>	<b>Post Employment Benefits</b>	<b>Economic Development</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 59,512	\$ 1,107,345	\$ 1,432,130	\$ -	\$ 85,129
Assets held by trustee	-	-	-	-	-
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	-	-	-	-	-
Loans	-	-	-	-	298,306
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	-	-	390,117	29,409
Interfund loan receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Prepays	-	-	-	-	-
<b>Total assets</b>	<b>\$ 59,512</b>	<b>\$ 1,107,345</b>	<b>\$ 1,432,130</b>	<b>\$ 390,117</b>	<b>\$ 412,844</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 1,432	\$ 10,637	\$ 95,298	\$ -	\$ 21,409
Contracts payable	-	-	-	-	28,000
Due to other funds	-	-	17,314	-	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	-
Loans payable	-	-	-	-	-
Due to other governments	-	-	1,671	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	-	-	-	-	298,306
<b>Total liabilities</b>	<b>1,432</b>	<b>10,637</b>	<b>114,283</b>	<b>-</b>	<b>347,715</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Encumbrances	-	-	815,443	-	-
Debt service	-	-	-	-	-
Special accounts	-	-	-	-	-
<b>Unreserved:</b>					
<b>Designated for, reported in:</b>					
Special revenue funds	-	1,096,708	-	390,117	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
<b>Undesignated, reported in:</b>					
Special revenue funds	58,080	-	502,404	-	65,129
Capital project funds	-	-	-	-	-
<b>Total fund balances</b>	<b>58,080</b>	<b>1,096,708</b>	<b>1,317,847</b>	<b>390,117</b>	<b>65,129</b>
<b>Total liabilities and fund balances</b>	<b>\$ 59,512</b>	<b>\$ 1,107,345</b>	<b>\$ 1,432,130</b>	<b>\$ 390,117</b>	<b>\$ 412,844</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>				
	<b>Energy Management</b>	<b>Tourism Tax</b>	<b>Public Facility and Programs</b>	<b>DEDA Operating</b>	<b>DEDA NWA Maint. Facility</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 161,411	\$ 1,114,629	\$ 95,115	\$ 407,648	\$ 208,363
Assets held by trustee	-	-	-	-	2,484,238
Receivables, net:					
Taxes	-	411,480	989	-	-
Accounts	-	-	-	5,177	340,624
Loans	-	-	-	-	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	75,000	1,000	-	200,000	513,702
Interfund loan receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Prepays	-	-	-	-	-
<b>Total assets</b>	<b>\$ 236,411</b>	<b>\$ 1,527,109</b>	<b>\$ 96,104</b>	<b>\$ 612,825</b>	<b>\$ 3,546,927</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 8,013	\$ 24,141	\$ -	\$ 5,840	\$ -
Contracts payable	-	-	-	180	-
Due to other funds	-	5,265	-	632,000	-
Due to component units	-	97,586	-	-	-
Interfund loan payable	-	-	-	-	386,510
Loans payable	-	-	-	781,397	-
Due to other governments	-	-	-	-	-
Accrued salaries payable	4,421	-	-	-	-
Deferred revenue	-	-	-	2,447	1,148,863
<b>Total liabilities</b>	<b>12,434</b>	<b>126,992</b>	<b>-</b>	<b>1,421,864</b>	<b>1,535,373</b>
Fund balances:					
Reserved for:					
Encumbrances	-	40,000	-	38,167	-
Debt service	-	1,010,330	-	-	2,215,819
Special accounts	-	193,882	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	223,977	155,905	96,104	(847,206)	(204,265)
Capital project funds	-	-	-	-	-
<b>Total fund balances</b>	<b>223,977</b>	<b>1,400,117</b>	<b>96,104</b>	<b>(809,039)</b>	<b>2,011,554</b>
<b>Total liabilities and fund balances</b>	<b>\$ 236,411</b>	<b>\$ 1,527,109</b>	<b>\$ 96,104</b>	<b>\$ 612,825</b>	<b>\$ 3,546,927</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 DECEMBER 31, 2006**

	Special Revenue Fund	Debt Service Funds			Capital Project Fund
	DEDA Loan Programs	General Obligation	Transit Bond	DEDA Debt Service	Special Assessment
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,922,000	\$ 5,639,227	\$ 266,944	\$ 5,328,743	\$ 262,355
Assets held by trustee	-	-	-	-	-
Receivables, net:					
Taxes	-	186,465	8,783	641,495	-
Accounts	-	-	-	232,369	-
Loans	2,743,012	-	-	24,239	-
Grants	-	750,000	-	-	-
Deposits	250,000	-	-	-	-
Due from other funds	-	196,635	8,011	241,160	694,792
Interfund loan receivable	-	-	-	386,510	-
Due from other governments	-	-	-	-	975,625
Prepays	-	-	-	-	-
<b>Total assets</b>	<b>\$ 6,915,012</b>	<b>\$ 6,772,327</b>	<b>\$ 283,738</b>	<b>\$ 6,854,516</b>	<b>\$ 1,932,772</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ -	\$ 608	\$ -	\$ -	\$ 8,025
Contracts payable	-	-	-	-	274,390
Due to other funds	241,160	-	-	2,872,356	388,772
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	-
Loans payable	-	-	-	-	-
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	-	886,384	6,527	607,279	-
<b>Total liabilities</b>	<b>241,160</b>	<b>886,992</b>	<b>6,527</b>	<b>3,479,635</b>	<b>671,187</b>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	9,720
Debt service	42,739	5,172,843	140,149	3,374,881	-
Special accounts	2,644,407	-	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	1,350,000	-	-	-	-
Debt service funds	-	712,492	137,062	-	-
Capital project funds	-	-	-	-	1,251,865
Undesignated, reported in:					
Special revenue funds	2,636,706	-	-	-	-
Capital project funds	-	-	-	-	-
<b>Total fund balances</b>	<b>6,673,852</b>	<b>5,885,335</b>	<b>277,211</b>	<b>3,374,881</b>	<b>1,261,585</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,915,012</b>	<b>\$ 6,772,327</b>	<b>\$ 283,738</b>	<b>\$ 6,854,516</b>	<b>\$ 1,932,772</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Capital Project Funds</b>				<b>Total Nonmajor Governmental Funds</b>
	<b>Street Improvement Program</b>	<b>Capital Improvements</b>	<b>Medical District Expansion</b>	<b>DEDA Capital Projects</b>	
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ -	\$ 2,974,361	\$ 1,587,719	\$ 26,072,522
Assets held by trustee	-	-	-	-	2,484,238
Receivables, net:					
Taxes	-	-	-	-	1,249,212
Accounts	400	-	-	17,515	636,454
Loans	-	-	-	2,025,588	8,572,141
Grants	-	-	-	-	1,277,499
Deposits	-	-	-	-	250,000
Due from other funds	1,338,029	1,902,941	-	2,358,654	8,681,531
Interfund loan receivable	-	-	-	-	386,510
Due from other governments	-	-	-	306,000	2,481,429
Prepays	-	-	-	736,481	736,481
<b>Total assets</b>	<b>\$ 1,338,429</b>	<b>\$ 1,902,941</b>	<b>\$ 2,974,361</b>	<b>\$ 7,031,957</b>	<b>\$ 52,828,017</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 22,800	\$ 6,363	\$ 3,043	\$ 12,599	\$ 371,423
Contracts payable	410,091	202,827	1,045,228	96,253	2,882,342
Due to other funds	628,842	125,000	-	2,132,350	7,549,395
Due to component units	-	-	-	-	97,586
Interfund loan payable	796,453	187,998	-	-	1,457,664
Loans payable	-	-	-	-	781,397
Due to other governments	-	-	-	-	76,420
Accrued salaries payable	-	-	-	-	40,906
Deferred revenue	-	-	-	2,265,348	8,699,937
<b>Total liabilities</b>	<b>1,858,186</b>	<b>522,188</b>	<b>1,048,271</b>	<b>4,506,550</b>	<b>21,957,070</b>
Fund balances:					
Reserved for:					
Encumbrances	372,414	439,879	440,381	71,562	2,227,566
Debt service	-	-	-	-	11,956,761
Special accounts	-	-	-	797,174	4,306,228
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	3,171,305
Debt service funds	-	-	-	-	849,554
Capital project funds	-	940,874	1,485,709	305,151	3,983,599
Undesignated, reported in:					
Special revenue funds	-	-	-	-	3,916,585
Capital project funds	(892,171)	-	-	1,351,520	459,349
<b>Total fund balances</b>	<b>(519,757)</b>	<b>1,380,753</b>	<b>1,926,090</b>	<b>2,525,407</b>	<b>30,870,947</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,338,429</b>	<b>\$ 1,902,941</b>	<b>\$ 2,974,361</b>	<b>\$ 7,031,957</b>	<b>\$ 52,828,017</b>

**CITY OF DULUTH, MINNESOTA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>				
	<b>Home Investment Partnership Program</b>	<b>Community Development</b>	<b>Workforce Development</b>	<b>Senior Employment</b>	<b>Senior Nutrition</b>
<b>REVENUES</b>					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	1,030,437	3,064,196	1,956,093	296,956	253,111
Charges for services	-	-	-	-	-
Investment income	-	62,253	-	-	-
Miscellaneous revenues	-	4,475,871	58,545	-	286,894
<b>Total revenues</b>	<b>1,030,437</b>	<b>7,602,320</b>	<b>2,014,638</b>	<b>296,956</b>	<b>540,005</b>
<b>EXPENDITURES</b>					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	1,030,437	2,314,005	2,010,994	296,956	550,765
Debt service:					
Principal retirement	-	4,655,000	-	-	-
Interest and fiscal fees	-	310,878	-	-	-
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	16,992	-	-	-
Capital outlay	-	-	-	-	-
<b>Total expenditures</b>	<b>1,030,437</b>	<b>7,296,875</b>	<b>2,010,994</b>	<b>296,956</b>	<b>550,765</b>
Excess (deficiency) of revenues over expenditures	-	305,445	3,644	-	(10,760)
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of bonds	-	-	-	-	-
Premium on sale of bonds	-	-	-	-	-
Loan proceeds	-	1,282,000	-	-	-
Transfers in	-	82,041	-	-	71,510
Transfers out	-	(807,327)	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>556,714</b>	<b>-</b>	<b>-</b>	<b>71,510</b>
Net change in fund balance	-	862,159	3,644	-	60,750
Fund balance - January 1, 2006	-	(530,891)	493,701	-	-
Fund balance - December 31, 2006	<u>\$ -</u>	<u>\$ 331,268</u>	<u>\$ 497,345</u>	<u>\$ -</u>	<u>\$ 60,750</u>

(continued)



**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>				
	<b>Special Projects</b>	<b>Police Grant Programs</b>	<b>Housing Investment</b>	<b>GMHF Revolving Fund</b>	<b>Recovery Loan Program</b>
<b>REVENUES</b>					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	254,283	1,217,803	-	-	-
Charges for services	-	-	-	-	-
Investment income	-	697	-	-	-
Miscellaneous revenues	236,827	78,227	-	-	23,778
<b>Total revenues</b>	<b>491,110</b>	<b>1,296,727</b>	<b>-</b>	<b>-</b>	<b>23,778</b>
<b>EXPENDITURES</b>					
Current:					
General government	-	-	-	-	-
Public safety	153,942	709,795	-	-	-
Culture and recreation	262,160	-	-	-	-
Urban and economic development	61,358	-	374,514	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	286,243	-	-	-
<b>Total expenditures</b>	<b>477,460</b>	<b>996,038</b>	<b>374,514</b>	<b>-</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	13,650	300,689	(374,514)	-	23,778
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of bonds	-	-	-	-	-
Premium on sale of bonds	-	-	-	-	-
Loan proceeds	-	-	-	200,000	-
Transfers in	9,000	-	600,000	-	-
Transfers out	(19,700)	(311,174)	-	-	-
<b>Total other financing sources (uses)</b>	<b>(10,700)</b>	<b>(311,174)</b>	<b>600,000</b>	<b>200,000</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>2,950</b>	<b>(10,485)</b>	<b>225,486</b>	<b>200,000</b>	<b>23,778</b>
Fund balance - January 1, 2006	331,530	15,402	(150,000)	-	706,972
Fund balance - December 31, 2006	<u>\$ 334,480</u>	<u>\$ 4,917</u>	<u>\$ 75,486</u>	<u>\$ 200,000</u>	<u>\$ 730,750</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>				
	<b>Bayfront Festival Park</b>	<b>Library Special Accounts</b>	<b>Capital Equipment</b>	<b>Post Employment Benefits</b>	<b>Economic Development</b>
<b>REVENUES</b>					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	-
Charges for services	-	-	-	-	-
Investment income	902	9,206	8,273	-	-
Miscellaneous revenues	29,450	58,557	-	-	13,366
<b>Total revenues</b>	<b>30,352</b>	<b>67,763</b>	<b>8,273</b>	<b>-</b>	<b>13,366</b>
<b>EXPENDITURES</b>					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	30,136	22,358	-	-	-
Urban and economic development	-	-	-	-	60,306
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	12,432	-	-
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	-	20,875	-	-
Capital outlay	76,970	18,530	1,348,930	-	-
<b>Total expenditures</b>	<b>107,106</b>	<b>40,888</b>	<b>1,382,237</b>	<b>-</b>	<b>60,306</b>
Excess (deficiency) of revenues over expenditures	(76,754)	26,875	(1,373,964)	-	(46,940)
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of bonds	-	-	1,785,000	-	-
Premium on sale of bonds	-	-	4,404	-	-
Loan proceeds	-	-	-	-	-
Transfers in	-	-	-	390,117	29,409
Transfers out	-	-	(33,569)	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>1,755,835</b>	<b>390,117</b>	<b>29,409</b>
<b>Net change in fund balance</b>	<b>(76,754)</b>	<b>26,875</b>	<b>381,871</b>	<b>390,117</b>	<b>(17,531)</b>
Fund balance - January 1, 2006	134,834	1,069,833	935,976	-	82,660
Fund balance - December 31, 2006	<u>\$ 58,080</u>	<u>\$ 1,096,708</u>	<u>\$ 1,317,847</u>	<u>\$ 390,117</u>	<u>\$ 65,129</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>				
	<b>Energy Management</b>	<b>Tourism Tax</b>	<b>Public Facility and Programs</b>	<b>DEDA Operating</b>	<b>DEDA NWA Maint. Facility</b>
<b>REVENUES</b>					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	5,545,367	-	-	-
Other taxes	-	-	15,398	-	-
Intergovernmental revenues	-	-	-	77,702	-
Charges for services	-	-	-	12,732	-
Investment income	-	-	966	52,139	4,247
Miscellaneous revenues	34,237	-	-	1,886,879	29,119
Total revenues	<u>34,237</u>	<u>5,545,367</u>	<u>16,364</u>	<u>2,029,452</u>	<u>33,366</u>
<b>EXPENDITURES</b>					
Current:					
General government	159,553	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	2,917,549	-	1,828,497	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Revenue pledge	-	-	-	-	1,383,363
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	-	319,348	-
Total expenditures	<u>159,553</u>	<u>2,917,549</u>	<u>-</u>	<u>2,147,845</u>	<u>1,383,363</u>
Excess (deficiency) of revenues over expenditures	<u>(125,316)</u>	<u>2,627,818</u>	<u>16,364</u>	<u>(118,393)</u>	<u>(1,349,997)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of bonds	-	-	-	-	-
Premium on sale of bonds	-	-	-	-	-
Loan proceeds	-	-	-	-	-
Transfers in	80,061	-	-	104,209	1,002,192
Transfers out	-	(2,652,179)	-	(270,359)	-
Total other financing sources (uses)	<u>80,061</u>	<u>(2,652,179)</u>	<u>-</u>	<u>(166,150)</u>	<u>1,002,192</u>
Net change in fund balance	(45,255)	(24,361)	16,364	(284,543)	(347,805)
Fund balance - January 1, 2006	<u>269,232</u>	<u>1,424,478</u>	<u>79,740</u>	<u>(524,496)</u>	<u>2,359,359</u>
Fund balance - December 31, 2006	<u>\$ 223,977</u>	<u>\$ 1,400,117</u>	<u>\$ 96,104</u>	<u>\$ (809,039)</u>	<u>\$ 2,011,554</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Special Revenue Fund	Debt Service Funds			Capital Project Fund
	DEDA Loan Programs	General Obligation	Transit Bond	DEDA Debt Service	Special Assessment
<b>REVENUES</b>					
Taxes:					
Property taxes	\$ -	\$ 3,155,181	\$ 141,137	\$ 5,532,677	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	350,888	15,676	81,488	1,501,870
Charges for services	-	-	-	-	-
Investment income	208,538	180,584	-	210,320	239
Miscellaneous revenues	76,860	653,766	-	241,607	35,645
	<u>285,398</u>	<u>4,340,419</u>	<u>156,813</u>	<u>6,066,092</u>	<u>1,537,754</u>
Total revenues					
	285,398	4,340,419	156,813	6,066,092	1,537,754
<b>EXPENDITURES</b>					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	27,160	-	-	1,918	-
Debt service:					
Principal retirement	-	4,350,700	125,000	1,591,505	-
Interest and fiscal fees	-	2,099,524	23,323	907,633	1,098
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	21,662	-	-	37,024
Capital outlay	-	-	-	-	2,340,608
	<u>27,160</u>	<u>6,471,886</u>	<u>148,323</u>	<u>2,501,056</u>	<u>2,378,730</u>
Total expenditures					
	27,160	6,471,886	148,323	2,501,056	2,378,730
Excess (deficiency) of revenues over expenditures	<u>258,238</u>	<u>(2,131,467)</u>	<u>8,490</u>	<u>3,565,036</u>	<u>(840,976)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of bonds	-	-	-	-	1,985,000
Premium on sale of bonds	-	103,220	-	-	10,126
Loan proceeds	-	-	-	-	-
Transfers in	-	3,112,808	-	241,160	381,205
Transfers out	(1,396,601)	(1,218,069)	-	(3,705,884)	(70,599)
	<u>(1,396,601)</u>	<u>1,997,959</u>	<u>-</u>	<u>(3,464,724)</u>	<u>2,305,732</u>
Total other financing sources (uses)					
	(1,396,601)	1,997,959	-	(3,464,724)	2,305,732
Net change in fund balance	(1,138,363)	(133,508)	8,490	100,312	1,464,756
Fund balance - January 1, 2006	<u>7,812,215</u>	<u>6,018,843</u>	<u>268,721</u>	<u>3,274,569</u>	<u>(203,171)</u>
Fund balance - December 31, 2006	<u>\$ 6,673,852</u>	<u>\$ 5,885,335</u>	<u>\$ 277,211</u>	<u>\$ 3,374,881</u>	<u>\$ 1,261,585</u>

**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Capital Project Funds</u>				<u>Total Nonmajor Governmental Funds</u>
	<u>Street Improvement Program</u>	<u>Capital Improvements</u>	<u>Medical District Expansion</u>	<u>DEDA Capital Projects</u>	
<b>REVENUES</b>					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 8,828,995
Sales taxes	-	-	-	-	5,545,367
Other taxes	-	-	-	-	15,398
Intergovernmental revenues	-	-	-	206,070	10,306,573
Charges for services	-	-	-	182,776	195,508
Investment income	16	70,790	323,440	40,806	1,173,416
Miscellaneous revenues	88,727	1,970	-	285,917	8,596,242
	<u>88,743</u>	<u>72,760</u>	<u>323,440</u>	<u>715,569</u>	<u>34,661,499</u>
Total revenues					
<b>EXPENDITURES</b>					
Current:					
General government	-	-	-	-	159,553
Public safety	-	-	-	-	863,737
Culture and recreation	-	-	-	-	314,654
Urban and economic development	-	-	-	618,906	12,093,365
Debt service:					
Principal retirement	-	-	-	-	10,722,205
Interest and fiscal fees	-	18,119	-	-	3,373,007
Revenue pledge	-	-	-	-	1,383,363
Bond issuance costs	52,680	20,794	-	-	170,027
Capital outlay	3,358,244	4,121,558	10,134,677	17,244	22,022,352
	<u>3,410,924</u>	<u>4,160,471</u>	<u>10,134,677</u>	<u>636,150</u>	<u>51,102,263</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>(3,322,181)</u>	<u>(4,087,711)</u>	<u>(9,811,237)</u>	<u>79,419</u>	<u>(16,440,764)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of bonds	3,355,000	895,000	-	-	8,020,000
Premium on sale of bonds	15,492	9,345	-	-	142,587
Loan proceeds	-	-	-	-	1,482,000
Transfers in	48,668	2,561,133	1,400,000	2,333,364	12,446,877
Transfers out	(225,217)	(104,860)	(323,440)	(2,517,152)	(13,656,130)
	<u>3,193,943</u>	<u>3,360,618</u>	<u>1,076,560</u>	<u>(183,788)</u>	<u>8,435,334</u>
Total other financing sources (uses)					
Net change in fund balance	(128,238)	(727,093)	(8,734,677)	(104,369)	(8,005,430)
Fund balance - January 1, 2006	(391,519)	2,107,846	10,660,767	2,629,776	38,876,377
Fund balance - December 31, 2006	<u>\$ (519,757)</u>	<u>\$ 1,380,753</u>	<u>\$ 1,926,090</u>	<u>\$ 2,525,407</u>	<u>\$ 30,870,947</u>

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
<b>Taxes:</b>				
General property -				
Current	\$ 6,767,200	\$ 6,767,200	\$ 6,066,651	\$ (700,549)
Delinquent	150,000	150,000	105,897	(44,103)
Mobile home	40,000	40,000	28,166	(11,834)
Forfeited tax sale apportionment	60,000	60,000	85,779	25,779
Franchise	1,760,000	1,760,000	1,819,654	59,654
Sales taxes	11,200,000	11,440,774	11,314,984	(125,790)
Charitable gambling	100,000	100,000	85,212	(14,788)
Other	500	500	616	116
<b>Total Taxes</b>	<u>20,077,700</u>	<u>20,318,474</u>	<u>19,506,959</u>	<u>(811,515)</u>
<b>Licenses and Permits:</b>				
Liquor and non-intoxicating liquor	286,800	286,800	309,699	22,899
Health	15,900	15,900	20,362	4,462
Police protective	27,800	27,800	23,065	(4,735)
Amusement	16,800	16,800	21,104	4,304
Manufacturing and merchandising	45,200	45,200	43,143	(2,057)
Other	633,500	633,500	570,091	(63,409)
<b>Total Licenses and Permits</b>	<u>1,026,000</u>	<u>1,026,000</u>	<u>987,464</u>	<u>(38,536)</u>
<b>Intergovernmental revenues:</b>				
<b>Shared revenues -</b>				
Local government aid	26,728,600	26,728,600	26,728,606	6
PERA aid	125,000	125,000	124,428	(572)
Amortization aid	3,824,200	3,824,200	3,693,950	(130,250)
Insurance premium	1,974,100	1,974,100	1,702,916	(271,184)
<b>State grants -</b>				
Snowmobile trail	10,000	10,000	7,198	(2,802)
Lake Superior Zoo	124,000	135,000	135,000	-
Police training reimbursement	48,000	48,000	49,560	1,560
HAZMAT regional response team	-	73,918	73,918	-
Market value credit aid	-	-	687,173	687,173
MSA maintenance allotment	1,145,000	1,145,000	1,250,389	105,389
<b>Federal grants -</b>				
Bulletproof vest partnership program	-	13,873	14,189	316
Highway safety - operation nite cap	-	9,577	10,178	601
Drunk driving prevention - safe and sober	65,900	65,900	42,074	(23,826)
Meth lab grant	-	-	6,599	6,599
<b>Other grants -</b>				
St. Louis County	129,400	129,400	131,017	1,617
Payments in lieu of taxes -				
Housing and Redevelopment Authority	42,000	42,000	25,259	(16,741)
Independent School District #709	151,000	151,000	123,083	(27,917)
WLSSD	29,000	29,000	18,047	(10,953)
<b>Total Intergovernmental Revenues</b>	<u>34,396,200</u>	<u>34,504,568</u>	<u>34,823,584</u>	<u>319,016</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
<b>Charges for Services:</b>				
<b>Departmental fees and services -</b>				
Fire	4,200	4,200	-	(4,200)
Police	98,000	118,220	96,550	(21,670)
Parks and recreation	543,800	578,106	520,514	(57,592)
Engineering	550,000	550,000	654,311	104,311
Building inspection services	1,770,400	1,770,400	2,269,750	499,350
MIS services	3,000	3,000	5,065	2,065
Grant administration services	35,000	35,000	40,334	5,334
Hydrant maintenance services	31,000	31,000	30,000	(1,000)
Assessment fees	184,200	184,200	125,790	(58,410)
Parking meters	540,000	540,000	548,085	8,085
Municipal parking lots	221,200	221,200	218,416	(2,784)
Tech village parking ramp	400,000	400,000	473,022	73,022
Casino parking ramp	575,000	575,000	571,637	(3,363)
Medical district parking ramp	-	-	4,912	4,912
Other services	6,700	6,700	21,471	14,771
<b>Departmental sales -</b>				
Copier and microfilm prints	39,700	39,700	19,726	(19,974)
Print and plan sales	17,000	17,000	13,232	(3,768)
Book sales	200	200	347	147
Miscellaneous sales and services	37,100	46,135	124,045	77,910
<b>Share of general expenses -</b>				
Duluth Airport Authority	43,400	43,400	43,400	-
Water and Gas	1,235,200	1,235,200	1,235,200	-
Sewer	440,800	440,800	440,800	-
Stormwater	183,700	183,700	183,700	-
Steam District #1	13,000	13,000	13,000	-
Duluth Entertainment & Convention Center	17,700	17,700	17,700	-
Duluth Transit Authority	17,000	17,000	17,000	-
Golf	43,900	43,900	43,900	-
Duluth Economic Development Authority	218,000	218,000	218,000	-
Fleet Services	60,300	60,300	60,300	-
Group Health	163,200	163,200	163,200	-
Self Insurance	309,000	309,000	309,000	-
Spirit Mountain Recreation Area Authority	40,700	40,700	40,700	-
<b>Total Charges for Services</b>	<u>7,842,400</u>	<u>7,905,961</u>	<u>8,523,107</u>	<u>617,146</u>
<b>Fines and Forfeits:</b>				
Library fines	102,100	102,100	97,663	(4,437)
Parking fines	800,000	800,000	387,723	(412,277)
Court fees	430,000	430,000	391,478	(38,522)
License penalties	2,000	2,000	8,150	6,150
Felony forfeitures	-	17,839	20,310	2,471
Other fines	-	-	-	-
<b>Total Fines and Forfeits</b>	<u>1,334,100</u>	<u>1,351,939</u>	<u>905,324</u>	<u>(446,615)</u>
<b>Special Assessments</b>	<u>433,000</u>	<u>433,000</u>	<u>380,492</u>	<u>(52,508)</u>
<b>Investment Income</b>	<u>1,500,000</u>	<u>2,100,000</u>	<u>539,355</u>	<u>(1,560,645)</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
<b>Miscellaneous Revenues:</b>				
Commission and concessions	6,500	6,500	14,504	8,004
Payments in lieu of taxes	16,000	16,000	16,086	86
Police auction proceeds	-	8,092	7,942	(150)
Rent and lease	76,600	76,600	85,133	8,533
Damage claims	3,000	70,871	73,534	2,663
Sale of equipment	50,000	50,000	103,966	53,966
Sale of land	30,000	30,000	81,000	51,000
Sale of scrap	1,500	1,500	5,886	4,386
Surcharge retainage	1,200	1,200	1,596	396
Refunds and reimbursements	427,700	449,390	124,918	(324,472)
Gifts and donations	-	20,868	21,236	368
<b>Total Miscellaneous Revenues</b>	<b>612,500</b>	<b>731,021</b>	<b>535,801</b>	<b>(195,220)</b>
<b>Total Revenues</b>	<b>67,221,900</b>	<b>68,370,963</b>	<b>66,202,086</b>	<b>(2,168,877)</b>
<b>Other Financing Sources:</b>				
<b>Operating transfers in:</b>				
Special Projects	-	-	15,491	15,491
Duluth Police Grant Programs	66,000	66,000	311,174	245,174
Community Investment Trust	2,715,000	2,715,000	2,767,616	52,616
Tourism Taxes	1,031,500	1,048,000	1,151,428	103,428
G O Debt Service	-	-	173,446	173,446
Street Improvement Debt Service	-	-	192,879	192,879
Medical District Expansion	-	-	323,440	323,440
Capital Improvements	-	-	70,790	70,790
Water	-	-	115,028	115,028
Gas	3,887,000	3,887,000	4,187,190	300,190
Sewer	-	-	152,845	152,845
Stormwater	-	-	36,894	36,894
Steam	88,000	88,000	88,000	-
Medical Health	-	-	173,079	173,079
Employee Vacation Compensation	-	-	164,706	164,706
DEDA Operating	-	-	44,738	44,738
DEDA Debt Service	-	-	166,964	166,964
DEDA Capital Projects	-	-	32,437	32,437
DEDA Building Renovation Loans	-	-	155,441	155,441
<b>Total Other Financing Sources</b>	<b>7,787,500</b>	<b>7,804,000</b>	<b>10,323,586</b>	<b>2,519,586</b>
<b>Total Revenues and Other Financing Sources</b>	<b>\$ 75,009,400</b>	<b>\$ 76,174,963</b>	<b>\$ 76,525,672</b>	<b>\$ 350,709</b>
<b>Reconciliation:</b>				
Original budget as approved by Duluth City Council		\$ 75,009,400		
Adjustments made in accordance with budget ordinance provisions:				
Grants, gifts, and donations		150,736		
Ordinance allowable		1,014,827		
Total adjustments		1,165,563		
Modified budget as reported above		\$ 76,174,963		



**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES –  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
<b>GENERAL GOVERNMENT:</b>							
<b>Legislative and Executive</b>							
<b>City Council</b>							
Personal services - salaries	\$ 90,000	\$ 90,000		\$ 89,964	\$ -	\$ 89,964	\$ 36
Personal services - benefits	12,300	9,000		8,977	-	8,977	23
Other expenditures	46,000	33,600		32,954	-	32,954	646
<b>Total City Council</b>	<b>148,300</b>	<b>132,600</b>	<b>1</b>	<b>131,895</b>	<b>-</b>	<b>131,895</b>	<b>705</b>
<b>Mayor's Office</b>							
Personal services - salaries	130,300	130,300		129,420	-	129,420	880
Personal services - benefits	35,500	34,500		34,018	-	34,018	482
Other expenditures	9,200	11,400		11,328	-	11,328	72
<b>Total Mayor's Office</b>	<b>175,000</b>	<b>176,200</b>	<b>1</b>	<b>174,766</b>	<b>-</b>	<b>174,766</b>	<b>1,434</b>
<b>Administrative Assistant</b>							
Personal services - salaries	313,400	305,400		304,461	-	304,461	939
Personal services - benefits	70,400	59,400		59,109	-	59,109	291
Other expenditures	8,000	6,000		5,583	-	5,583	417
<b>Total Administrative Assistant</b>	<b>391,800</b>	<b>370,800</b>	<b>1</b>	<b>369,153</b>	<b>-</b>	<b>369,153</b>	<b>1,647</b>
<b>City Attorney</b>							
Personal services - salaries	1,062,100	1,034,800		1,034,259	-	1,034,259	541
Personal services - benefits	252,200	235,400		235,329	-	235,329	71
Other expenditures	24,500	34,500		34,202	-	34,202	298
Capital outlay	8,000	6,500		6,440	-	6,440	60
<b>Total City Attorney</b>	<b>1,346,800</b>	<b>1,311,200</b>	<b>1</b>	<b>1,310,230</b>	<b>-</b>	<b>1,310,230</b>	<b>970</b>
<b>Human Rights Office</b>							
Personal services - salaries	106,500	112,500		111,659	-	111,659	841
Personal services - benefits	32,500	32,500		32,218	-	32,218	282
Other expenditures	17,500	7,500		7,296	-	7,296	204
<b>Total Human Rights Office</b>	<b>156,500</b>	<b>152,500</b>	<b>1</b>	<b>151,173</b>	<b>-</b>	<b>151,173</b>	<b>1,327</b>
<b>Total Legislative and Executive</b>	<b>2,218,400</b>	<b>2,143,300</b>		<b>2,137,217</b>	<b>-</b>	<b>2,137,217</b>	<b>6,083</b>
<b>Administrative Services</b>							
<b>Human Resources</b>							
Personal services - salaries	532,200	563,500		562,606	-	562,606	894
Personal services - benefits	140,600	151,050		150,563	-	150,563	487
Other expenditures	31,200	36,900		36,833	-	36,833	67
<b>Total Human Resources</b>	<b>704,000</b>	<b>751,450</b>	<b>1</b>	<b>750,002</b>	<b>-</b>	<b>750,002</b>	<b>1,448</b>
<b>Budget and Operations Analysis</b>							
Personal services - salaries	187,300	64,724		64,723	-	64,723	1
Personal services - benefits	50,400	18,271		18,271	-	18,271	-
Other expenditures	4,000	769		768	-	768	1
<b>Total Budget and Operations Analysis</b>	<b>241,700</b>	<b>83,764</b>	<b>1</b>	<b>83,762</b>	<b>-</b>	<b>83,762</b>	<b>2</b>
<b>City Clerk</b>							
Personal services - salaries	411,200	426,200		425,460	-	425,460	740
Personal services - benefits	109,500	102,500		102,326	-	102,326	174
Other expenditures	46,300	30,300		29,706	-	29,706	594
<b>Total City Clerk</b>	<b>567,000</b>	<b>559,000</b>	<b>1</b>	<b>557,492</b>	<b>-</b>	<b>557,492</b>	<b>1,508</b>
<b>Management Information Systems</b>							
Personal services - salaries	919,700	798,700		797,884	-	797,884	816
Personal services - benefits	244,400	203,400		202,718	-	202,718	682
Other expenditures	261,800	218,100		217,747	-	217,747	353
<b>Total Management Information Systems</b>	<b>1,425,900</b>	<b>1,220,200</b>	<b>1</b>	<b>1,218,349</b>	<b>-</b>	<b>1,218,349</b>	<b>1,851</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES –  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
<b>GENERAL GOVERNMENT: (continued)</b>							
<b>Administrative Services (continued)</b>							
<b>Facilities Management</b>							
Personal services - salaries	1,316,600	1,229,889		1,229,781	-	1,229,781	108
Personal services - benefits	388,600	349,941		349,510	-	349,510	431
Other expenditures	2,673,100	3,178,841		3,178,832	-	3,178,832	9
Capital outlay	-	7,344		7,343	-	7,343	1
<b>Total Facilities Management</b>	<b>4,378,300</b>	<b>4,766,015</b>	1,2	<b>4,765,466</b>	<b>-</b>	<b>4,765,466</b>	<b>549</b>
<b>Architect's Office</b>							
Personal services - salaries	163,000	166,500		166,266	-	166,266	234
Personal services - benefits	36,000	36,500		36,150	-	36,150	350
Other expenditures	6,300	5,300		4,393	-	4,393	907
<b>Total Architect's Office</b>	<b>205,300</b>	<b>208,300</b>	1	<b>206,809</b>	<b>-</b>	<b>206,809</b>	<b>1,491</b>
<b>Total Administrative Services</b>	<b>7,522,200</b>	<b>7,588,729</b>		<b>7,581,880</b>	<b>-</b>	<b>7,581,880</b>	<b>6,849</b>
<b>Department of Finance</b>							
<b>Finance Administration</b>							
Personal services - salaries	-	162,671		162,008	-	162,008	663
Personal services - benefits	-	34,674		34,384	-	34,384	290
Other expenditures	-	2,231		1,907	-	1,907	324
<b>Total Finance Administration</b>	<b>-</b>	<b>199,576</b>	1	<b>198,299</b>	<b>-</b>	<b>198,299</b>	<b>1,277</b>
<b>City Assessor's Office</b>							
Personal services - salaries	617,600	567,600		567,226	-	567,226	374
Personal services - benefits	168,900	150,900		150,227	-	150,227	673
Other expenditures	25,400	22,400		21,985	-	21,985	415
<b>Total City Assessor's Office</b>	<b>811,900</b>	<b>740,900</b>	1	<b>739,438</b>	<b>-</b>	<b>739,438</b>	<b>1,462</b>
<b>City Auditor's Office</b>							
Personal services - salaries	970,000	873,400		872,509	-	872,509	891
Personal services - benefits	250,500	224,900		224,652	-	224,652	248
Other expenditures	80,000	73,900		73,393	-	73,393	507
<b>Total City Auditor's Office</b>	<b>1,300,500</b>	<b>1,172,200</b>	1	<b>1,170,554</b>	<b>-</b>	<b>1,170,554</b>	<b>1,646</b>
<b>Purchasing Office</b>							
Personal services - salaries	236,100	163,100		162,741	-	162,741	359
Personal services - benefits	64,100	47,100		46,684	-	46,684	416
Other expenditures	11,000	11,500		11,364	-	11,364	136
<b>Total Purchasing Office</b>	<b>311,200</b>	<b>221,700</b>	1	<b>220,789</b>	<b>-</b>	<b>220,789</b>	<b>911</b>
<b>City Treasurer's Office</b>							
Personal services - salaries	289,500	294,500		293,842	-	293,842	658
Personal services - benefits	73,700	73,700		73,591	-	73,591	109
Other expenditures	6,400	5,400		5,326	-	5,326	74
<b>Total City Treasurer's Office</b>	<b>369,600</b>	<b>373,600</b>	1	<b>372,759</b>	<b>-</b>	<b>372,759</b>	<b>841</b>
<b>Total Department of Finance</b>	<b>2,793,200</b>	<b>2,707,976</b>		<b>2,701,839</b>	<b>-</b>	<b>2,701,839</b>	<b>6,137</b>
<b>TOTAL GENERAL GOVERNMENT</b>	<b>12,533,800</b>	<b>12,440,005</b>		<b>12,420,936</b>	<b>-</b>	<b>12,420,936</b>	<b>19,069</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES –  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
<b>PUBLIC SAFETY:</b>							
<b>Fire Department</b>							
<b>Fire Administration</b>							
Personal services - salaries	283,100	295,100		294,677	-	294,677	423
Personal services - benefits	108,300	108,300		108,231	-	108,231	69
Other expenditures	39,900	38,900		34,320	4,140	38,460	440
<b>Total Fire Administration</b>	<b>431,300</b>	<b>442,300</b>	<b>1</b>	<b>437,228</b>	<b>4,140</b>	<b>441,368</b>	<b>932</b>
<b>Firefighting Operations</b>							
Personal services - salaries	7,998,100	8,480,030		8,479,446	-	8,479,446	584
Personal services - benefits	4,869,200	4,861,400		4,860,692	-	4,860,692	708
Other expenditures	369,000	410,000		394,502	14,330	408,832	1,168
<b>Total Firefighting Operations</b>	<b>13,236,300</b>	<b>13,751,430</b>	<b>1,4</b>	<b>13,734,640</b>	<b>14,330</b>	<b>13,748,970</b>	<b>2,460</b>
<b>Fire Prevention and Training</b>							
Personal services - salaries	302,600	336,300		335,446	-	335,446	854
Personal services - benefits	158,600	165,600		164,799	-	164,799	801
Other expenditures	49,100	42,488		42,417	-	42,417	71
<b>Total Fire Prevention and Training</b>	<b>510,300</b>	<b>544,388</b>	<b>1,2,3</b>	<b>542,662</b>	<b>-</b>	<b>542,662</b>	<b>1,726</b>
<b>Building Inspection</b>							
Personal services - salaries	1,330,600	1,257,400		1,257,067	-	1,257,067	333
Personal services - benefits	383,000	362,000		361,964	-	361,964	36
Other expenditures	126,300	155,795		106,752	48,707	155,459	336
<b>Total Building Inspection</b>	<b>1,839,900</b>	<b>1,775,195</b>	<b>1,2</b>	<b>1,725,783</b>	<b>48,707</b>	<b>1,774,490</b>	<b>705</b>
<b>Hazardous Materials (HAZMAT)</b>							
Other expenditures	-	18,086		14,469	-	14,469	3,617
<b>Total Hazardous Materials (HAZMAT)</b>	<b>-</b>	<b>18,086</b>	<b>1,2,3</b>	<b>14,469</b>	<b>-</b>	<b>14,469</b>	<b>3,617</b>
<b>Total Fire Department</b>	<b>16,017,800</b>	<b>16,531,399</b>		<b>16,454,782</b>	<b>67,177</b>	<b>16,521,959</b>	<b>9,440</b>
<b>Police Department</b>							
<b>Police Administration</b>							
Personal services - salaries	638,500	752,600		751,808	-	751,808	792
Personal services - benefits	190,300	221,500		221,002	-	221,002	498
Other expenditures	769,000	1,009,258		1,007,751	-	1,007,751	1,507
<b>Total Police Administration</b>	<b>1,597,800</b>	<b>1,983,358</b>	<b>1,4</b>	<b>1,980,561</b>	<b>-</b>	<b>1,980,561</b>	<b>2,797</b>
<b>Police Patrol</b>							
Personal services - salaries	6,464,900	7,202,477		7,202,207	-	7,202,207	270
Personal services - benefits	2,140,200	2,310,000		2,309,558	-	2,309,558	442
Other expenditures	44,900	85,773		84,553	-	84,553	1,220
<b>Total Police Patrol</b>	<b>8,650,000</b>	<b>9,598,250</b>	<b>1,3,4</b>	<b>9,596,318</b>	<b>-</b>	<b>9,596,318</b>	<b>1,932</b>
<b>Police Investigative</b>							
Personal services - salaries	3,606,000	3,217,200		3,216,310	-	3,216,310	890
Personal services - benefits	1,182,500	1,019,700		1,018,982	-	1,018,982	718
Other expenditures	34,500	15,500		15,105	-	15,105	395
<b>Total Police Investigative</b>	<b>4,823,000</b>	<b>4,252,400</b>	<b>1</b>	<b>4,250,397</b>	<b>-</b>	<b>4,250,397</b>	<b>2,003</b>
<b>Police Special Accounts</b>							
Other expenditures	-	71,188		20,113	-	20,113	51,075
<b>Total Police Special Accounts</b>	<b>-</b>	<b>71,188</b>	<b>2,3,4</b>	<b>20,113</b>	<b>-</b>	<b>20,113</b>	<b>51,075</b>
<b>Total Police Department</b>	<b>15,070,800</b>	<b>15,905,196</b>		<b>15,847,389</b>	<b>-</b>	<b>15,847,389</b>	<b>57,807</b>
<b>TOTAL PUBLIC SAFETY</b>	<b>31,088,600</b>	<b>32,436,595</b>		<b>32,302,171</b>	<b>67,177</b>	<b>32,369,348</b>	<b>67,247</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES –  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
<b>PUBLIC WORKS:</b>							
<b>Public Works and Utilities</b>							
<b>Public Works Director's Office</b>							
Personal services - salaries	48,100	35,100		34,615	-	34,615	485
Personal services - benefits	11,600	8,100		8,011	-	8,011	89
Other expenditures	2,300	700		600	-	600	100
<b>Total Public Works Director's Office</b>	<b>62,000</b>	<b>43,900</b>	<b>1</b>	<b>43,226</b>	<b>-</b>	<b>43,226</b>	<b>674</b>
<b>Maintenance Operations</b>							
Personal services - salaries	3,131,500	3,047,500		3,047,174	-	3,047,174	326
Personal services - benefits	881,000	833,800		833,717	-	833,717	83
Other expenditures	3,085,600	3,260,951		3,260,725	-	3,260,725	226
Capital outlay	-	6,300		6,294	-	6,294	6
<b>Total Maintenance Operations</b>	<b>7,098,100</b>	<b>7,148,551</b>	<b>1,3,4</b>	<b>7,147,910</b>	<b>-</b>	<b>7,147,910</b>	<b>641</b>
<b>Engineering</b>							
Personal services - salaries	1,754,100	1,753,300		1,753,183	-	1,753,183	117
Personal services - benefits	505,700	474,300		474,185	-	474,185	115
Other expenditures	208,700	301,942		301,841	-	301,841	101
<b>Total Engineering</b>	<b>2,468,500</b>	<b>2,529,542</b>	<b>1,4</b>	<b>2,529,209</b>	<b>-</b>	<b>2,529,209</b>	<b>333</b>
<b>Total Public Works and Utilities</b>	<b>9,628,600</b>	<b>9,721,993</b>		<b>9,720,345</b>	<b>-</b>	<b>9,720,345</b>	<b>1,648</b>
<b>TOTAL PUBLIC WORKS</b>	<b>9,628,600</b>	<b>9,721,993</b>		<b>9,720,345</b>	<b>-</b>	<b>9,720,345</b>	<b>1,648</b>
<b>CULTURE AND RECREATION:</b>							
<b>Library Department</b>							
<b>Library Services</b>							
Personal services - salaries	2,645,800	2,538,400		2,537,705	-	2,537,705	695
Personal services - benefits	763,900	714,900		714,535	-	714,535	365
Other expenditures	114,500	122,684		122,653	-	122,653	31
Capital outlay	285,000	301,916		301,916	-	301,916	-
<b>Total Library Services</b>	<b>3,809,200</b>	<b>3,677,900</b>	<b>1,3,4</b>	<b>3,676,809</b>	<b>-</b>	<b>3,676,809</b>	<b>1,091</b>
<b>Library Buildings and Equipment</b>							
Personal services - salaries	157,200	167,000		166,597	-	166,597	403
Personal services - benefits	57,500	57,500		57,129	-	57,129	371
Other expenditures	23,100	21,503		21,230	-	21,230	273
<b>Total Library Buildings and Equipment</b>	<b>237,800</b>	<b>246,003</b>	<b>1</b>	<b>244,956</b>	<b>-</b>	<b>244,956</b>	<b>1,047</b>
<b>Total Library Department</b>	<b>4,047,000</b>	<b>3,923,903</b>		<b>3,921,765</b>	<b>-</b>	<b>3,921,765</b>	<b>2,138</b>
<b>Parks and Recreation Department</b>							
<b>Recreation and Senior Services</b>							
Personal services - salaries	1,029,500	1,010,500		1,010,196	-	1,010,196	304
Personal services - benefits	269,400	228,100		228,091	-	228,091	9
Other expenditures	202,200	148,500		148,426	-	148,426	74
<b>Total Recreation and Senior Services</b>	<b>1,501,100</b>	<b>1,387,100</b>	<b>1,4</b>	<b>1,386,713</b>	<b>-</b>	<b>1,386,713</b>	<b>387</b>
<b>Lake Superior Zoo</b>							
Personal services - salaries	599,800	609,400		609,393	-	609,393	7
Personal services - benefits	173,300	174,300		173,857	-	173,857	443
Other expenditures	280,400	447,206		447,090	-	447,090	116
<b>Total Lake Superior Zoo</b>	<b>1,053,500</b>	<b>1,230,906</b>	<b>1,3,4</b>	<b>1,230,340</b>	<b>-</b>	<b>1,230,340</b>	<b>566</b>
<b>Total Parks and Recreation Department</b>	<b>2,554,600</b>	<b>2,618,006</b>		<b>2,617,053</b>	<b>-</b>	<b>2,617,053</b>	<b>953</b>
<b>TOTAL CULTURE AND RECREATION</b>	<b>6,601,600</b>	<b>6,541,909</b>		<b>6,538,818</b>	<b>-</b>	<b>6,538,818</b>	<b>3,091</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES –  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
<b>URBAN AND ECONOMIC DEVELOPMENT:</b>							
<b>Planning and Development</b>							
Personal services - salaries	363,400	366,400		366,205	-	366,205	195
Personal services - benefits	93,000	92,000		91,907	-	91,907	93
Other expenditures	130,000	173,863		143,384	-	143,384	30,479
<b>Total Planning and Development</b>	<b>586,400</b>	<b>632,263</b>	1,2	<b>601,496</b>	<b>-</b>	<b>601,496</b>	<b>30,767</b>
<b>TOTAL URBAN AND ECONOMIC DEVELOPMENT</b>	<b>586,400</b>	<b>632,263</b>		<b>601,496</b>	<b>-</b>	<b>601,496</b>	<b>30,767</b>
<b>TRANSFERS AND OTHER FUNCTIONS:</b>							
Airbus construction	875,000	875,000		875,000	-	875,000	-
Auditing services	98,600	96,800	1	96,763	-	96,763	37
Business improvement district	500,000	466,812	1	466,811	-	466,811	1
Capital improvements/lease purchase	249,200	251,400	1	251,335	-	251,335	65
Capital maintenance/lease purchase	850,000	1,035,915	1,2	590,077	63,225	653,302	382,613
Civil defense	12,000	11,570	1	11,090	-	11,090	480
Federal programs	80,000	71,511	1	71,510	-	71,510	1
Flexible benefits	13,000	11,211	1	11,211	-	11,211	-
Parking improvement debt	32,100	30,074	1	30,074	-	30,074	-
Public access television	187,000	187,000		187,000	-	187,000	-
Retiree insurance	5,570,200	5,838,858	1	5,838,854	-	5,838,854	4
Self insurance	1,300,000	1,300,000		1,300,000	-	1,300,000	-
State sales tax administration	-	240,774	4	240,774	-	240,774	-
Street improvement program	4,239,800	4,269,860	1	4,269,860	-	4,269,860	-
Transfers and accruals	100,000	-	1	-	-	-	-
Other functions	463,500	523,330	1,2	522,675	-	522,675	655
<b>TOTAL TRANSFERS AND OTHER FUNCTIONS</b>	<b>14,570,400</b>	<b>15,210,115</b>		<b>14,763,034</b>	<b>63,225</b>	<b>14,826,259</b>	<b>383,856</b>
<b>TOTAL EXPENDITURES AND ENCUMBRANCES</b>	<b>\$ 75,009,400</b>	<b>\$ 76,982,880</b>		<b>\$ 76,346,800</b>	<b>\$ 130,402</b>	<b>\$ 76,477,202</b>	<b>\$ 505,678</b>

**RECONCILIATION:**

Original budget as approved by Duluth City Council \$ 75,009,400

**Adjustments made in accordance with Budget Ordinance**

Note 1	-	Departmental transfers made in accordance with budget ordinance
Note 2	807,917	Encumbrance, contract, reserve, or designation carryovers from prior year
Note 3	150,736	Grants, gifts, and donations in accordance with budget ordinance
Note 4	1,014,827	Other allowable additions made in accordance with budget ordinance

**Total adjustments** 1,973,480

**Modified budget as reported above** \$ 76,982,880

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF EXPENDITURES/TRANSFERS OUT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Personal Services Salaries</u>	<u>Personal Services Benefits</u>	<u>Other Expenditures</u>	<u>Capital Outlay</u>	<u>Transfers</u>	<u>Total Actual</u>
<b>GENERAL GOVERNMENT:</b>						
<b>Legislative and Executive</b>						
City Council	\$ 89,964	\$ 8,977	\$ 32,954	\$ -	\$ -	\$ 131,895
Mayor	129,420	34,018	11,328	-	-	174,766
Administrative Assistant	304,461	59,109	5,583	-	-	369,153
City Attorney	1,034,259	235,329	34,202	6,440	-	1,310,230
Human Rights	111,659	32,218	7,296	-	-	151,173
<b>Total Legislative and Executive</b>	<b>1,669,763</b>	<b>369,651</b>	<b>91,363</b>	<b>6,440</b>	<b>-</b>	<b>2,137,217</b>
<b>Department of Administrative Services</b>						
Human Resources	562,606	150,563	36,833	-	-	750,002
Budget and Operations Analysis	64,723	18,271	768	-	-	83,762
City Clerk	425,460	102,326	29,706	-	-	557,492
Management Information Systems	797,884	202,718	217,748	40,283	-	1,258,633
Facilities Management	1,229,781	349,510	2,915,322	102,022	-	4,596,635
Architect	166,266	36,150	4,393	-	-	206,809
Other functions	-	617,633	2,138,349	3,750	-	2,759,732
<b>Total Administrative Services</b>	<b>3,246,720</b>	<b>1,477,171</b>	<b>5,343,119</b>	<b>146,055</b>	<b>-</b>	<b>10,213,065</b>
<b>Department of Finance</b>						
Finance Administration	162,008	34,384	1,907	-	-	198,299
Assessor	567,226	150,227	21,985	-	-	739,438
Auditor	872,509	224,652	170,156	-	-	1,267,317
Purchasing	162,741	46,684	11,364	-	-	220,789
Treasurer	293,842	73,591	5,326	-	-	372,759
<b>Total Department of Finance</b>	<b>2,058,326</b>	<b>529,538</b>	<b>210,738</b>	<b>-</b>	<b>-</b>	<b>2,798,602</b>
<b>Benefits</b>						
Flexible Benefits	-	11,211	-	-	-	11,211
Retiree Insurance	-	5,838,854	-	-	-	5,838,854
<b>Total Benefits</b>	<b>-</b>	<b>5,850,065</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,850,065</b>
<b>TOTAL GENERAL GOVERNMENT</b>	<b>6,974,809</b>	<b>8,226,425</b>	<b>5,645,220</b>	<b>152,495</b>	<b>-</b>	<b>20,998,949</b>
<b>PUBLIC SAFETY:</b>						
<b>Fire Department</b>						
Fire Administration	294,677	108,231	34,320	-	-	437,228
Firefighting Operations	8,479,446	4,860,692	394,502	-	-	13,734,640
Fire Prevention	335,446	164,799	42,417	-	-	542,662
Building Inspection	1,257,067	361,964	106,752	-	-	1,725,783
HAZMAT	-	-	14,469	-	-	14,469
<b>Total Fire</b>	<b>10,366,636</b>	<b>5,495,686</b>	<b>592,460</b>	<b>-</b>	<b>-</b>	<b>16,454,782</b>
<b>Police Department</b>						
Administration	751,808	221,002	1,007,751	-	-	1,980,561
Police Patrol	7,202,207	2,309,558	84,553	-	-	9,596,318
Police Investigative	3,216,310	1,018,982	15,105	-	-	4,250,397
Special Accounts	-	-	20,113	-	-	20,113
<b>Total Police</b>	<b>11,170,325</b>	<b>3,549,542</b>	<b>1,127,522</b>	<b>-</b>	<b>-</b>	<b>15,847,389</b>
<b>Civil Defense</b>	<b>-</b>	<b>-</b>	<b>11,090</b>	<b>-</b>	<b>-</b>	<b>11,090</b>
<b>TOTAL PUBLIC SAFETY</b>	<b>21,536,961</b>	<b>9,045,228</b>	<b>1,731,072</b>	<b>-</b>	<b>-</b>	<b>32,313,261</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF EXPENDITURES/TRANSFERS OUT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Personal Services Salaries</u>	<u>Personal Services Benefits</u>	<u>Other Expenditures</u>	<u>Capital Outlay</u>	<u>Transfers</u>	<u>Total Actual</u>
<b>PUBLIC WORKS:</b>						
<b>Public Works Department</b>						
Director's Office	34,615	8,011	600	-	-	43,226
Maintenance Division	3,047,174	833,717	3,317,503	83,727	-	7,282,121
Engineering	1,753,183	474,185	301,841	-	-	2,529,209
<b>Total Public Works Department</b>	<u>4,834,972</u>	<u>1,315,913</u>	<u>3,619,944</u>	<u>83,727</u>	<u>-</u>	<u>9,854,556</u>
<b>TOTAL PUBLIC WORKS</b>	<u>4,834,972</u>	<u>1,315,913</u>	<u>3,619,944</u>	<u>83,727</u>	<u>-</u>	<u>9,854,556</u>
<b>CULTURE AND RECREATION:</b>						
<b>Library Department</b>						
Library Services	2,537,705	714,535	142,343	301,916	-	3,696,499
Buildings and Equipment	166,597	57,129	21,230	-	-	244,956
<b>Total Library Department</b>	<u>2,704,302</u>	<u>771,664</u>	<u>163,573</u>	<u>301,916</u>	<u>-</u>	<u>3,941,455</u>
<b>Parks and Recreation Department</b>						
Recreation and Senior Services	1,010,196	228,091	161,743	92,151	-	1,492,181
Lake Superior Zoo	609,393	173,857	447,090	-	-	1,230,340
<b>Total Parks and Recreation</b>	<u>1,619,589</u>	<u>401,948</u>	<u>608,833</u>	<u>92,151</u>	<u>-</u>	<u>2,722,521</u>
<b>TOTAL CULTURE AND RECREATION</b>	<u>4,323,891</u>	<u>1,173,612</u>	<u>772,406</u>	<u>394,067</u>	<u>-</u>	<u>6,663,976</u>
<b>URBAN AND ECONOMIC DEVELOPMENT</b>						
<b>Planning and Development</b>						
Urban Development	366,205	91,907	143,384	-	-	601,496
<b>Total Planning and Development</b>	<u>366,205</u>	<u>91,907</u>	<u>143,384</u>	<u>-</u>	<u>-</u>	<u>601,496</u>
<b>TOTAL URBAN AND ECONOMIC DEVELOPMENT</b>	<u>366,205</u>	<u>91,907</u>	<u>143,384</u>	<u>-</u>	<u>-</u>	<u>601,496</u>
<b>TRANSFERS:</b>						
Special Projects	-	-	-	-	9,000	9,000
Energy Management	-	-	-	-	5,061	5,061
Senior Nutrition	-	-	-	-	71,510	71,510
G O Debt Service	-	-	-	-	288,523	288,523
Street Improvement Debt Service	-	-	-	-	4,269,860	4,269,860
Permanent Improvement	-	-	-	-	34,581	34,581
Capital Improvements	-	-	-	-	109,692	109,692
DEDA Northwest Maintenance Facility	-	-	-	-	875,000	875,000
<b>TOTAL TRANSFERS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,663,227</u>	<u>5,663,227</u>
<b>DEBT SERVICE:</b>						
Capital Lease Obligation - Principal	-	-	-	130,000	-	130,000
Capital Lease Obligation - Interest	-	-	-	121,335	-	121,335
<b>TOTAL DEBT SERVICE</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>251,335</u>	<u>-</u>	<u>251,335</u>
<b>TOTAL EXPENDITURES/TRANSFERS OUT</b>	<u>\$ 38,036,838</u>	<u>\$ 19,853,085</u>	<u>\$ 11,912,026</u>	<u>\$ 881,624</u>	<u>\$ 5,663,227</u>	<u>\$ 76,346,800</u>

# 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 #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  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Stormwater</u>	<u>Steam District #2</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,323,822	\$ 150,000	\$ -	\$ 1,473,822
Restricted cash and cash equivalents:				
Construction	154,538	-	-	154,538
Restricted assets held by trustee	-	-	110,366	110,366
Accounts receivable, net	14,775	706,869	7,472	729,116
Due from other funds	7,035	-	1,800	8,835
Due from other governments	204,967	-	-	204,967
Inventories	-	-	66,693	66,693
Prepays	-	66,441	18,848	85,289
Total current assets	<u>1,705,137</u>	<u>923,310</u>	<u>205,179</u>	<u>2,833,626</u>
Capital assets, net	<u>10,712,312</u>	<u>9,421,090</u>	<u>2,552,370</u>	<u>22,685,772</u>
Noncurrent assets:				
Issuance costs	35,548	-	34,618	70,166
Planning and development costs	45,000	-	-	45,000
Total other assets	<u>80,548</u>	<u>-</u>	<u>34,618</u>	<u>115,166</u>
Total noncurrent assets	<u>10,792,860</u>	<u>9,421,090</u>	<u>2,586,988</u>	<u>22,800,938</u>
Total assets	<u>12,497,997</u>	<u>10,344,400</u>	<u>2,792,167</u>	<u>25,634,564</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	27,430	764,946	5,525	797,901
Contracts payable	208,850	-	-	208,850
Leases payable	-	-	86,925	86,925
Due to other funds	832,159	-	-	832,159
Interfund loan payable	-	-	589,634	589,634
Due to other governments	219	-	-	219
Accrued interest payable	42,128	-	5,847	47,975
Accrued salaries payable	32,608	-	4,089	36,697
Unearned revenue	73,141	-	14,271	87,412
Revenue bonds payable	80,000	-	125,000	205,000
Total current liabilities	<u>1,296,535</u>	<u>764,946</u>	<u>831,291</u>	<u>2,892,772</u>
Noncurrent liabilities:				
Compensated absences	91,936	-	32,207	124,143
Leases payable	-	-	282,069	282,069
Revenue bonds payable	2,825,000	-	675,000	3,500,000
Less unamortized bond discount	(5,516)	-	(26,751)	(32,267)
Total noncurrent liabilities	<u>2,911,420</u>	<u>-</u>	<u>962,525</u>	<u>3,873,945</u>
Total liabilities	<u>4,207,955</u>	<u>764,946</u>	<u>1,793,816</u>	<u>6,766,717</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,010,265	9,421,090	1,410,127	17,841,482
Restricted for special accounts	-	150,000	108,163	258,163
Unrestricted	<u>1,279,777</u>	<u>8,364</u>	<u>(519,939)</u>	<u>768,202</u>
Total net assets	<u>\$ 8,290,042</u>	<u>\$ 9,579,454</u>	<u>\$ 998,351</u>	<u>\$ 18,867,847</u>

**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Stormwater</u>	<u>Steam Dist. #2</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>OPERATING REVENUES</b>				
Sales	\$ -	\$ -	\$ 516,209	\$ 516,209
Charges for services	2,984,491	6,959,000	1,375,555	11,319,046
Miscellaneous revenues	20,571	-	1,800	22,371
Total operating revenues	<u>3,005,062</u>	<u>6,959,000</u>	<u>1,893,564</u>	<u>11,857,626</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and services	-	-	263,032	263,032
Personal services	1,531,691	-	394,032	1,925,723
Supplies	146,828	645,987	175,977	968,792
Utilities	16,627	1,008,003	99,008	1,123,638
Other services and charges	716,923	5,321,854	734,356	6,773,133
Amortization	30,589	-	5,851	36,440
Depreciation	250,563	2,339,049	149,015	2,738,627
Total operating expenses	<u>2,693,221</u>	<u>9,314,893</u>	<u>1,821,271</u>	<u>13,829,385</u>
Operating income	<u>311,841</u>	<u>(2,355,893)</u>	<u>72,293</u>	<u>(1,971,759)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	45,430	1,145	7,849	54,424
Intergovernmental revenue	93,341	-	-	93,341
Gain (Loss) on sale or disposition of capital assets	-	-	33,202	33,202
Interest expense	(70,454)	-	(69,359)	(139,813)
Total non-operating revenue (expenses)	<u>68,317</u>	<u>1,145</u>	<u>(28,308)</u>	<u>41,154</u>
Income before contributions and transfers	380,158	(2,354,748)	43,985	(1,930,605)
Capital contributions	168,611	2,002,917	-	2,171,528
Transfers out	(100,056)	-	-	(100,056)
Change in net assets	448,713	(351,831)	43,985	140,867
Total net assets - January 1, 2006	<u>7,841,329</u>	<u>9,931,285</u>	<u>954,366</u>	<u>18,726,980</u>
Total net assets - December 31, 2006	<u>\$ 8,290,042</u>	<u>\$ 9,579,454</u>	<u>\$ 998,351</u>	<u>\$ 18,867,847</u>

**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Stormwater</u>	<u>Steam District #2</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 3,168,097	\$ 6,852,616	\$ 1,890,502	\$ 11,911,215
Cash paid to suppliers	(872,274)	(7,021,812)	(1,327,460)	(9,221,546)
Cash paid to employees	(1,528,714)	-	(401,739)	(1,930,453)
Other operating revenues	6,779	-	-	6,779
Net cash provided (used) by operating activities	<u>773,888</u>	<u>(169,196)</u>	<u>161,303</u>	<u>765,995</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	(36,894)	-	31,116	(5,778)
Operating grants	53,704	-	-	53,704
Interfund financing	-	-	75,270	75,270
Net cash provided (used) by noncapital financing activities	<u>16,810</u>	<u>-</u>	<u>106,386</u>	<u>123,196</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital grants and contributions	168,611	2,002,917	-	2,171,528
Interest received on capital	-	1,145	-	1,145
Issuance of revenue bonds and notes	1,711,928	-	-	1,711,928
Proceeds from capital lease	-	-	463,005	463,005
Principal paid on bonds, notes and capitalized leases	(76,000)	-	(130,754)	(206,754)
Interest paid on bonds, notes and capitalized leases	(47,592)	-	(8,297)	(55,889)
Transfer to trustee debt service account	-	-	(142,803)	(142,803)
Payment of bond issuance costs	(36,137)	-	-	(36,137)
Acquisition or construction of capital assets	(2,016,503)	(2,002,917)	(448,840)	(4,468,260)
Net cash provided (used) by capital and related financing activities	<u>(295,693)</u>	<u>1,145</u>	<u>(267,689)</u>	<u>(562,237)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment interest	45,430	-	-	45,430
Net increase (decrease) in cash and cash equivalents	540,435	(168,051)	-	372,384
Cash and cash equivalents - January 1, 2006	937,925	318,051	-	1,255,976
Cash and cash equivalents - December 31, 2006	<u>\$ 1,478,360</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 1,628,360</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>				
Net operating income (loss)	\$ 311,841	\$ (2,355,893)	\$ 72,293	\$ (1,971,759)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	281,152	2,339,049	154,866	2,775,067
Change in assets and liabilities:				
Decrease (increase) in receivables	104,079	(106,384)	(3,062)	(5,367)
Decrease (increase) in inventory	-	-	(27,365)	(27,365)
Decrease (increase) in prepaid items	-	(6,978)	(18,848)	(25,826)
Increase (decrease) in payables	3,675	(38,990)	(16,581)	(51,896)
Increase (decrease) in deferred revenues	73,141	-	-	73,141
Total adjustments	<u>462,047</u>	<u>2,186,697</u>	<u>89,010</u>	<u>2,737,754</u>
Net cash provided (used) by operating activities	<u>\$ 773,888</u>	<u>\$ (169,196)</u>	<u>\$ 161,303</u>	<u>\$ 765,995</u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Golf

The trustee debt service account paid \$120,000 and \$29,195 for principal and interest payments, respectively, and earned \$7,849 in interest.

**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF NET ASSETS  
GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Self Insurance</u>	<u>Group Health</u>	<u>Fleet Services</u>	<u>Employee Vacation Compensation</u>	<u>Total Governmental Activities- Internal Service Funds</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 983,076	\$ 6,451,538	\$ -	\$ 3,409,163	\$ 10,843,777
Accounts receivable, net	800	35,687	-	-	36,487
Due from other funds	2,717	14,224	458,999	495,306	971,246
Due from component units	95,246	29,939	-	-	125,185
Due from other governments	-	283,780	-	-	283,780
Inventories	-	-	207,882	-	207,882
Total current assets	<u>1,081,839</u>	<u>6,815,168</u>	<u>666,881</u>	<u>3,904,469</u>	<u>12,468,357</u>
Capital assets, net	-	-	534,171	-	534,171
Total assets	<u>1,081,839</u>	<u>6,815,168</u>	<u>1,201,052</u>	<u>3,904,469</u>	<u>13,002,528</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	949	-	127,974	-	128,923
Contracts payable	269,473	-	-	-	269,473
Claims payable	154,760	1,781,383	-	-	1,936,143
Leases payable	-	-	34,160	-	34,160
Due to other funds	285,073	8,658	3,100	494,864	791,695
Interfund loan payable	-	-	338,051	-	338,051
Due to other governments	36,483	44	357	-	36,884
Accrued interest payable	10,000	-	3,123	-	13,123
Accrued salaries payable	-	-	18,175	-	18,175
Unearned revenue	-	18,134	-	-	18,134
Total current liabilities	<u>756,738</u>	<u>1,808,219</u>	<u>524,940</u>	<u>494,864</u>	<u>3,584,761</u>
Noncurrent liabilities:					
Claims payable	892,279	-	-	-	892,279
Compensated absences	-	-	149,410	3,409,605	3,559,015
Leases payable	-	-	193,000	-	193,000
Total noncurrent liabilities	<u>892,279</u>	<u>-</u>	<u>342,410</u>	<u>3,409,605</u>	<u>4,644,294</u>
Total liabilities	<u>1,649,017</u>	<u>1,808,219</u>	<u>867,350</u>	<u>3,904,469</u>	<u>8,229,055</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	-	-	307,012	-	307,012
Unrestricted	(567,178)	5,006,949	26,690	-	4,466,461
Total net assets	<u>\$ (567,178)</u>	<u>\$ 5,006,949</u>	<u>\$ 333,702</u>	<u>\$ -</u>	<u>\$ 4,773,473</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, 2006**

	<u>Self Insurance</u>	<u>Group Health</u>	<u>Fleet Services</u>	<u>Employee Vacation Compensation</u>	<u>Total Governmental Activities- Internal Service Funds</u>
<b>OPERATING REVENUES</b>					
Sales	\$ -	\$ -	\$ 857,918	\$ -	\$ 857,918
Charges for services	2,387,295	16,201,991	2,417,467	3,409,605	24,416,358
Miscellaneous revenues	296,397	1,331,307	2,415	-	1,630,119
Total operating revenues	<u>2,683,692</u>	<u>17,533,298</u>	<u>3,277,800</u>	<u>3,409,605</u>	<u>26,904,395</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and services	-	-	789,691	-	789,691
Personal services	492,255	-	1,304,057	3,409,605	5,205,917
Supplies	3,690	-	751,031	-	754,721
Other services and charges	1,053,423	1,521,420	307,092	-	2,881,935
Depreciation	-	-	41,304	-	41,304
Medical and insurance claims	447,793	16,840,187	-	-	17,287,980
Total operating expenses	<u>1,997,161</u>	<u>18,361,607</u>	<u>3,193,175</u>	<u>3,409,605</u>	<u>26,961,548</u>
Operating income	<u>686,531</u>	<u>(828,309)</u>	<u>84,625</u>	<u>-</u>	<u>(57,153)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Investment income	-	214,705	-	164,706	379,411
Intergovernmental revenue	-	-	5,836	-	5,836
Interest expense	-	-	(17,214)	-	(17,214)
Total non-operating revenue (expenses)	<u>-</u>	<u>214,705</u>	<u>(11,378)</u>	<u>164,706</u>	<u>368,033</u>
Income before transfers	686,531	(613,604)	73,247	164,706	310,880
Transfers out	<u>-</u>	<u>(173,079)</u>	<u>-</u>	<u>(164,706)</u>	<u>(337,785)</u>
Change in net assets	686,531	(786,683)	73,247	-	(26,905)
Total net assets - January 1, 2006	<u>(1,253,709)</u>	<u>5,793,632</u>	<u>260,455</u>	<u>-</u>	<u>4,800,378</u>
Total net assets - December 31, 2006	<u>\$ (567,178)</u>	<u>\$ 5,006,949</u>	<u>\$ 333,702</u>	<u>\$ -</u>	<u>\$ 4,773,473</u>

**CITY OF DULUTH, MINNESOTA  
COMBINING STATEMENT OF CASH FLOWS  
GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 3,103,840	\$ 17,314,197	\$ 3,142,198	\$ 3,301,994	\$ 26,862,229
Cash paid to suppliers	(2,232,095)	(17,899,963)	(1,855,329)	-	(21,987,387)
Cash paid to employees	-	-	(1,317,519)	(2,914,300)	(4,231,819)
Other operating revenues	-	-	2,415	-	2,415
Net cash provided (used) by operating activities	<u>871,745</u>	<u>(585,766)</u>	<u>(28,235)</u>	<u>387,694</u>	<u>645,438</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers to other funds	-	(173,079)	-	-	(173,079)
Operating grants	-	-	5,836	-	5,836
Interfund financing	-	-	161,240	(164,706)	(3,466)
Net cash provided (used) by noncapital	<u>-</u>	<u>(173,079)</u>	<u>167,076</u>	<u>(164,706)</u>	<u>(170,709)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal paid on bonds, notes and capitalized leases	-	-	(33,108)	-	(33,108)
Interest paid on bonds, notes and capitalized leases	-	-	(17,019)	-	(17,019)
Acquisition or construction of capital assets	-	-	(88,714)	-	(88,714)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>(138,841)</u>	<u>-</u>	<u>(138,841)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Investment interest	-	214,705	-	164,706	379,411
Net increase (decrease) in cash and cash equivalents	871,745	(544,140)	-	387,694	715,299
Cash and cash equivalents - January 1, 2006	111,331	6,995,678	-	3,021,469	10,128,478
Cash and cash equivalents - December 31, 2006	<u>\$ 983,076</u>	<u>\$ 6,451,538</u>	<u>\$ -</u>	<u>\$ 3,409,163</u>	<u>\$ 10,843,777</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>					
Net operating income (loss)	\$ 686,531	\$ (828,309)	\$ 84,626	\$ -	\$ (57,152)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	-	-	41,304	-	41,304
Change in assets and liabilities:					
Decrease (increase) in receivables	447,877	(237,235)	(133,188)	(107,611)	(30,157)
Decrease (increase) in inventory	-	-	(797)	-	(797)
Increase (decrease) in payables	(234,934)	461,644	(20,180)	495,305	701,835
Increase (decrease) in deferred revenues	(27,729)	18,134	-	-	(9,595)
Total adjustments	<u>185,214</u>	<u>242,543</u>	<u>(112,861)</u>	<u>387,694</u>	<u>702,590</u>
Net cash provided (used) by operating activities	<u>\$ 871,745</u>	<u>\$ (585,766)</u>	<u>\$ (28,235)</u>	<u>\$ 387,694</u>	<u>\$ 645,438</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, 2006**

	<u>Balance 01/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/06</u>
<b><u>DULUTH 1200 FUND</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 609,206	\$ 1,973,798	\$ 1,140,864	\$ 1,442,140
Loans receivable	2,935,219	558,370	1,405,627	2,087,962
Other assets	349,544	1,970	2,052	349,462
Total assets	<u>\$ 3,893,969</u>	<u>\$ 2,534,138</u>	<u>\$ 2,548,543</u>	<u>\$ 3,879,564</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 24,000	\$ 519,906	\$ 536,889	\$ 7,017
Due to agency	3,869,969	56,992	54,414	3,872,547
Total liabilities	<u>\$ 3,893,969</u>	<u>\$ 576,898</u>	<u>\$ 591,303</u>	<u>\$ 3,879,564</u>
<b><u>DULUTH PUBLIC ARTS</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 36,629	\$ 88,576	\$ 103,347	\$ 21,858
Due from other governments	-	2,500	-	2,500
Total assets	<u>\$ 36,629</u>	<u>\$ 91,076</u>	<u>\$ 103,347</u>	<u>\$ 24,358</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 6,446	\$ 96,040	\$ 101,692	\$ 794
Due to other governments	1,005	89	1,094	-
Due to agency	29,178	85,213	90,827	23,564
Total liabilities	<u>\$ 36,629</u>	<u>\$ 181,342</u>	<u>\$ 193,613</u>	<u>\$ 24,358</u>
<b><u>SISTER CITIES COMMISSION</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 63,756	\$ 41,776	\$ 100,545	\$ 4,987
Due from other governments	-	2,833	-	2,833
Total assets	<u>\$ 63,756</u>	<u>\$ 44,609</u>	<u>\$ 100,545</u>	<u>\$ 7,820</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 972	\$ 88,949	\$ 89,921	\$ -
Due to agency	62,784	44,628	99,592	7,820
Total liabilities	<u>\$ 63,756</u>	<u>\$ 133,577</u>	<u>\$ 189,513</u>	<u>\$ 7,820</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 AGENCY FUNDS  
 DECEMBER 31, 2006**

	<u>Balance 01/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/06</u>
<b><u>SEAWAY PORT AUTHORITY</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 43,096	\$ 405,952	\$ 409,690	\$ 39,358
Taxes receivable	921	173	592	502
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 44,017</u>	<u>\$ 406,125</u>	<u>\$ 410,282</u>	<u>\$ 39,860</u>
<b>LIABILITIES</b>				
Due to other governments	<u>\$ 44,017</u>	<u>\$ 815,650</u>	<u>\$ 819,807</u>	<u>\$ 39,860</u>
 <b><u>TOTAL - ALL AGENCY FUNDS</u></b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 752,687	\$ 2,510,102	\$ 1,754,446	\$ 1,508,343
Taxes receivable	921	173	592	502
Loans receivable	2,935,219	558,370	1,405,627	2,087,962
Due from other governments	-	5,333	-	5,333
Other assets	349,544	1,970	2,052	349,462
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 4,038,371</u>	<u>\$ 3,075,948</u>	<u>\$ 3,162,717</u>	<u>\$ 3,951,602</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 31,418	\$ 704,895	\$ 728,502	\$ 7,811
Due to other governments	45,022	815,739	820,901	39,860
Due to agency	3,961,931	186,833	244,833	3,903,931
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>\$ 4,038,371</u>	<u>\$ 1,707,467</u>	<u>\$ 1,794,236</u>	<u>\$ 3,951,602</u>

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# Supplementary Information

**CITY OF DULUTH, MINNESOTA  
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
 SCHEDULE BY SOURCE\*  
 DECEMBER 31, 2006**

**Governmental funds capital assets:**

Land	\$ 25,106,418
Buildings and structures	85,905,889
Equipment	20,442,949
Infrastructure	223,285,556
Construction in progress	<u>38,544,096</u>

**Total governmental funds capital assets** **\$ 393,284,908**

**Investments in governmental funds capital assets by source:**

General fund	\$ 16,754,695
Special revenue fund	19,819,287
Capital projects fund	355,031,636
Donations	<u>1,679,290</u>

**Total governmental funds capital assets** **\$ 393,284,908**

*\* 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, 2006**

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings and Structures</u>	<u>Equipment</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
<b>General Government</b>						
Legislative and Executive	\$ -	\$ -	\$ 22,960	\$ -	\$ -	\$ 22,960
Planning and Development	3,069,648	27,164,440	2,695,248	-	-	32,929,336
Finance	1,029,500	-	260,368	-	-	1,289,868
Administrative Services	-	-	1,075,987	-	-	1,075,987
Facilities Management	3,559,462	22,669,420	578,003	7,881,577	13,590,122	48,278,584
<b>Total General Government</b>	<u>7,658,610</u>	<u>49,833,860</u>	<u>4,632,566</u>	<u>7,881,577</u>	<u>13,590,122</u>	<u>83,596,735</u>
<b>Public Safety</b>						
Police	2,000	441,213	3,166,409	-	1,400,828	5,010,450
Fire	83,006	2,559,291	4,670,743	-	-	7,313,040
<b>Total Public Safety</b>	<u>85,006</u>	<u>3,000,504</u>	<u>7,837,152</u>	<u>-</u>	<u>1,400,828</u>	<u>12,323,490</u>
<b>Public Works</b>						
Street and Park Maintenance	5,200,050	2,454,630	6,000,761	214,160,976	22,799,461	250,615,878
Engineering	-	-	1,020,776	-	-	1,020,776
<b>Total Public Works</b>	<u>5,200,050</u>	<u>2,454,630</u>	<u>7,021,537</u>	<u>214,160,976</u>	<u>22,799,461</u>	<u>251,636,654</u>
<b>Culture and Recreation</b>						
Libraries	51,585	9,154,041	381,226	-	-	9,586,852
Parks and Recreation	12,111,167	21,462,854	570,468	1,243,003	753,685	36,141,177
<b>Total Culture and Recreation</b>	<u>12,162,752</u>	<u>30,616,895</u>	<u>951,694</u>	<u>1,243,003</u>	<u>753,685</u>	<u>45,728,029</u>
<b>Total Governmental Funds Capital Assets</b>	<u>\$ 25,106,418</u>	<u>\$ 85,905,889</u>	<u>\$ 20,442,949</u>	<u>\$ 223,285,556</u>	<u>\$ 38,544,096</u>	<u>\$ 393,284,908</u>

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



**CITY OF DULUTH, MINNESOTA  
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY\*  
DECEMBER 31, 2006**

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets 01/01/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental Funds Capital Assets 12/31/06</u>
<b>General Government</b>				
Legislative and Executive	\$ 22,960	\$ -	\$ -	\$ 22,960
Planning and Development	32,953,144	-	23,808	32,929,336
Finance	1,295,164	-	5,296	1,289,868
Administrative Services	1,045,588	36,990	6,592	1,075,986
Facilities Management	36,754,841	11,523,742	-	48,278,583
<b>Total General Government</b>	<u>72,071,697</u>	<u>11,560,732</u>	<u>35,696</u>	<u>83,596,733</u>
<b>Public Safety</b>				
Police	3,318,345	1,938,307	246,201	5,010,451
Fire	7,041,319	364,457	92,736	7,313,040
<b>Total Public Safety</b>	<u>10,359,664</u>	<u>2,302,764</u>	<u>338,937</u>	<u>12,323,491</u>
<b>Public Works</b>				
Street and Park Maintenance	232,585,858	46,038,438	28,008,419	250,615,877
Engineering	1,000,424	77,447	57,094	1,020,777
<b>Total Public Works</b>	<u>233,586,282</u>	<u>46,115,885</u>	<u>28,065,513</u>	<u>251,636,654</u>
<b>Culture and Recreation</b>				
Libraries	9,594,036	-	7,184	9,586,852
Parks and Recreation	35,645,291	535,787	39,900	36,141,178
<b>Total Culture and Recreation</b>	<u>45,239,327</u>	<u>535,787</u>	<u>47,084</u>	<u>45,728,030</u>
<b>Total Governmental Funds Capital Assets</b>	<u>\$ 361,256,970</u>	<u>\$ 60,515,168</u>	<u>\$ 28,487,230</u>	<u>\$ 393,284,908</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  
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE  
DECEMBER 31, 2006**

	<u>Issued</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan 1 Balance</u>
<b>Governmental Activities:</b>				
<b>General Obligation Bonds Payable -</b>				
<b>General Obligation</b>				
Duluth Transit Authority	\$ 525,000	09/01/97	02/01/08	\$ 185,000
Street Overlay (26%) Refunding	406,900	12/01/97	02/01/06	50,700
Street Overlay (60%) Refunding	639,000	05/01/98	02/01/08	225,000
West Michigan Street Improvements	1,745,000	12/01/98	02/01/14	1,185,000
Duluth Entertainment and Convention Center Authority	8,000,000	02/01/99	08/01/14	5,365,000
Parking Improvement Tax Increment	310,000	06/01/99	02/01/15	230,000
Technology Village Parking Ramp Tax Increment (72%)	2,590,000	06/01/99	02/01/15	2,010,000
Great Lakes Aquarium	2,475,000	12/01/99	02/01/10	1,480,000
Bayfront Festival Park	3,135,000	04/01/01	02/01/11	2,060,000
Duluth Transit Authority	615,000	09/01/01	02/01/11	435,000
Airport Improvement	3,400,000	02/01/02	02/01/17	3,070,000
Leif Erickson Park Tax Increment (80%) Refunding	508,000	09/01/02	02/01/08	268,000
Duluth Entertainment and Convention Center Authority Refunding	2,405,000	03/01/03	02/01/10	1,755,000
Bayfront Festival Park Improvement	425,000	12/01/03	02/01/12	380,000
Improvement	800,000	03/01/04	02/01/14	800,000
Airpark Improvement	945,000	09/01/04	02/01/20	945,000
Capital Improvement	1,255,000	06/01/05	02/01/15	1,255,000
Medical District (69%)	8,864,200	12/16/05	02/01/26	8,864,200
Lake Superior Center Refunding	1,765,000	12/19/05	02/01/17	1,765,000
Zoo Refunding Issue	1,485,000	12/19/05	02/01/12	1,485,000
Capital Improvement	895,000	09/07/06	02/01/16	-
<b>Total General Obligation</b>				<b>\$ 33,812,900</b>
<b>General Obligation - Tax Increment</b>				
Canal Park Tax Increment Refunding	\$ 3,040,000	09/01/97	02/01/08	\$ 825,000
Great Lakes Aquarium Tax Increment	4,530,000	05/01/99	02/01/08	1,695,000
Technology Village Parking Ramp Tax Increment (28%)	1,000,000	06/01/99	02/01/15	775,000
Leif Erickson Park Tax Increment (20%) Refunding	127,000	09/01/02	02/01/08	67,000
Medical District Tax Increment (31%)	3,920,800	12/16/05	02/01/26	3,920,800
<b>Total General Obligation Tax Increment</b>				<b>\$ 7,282,800</b>
<b>General Obligation - Tax Abatement</b>				
Lake Walk Homes Tax Abatement Bonds	\$ 310,000	10/01/05	02/01/21	\$ 310,000
<b>Total General Obligation Bonds Payable</b>				<b>\$ 41,405,700</b>
<b>Revenue Bonds Payable -</b>				
<b>Tax Increment Revenue Bonds Payable -</b>				
Cirrus Tax Increment Revenue	\$ 645,000	03/01/94	02/01/12	\$ 295,000
Tax Increment Revenue Refunding	4,149,906	04/15/98	08/01/08	1,099,854
Tax Increment Revenue Refunding	8,001,533	05/04/99	08/01/08	2,524,559
<b>Total Tax Increment Revenue Bonds Payable</b>				<b>\$ 3,919,413</b>
<b>Lease Revenue Bonds Payable -</b>				
Artspace Community Center	\$ 2,720,000	05/01/95	08/01/14	\$ 1,770,000
<b>Total Revenue Bonds Payable</b>				<b>\$ 5,689,413</b>
<b>Special Assessment Debt with Government Commitment -</b>				
Street Improvement	\$ 5,650,000	07/15/96	02/01/12	\$ 3,205,000
Street Overlay (74%) Refunding	1,158,100	12/01/97	02/01/06	144,300
Street Overlay (40%) Refunding	426,000	05/01/98	02/01/08	150,000
General Obligation Improvement Refunding	1,595,000	05/01/98	02/01/07	560,000
General Obligation Improvement	1,005,000	12/01/98	02/01/15	735,000
Street Improvement	6,790,000	08/01/98	02/01/14	4,290,000
Street Improvement	6,675,000	06/01/99	02/01/15	4,680,000
General Obligation Improvement	1,220,000	12/01/99	02/01/15	910,000
Street Improvement	5,410,000	09/01/00	02/01/16	4,060,000
General Obligation Improvement	1,405,000	04/01/01	02/01/16	1,105,000
Street Improvement	4,800,000	09/01/01	02/01/16	3,925,000
Street Improvement	3,860,000	09/01/02	02/01/18	3,375,000
General Obligation Improvement Refunding	1,080,000	09/01/02	02/01/08	525,000
General Obligation Improvement	2,220,000	12/01/02	02/01/18	2,000,000
Street Improvement Refunding	3,118,400	03/01/03	02/01/10	2,249,200
Street Improvement Refunding	818,000	03/01/03	02/01/10	590,000
General Obligation Improvement Refunding	583,600	03/01/03	02/01/10	420,800
Street Improvement	5,035,000	09/01/03	02/01/19	4,740,000
General Obligation Improvement	2,010,000	12/01/03	02/01/19	1,915,000
Street Improvement	4,785,000	09/01/04	02/01/20	4,785,000
General Obligation Improvement	2,275,000	06/01/05	02/01/20	2,275,000
Street Improvement	4,260,000	10/01/05	02/01/21	4,260,000
General Obligation Improvement Refunding	200,000	12/19/05	02/01/08	200,000
Street Improvement Refunding	2,820,000	12/19/05	02/01/12	2,820,000
General Obligation Improvement	1,985,000	09/07/06	02/01/21	-
Street Improvement	3,355,000	09/07/06	02/01/22	-
Street Improvement Refunding	2,395,000	12/19/06	02/01/12	-
Street Improvement Refunding	3,445,000	12/19/06	02/01/14	-
Street Improvement Refunding	3,190,000	12/19/06	02/01/16	-
<b>Total Special Assessment Debt with Government Commitment</b>				<b>\$ 53,919,300</b>

(Continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE  
DECEMBER 31, 2006**

	2006			2007	
	Issued	Retired	Dec 31 Balance	Principal Due in 2007	Interest Due in 2007
<b>Governmental Activities:</b>					
<b>General Obligation Bonds Payable -</b>					
<b>General Obligation</b>					
Duluth Transit Authority	\$ -	\$ 60,000	\$ 125,000	\$ 60,000	\$ 4,578
Street Overlay (26%) Refunding	-	50,700	-	-	-
Street Overlay (60%) Refunding	-	75,000	150,000	75,000	5,081
West Michigan Street Improvements	-	110,000	1,075,000	115,000	44,828
Duluth Entertainment and Convention Center Authority	-	500,000	4,865,000	520,000	192,588
Parking Improvement Tax Increment	-	20,000	210,000	20,000	9,629
Technology Village Parking Ramp Tax Increment (72%)	-	165,000	1,845,000	170,000	84,666
Great Lakes Aquarium	-	270,000	1,210,000	285,000	51,346
Bayfront Festival Park	-	180,000	1,880,000	260,000	71,606
Duluth Transit Authority	-	65,000	370,000	70,000	13,054
Airport Improvement	-	180,000	2,890,000	190,000	165,478
Leif Erickson Park Tax Increment (80%) Refunding	-	88,000	180,000	88,000	4,310
Duluth Entertainment and Convention Center Authority Refunding	-	330,000	1,425,000	340,000	36,283
Bayfront Festival Park Improvement	-	50,000	330,000	50,000	9,430
Improvement	-	80,000	720,000	80,000	18,608
Airpark Improvement	-	45,000	900,000	50,000	32,340
Capital Improvement	-	-	1,255,000	120,000	39,348
Medical District (69%)	-	-	8,864,200	-	170,481
Lake Superior Center Refunding	-	-	1,765,000	125,000	63,266
Zoo Refunding Issue	-	-	1,485,000	245,000	47,188
Capital Improvement	895,000	-	895,000	-	32,220
<b>Total General Obligation</b>	<b>\$ 895,000</b>	<b>\$ 2,268,700</b>	<b>\$ 32,439,200</b>	<b>\$ 2,863,000</b>	<b>\$ 1,096,328</b>
<b>General Obligation - Tax Increment</b>					
Canal Park Tax Increment Refunding	\$ -	\$ 275,000	\$ 550,000	\$ 275,000	\$ 19,594
Great Lakes Aquarium Tax Increment	-	540,000	1,155,000	565,000	36,504
Technology Village Parking Ramp Tax Increment (28%)	-	65,000	710,000	65,000	32,599
Leif Erickson Park Tax Increment (20%) Refunding	-	22,000	45,000	22,000	1,078
Medical District Tax Increment (31%)	-	-	3,920,800	-	511,207
<b>Total General Obligation Tax Increment</b>	<b>\$ -</b>	<b>\$ 902,000</b>	<b>\$ 6,380,800</b>	<b>\$ 927,000</b>	<b>\$ 600,982</b>
<b>General Obligation - Tax Abatement</b>					
Lake Walk Homes Tax Abatement Bonds	\$ -	\$ -	\$ 310,000	\$ -	\$ 12,230
<b>Total General Obligation Bonds Payable</b>	<b>\$ 895,000</b>	<b>\$ 3,170,700</b>	<b>\$ 39,130,000</b>	<b>\$ 3,790,000</b>	<b>\$ 1,709,540</b>
<b>Revenue Bonds Payable -</b>					
<b>Tax Increment Revenue Bonds Payable -</b>					
Cirrus Tax Increment Revenue	\$ -	\$ 40,000	\$ 255,000	\$ 40,000	\$ 18,650
Tax Increment Revenue Refunding	-	404,454	695,400	384,208	205,792
Tax Increment Revenue Refunding	-	931,471	1,593,088	879,278	440,722
<b>Total Tax Increment Revenue Bonds Payable</b>	<b>\$ -</b>	<b>\$ 1,375,925</b>	<b>\$ 2,543,488</b>	<b>\$ 1,303,486</b>	<b>\$ 665,164</b>
<b>Lease Revenue Bonds Payable -</b>					
Artspace Community Center	\$ -	\$ 130,000	\$ 1,640,000	\$ 135,000	\$ 110,980
<b>Total Revenue Bonds Payable</b>	<b>\$ -</b>	<b>\$ 1,505,925</b>	<b>\$ 4,183,488</b>	<b>\$ 1,438,486</b>	<b>\$ 776,144</b>
<b>Special Assessment Debt with Government Commitment -</b>					
Street Improvement	\$ -	\$ 3,205,000	\$ -	\$ -	\$ -
Street Overlay (74%) Refunding	-	144,300	-	-	-
Street Overlay (40%) Refunding	-	50,000	100,000	50,000	3,388
General Obligation Improvement Refunding	-	280,000	280,000	280,000	6,230
General Obligation Improvement	-	60,000	675,000	65,000	28,533
Street Improvement	-	4,290,000	-	-	-
Street Improvement	-	385,000	4,295,000	395,000	197,412
General Obligation Improvement	-	70,000	840,000	75,000	40,719
Street Improvement	-	4,060,000	-	-	-
General Obligation Improvement	-	80,000	1,025,000	85,000	43,587
Street Improvement	-	270,000	3,655,000	275,000	149,660
Street Improvement	-	205,000	3,170,000	210,000	119,377
General Obligation Improvement Refunding	-	180,000	345,000	175,000	7,980
General Obligation Improvement	-	120,000	1,880,000	125,000	75,378
Street Improvement Refunding	-	438,100	1,811,100	441,600	45,950
Street Improvement Refunding	-	114,900	475,100	115,800	12,055
General Obligation Improvement Refunding	-	82,000	338,800	82,600	8,596
Street Improvement	-	265,000	4,475,000	270,000	165,374
General Obligation Improvement	-	110,000	1,805,000	110,000	64,340
Street Improvement	-	280,000	4,505,000	240,000	165,435
General Obligation Improvement	-	-	2,275,000	125,000	83,950
Street Improvement	-	-	4,260,000	200,000	162,914
General Obligation Improvement Refunding	-	-	200,000	95,000	5,818
Street Improvement Refunding	-	-	2,820,000	410,000	104,882
General Obligation Improvement	1,985,000	-	1,985,000	-	71,460
Street Improvement	3,355,000	-	3,355,000	-	120,780
Street Improvement Refunding	2,395,000	-	2,395,000	-	59,077
Street Improvement Refunding	3,445,000	-	3,445,000	-	82,895
Street Improvement Refunding	3,190,000	-	3,190,000	-	78,687
<b>Total Special Assessment Debt with Government Commitment</b>	<b>\$ 14,370,000</b>	<b>\$ 14,689,300</b>	<b>\$ 53,600,000</b>	<b>\$ 3,825,000</b>	<b>\$ 1,904,477</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE  
DECEMBER 31, 2006**

	Issued	Issue Date	Final Maturity	Jan 1 Balance
<b>Government Activities (Continued):</b>				
<b>General Obligation Certificates Payable -</b>				
Equipment	\$ 1,075,000	12/20/01	12/20/06	\$ 230,000
Equipment	1,780,000	12/19/02	12/19/07	745,000
Equipment	1,200,000	12/19/03	12/19/08	735,000
Equipment	1,355,000	12/20/04	12/20/09	1,095,000
Equipment	1,110,000	12/19/05	12/19/10	1,110,000
Equipment	1,785,000	12/19/06	02/01/12	-
<b>Total General Obligation Certificates Payable</b>				<b>\$ 3,915,000</b>
<b>Total Governmental Activities Bonds and Certificates Payable</b>				<b>\$ 104,929,413</b>
<b>Business-type Activities:</b>				
<b>Revenue Bonds Payable -</b>				
<b>Golf Fund -</b>				
Revenue Recreation Facility Refunding	\$ 1,040,000	12/14/04	12/01/12	\$ 920,000
<b>Revenue and General Obligation Bonds Payable-</b>				
<b>Water Fund -</b>				
Water Utility Revenue and General Obligation Refunding	\$ 2,455,000	09/01/97	02/01/08	\$ 845,000
Water Utility Revenue and General Obligation Refunding	1,955,000	05/01/98	02/01/07	695,000
Water Utility Revenue and General Obligation	1,530,000	12/01/00	02/01/16	1,230,000
Water Utility Revenue and General Obligation	1,690,000	09/01/02	02/01/18	1,515,000
Water Utility Revenue and General Obligation	1,385,000	12/01/02	02/01/18	1,245,000
Water Utility Revenue and General Obligation Refunding	625,000	03/01/03	02/01/10	455,000
Water Utility Revenue and General Obligation	1,120,000	12/19/06	02/01/22	-
<b>Total Water Fund</b>				<b>\$ 5,985,000</b>
<b>Gas Fund -</b>				
Gas Utility Revenue and General Obligation	\$ 5,300,000	12/01/01	02/01/17	\$ 4,495,000
Gas Utility Revenue and General Obligation	2,132,000	09/01/02	02/01/18	1,910,000
Gas Utility Revenue and General Obligation	1,425,000	12/01/02	02/01/18	1,285,000
Gas Utility Revenue and General Obligation	6,090,000	12/01/03	02/01/19	5,810,000
Gas Utility Revenue and General Obligation	1,190,000	12/19/06	02/01/22	-
<b>Total Gas Fund</b>				<b>\$ 13,500,000</b>
<b>Steam District #1 Fund -</b>				
Steam Utility Revenue and General Obligation	\$ 310,000	12/01/98	02/01/09	\$ 140,000
Steam Utility Revenue and General Obligation	325,000	12/01/00	02/01/11	215,000
Steam Utility Revenue and General Obligation	345,000	12/01/02	02/01/12	260,000
Steam Utility Revenue and General Obligation	2,250,000	09/01/03	02/01/23	2,205,000
Steam Utility Revenue and General Obligation	1,250,000	06/01/05	02/01/20	1,250,000
Steam Utility Revenue and General Obligation	4,525,000	12/19/06	02/01/22	-
<b>Total Steam District # 1 Fund</b>				<b>\$ 4,070,000</b>
<b>Sewer Fund -</b>				
Sewer Utility Revenue and General Obligation Refunding	\$ 530,000	05/01/98	02/01/08	\$ 220,000
Sewer Utility Revenue and General Obligation	1,080,000	12/01/98	02/01/09	490,000
Sewer Utility Revenue and General Obligation	1,745,000	12/01/99	02/01/15	1,305,000
Sewer Utility Revenue and General Obligation	570,000	12/01/00	02/01/16	460,000
Sewer Utility Revenue and General Obligation	1,330,000	12/01/01	02/01/17	1,125,000
Sewer Utility Revenue and General Obligation	2,003,000	09/01/02	02/01/18	1,794,000
Sewer Utility Revenue and General Obligation	1,825,000	12/01/02	02/01/18	1,640,000
Sewer Utility Revenue and General Obligation Refunding	1,240,000	03/01/03	02/01/10	915,000
Sewer Utility Revenue and General Obligation	4,045,000	12/01/04	02/01/20	4,045,000
Sewer Utility Revenue and General Obligation	3,515,000	12/19/05	02/01/21	3,515,000
Sewer Utility Revenue and General Obligation	945,000	12/19/06	02/01/22	-
<b>Total Sewer Fund</b>				<b>\$ 15,509,000</b>
<b>Stormwater Fund:</b>				
Stormwater Utility Revenue	\$ 1,425,000	09/01/02	02/01/18	\$ 1,276,000
Stormwater Utility Revenue	1,705,000	09/07/06	02/01/22	-
<b>Total Stormwater Fund</b>				<b>\$ 1,276,000</b>
<b>Total Revenue and General Obligation Bonds Payable</b>				<b>\$ 40,340,000</b>
<b>Total Business-type Activities Bonds Payable</b>				<b>\$ 41,260,000</b>
<b>Component Units:</b>				
<b>Spirit Mountain Recreation Area</b>				
<b>Revenue Bonds Payable</b>				
Spirit Mountain Recreation Area	\$ 1,646,750	03/31/03	12/01/12	\$ 1,494,156
<b>Duluth Entertainment and Convention Center Authority</b>				
<b>General Obligation Bonds Payable -</b>				
Duluth Entertainment and Convention Center Refunding	\$ 6,970,000	04/01/01	02/01/11	\$ 4,195,000
<b>Total Component Units Bonds Payable</b>				<b>\$ 5,689,156</b>

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE  
DECEMBER 31, 2006**

	2006			2007	
	Issued	Retired	Dec 31 Balance	Principal Due in 2007	Interest Due in 2007
<b>Government Activities (Continued):</b>					
<b>General Obligation Certificates Payable -</b>					
Equipment	\$ -	\$ 230,000	\$ -	\$ -	\$ -
Equipment	-	365,000	380,000	380,000	11,400
Equipment	-	240,000	495,000	245,000	12,375
Equipment	-	265,000	830,000	270,000	25,613
Equipment	-	205,000	905,000	215,000	36,200
Equipment	1,785,000	-	1,785,000	-	39,902
<b>Total General Obligation Certificates Payable</b>	<b>\$ 1,785,000</b>	<b>\$ 1,305,000</b>	<b>\$ 4,395,000</b>	<b>\$ 1,110,000</b>	<b>\$ 125,490</b>
<b>Total Governmental Activities Bonds and Certificates Payable</b>	<b>\$ 17,050,000</b>	<b>\$ 20,670,925</b>	<b>\$ 101,308,488</b>	<b>\$ 10,163,486</b>	<b>\$ 4,515,651</b>
<b>Business-type Activities:</b>					
<b>Revenue Bonds Payable -</b>					
<b>Golf Fund -</b>					
Revenue Recreation Facility Refunding	\$ -	\$ 120,000	\$ 800,000	\$ 125,000	\$ 26,435
<b>Revenue and General Obligation Bonds Payable- Water Fund -</b>					
Water Utility Revenue and General Obligation Refunding	\$ -	\$ 270,000	\$ 575,000	\$ 280,000	\$ 20,740
Water Utility Revenue and General Obligation Refunding	-	340,000	355,000	355,000	7,899
Water Utility Revenue and General Obligation	-	85,000	1,145,000	90,000	54,444
Water Utility Revenue and General Obligation	-	91,000	1,424,000	94,000	53,842
Water Utility Revenue and General Obligation	-	80,000	1,165,000	80,000	45,330
Water Utility Revenue and General Obligation Refunding	-	85,000	370,000	90,000	9,538
Water Utility Revenue and General Obligation	1,120,000	-	1,120,000	-	26,406
<b>Total Water Fund</b>	<b>\$ 1,120,000</b>	<b>\$ 951,000</b>	<b>\$ 6,154,000</b>	<b>\$ 989,000</b>	<b>\$ 218,199</b>
<b>Gas Fund -</b>					
Gas Utility Revenue and General Obligation	\$ -	\$ 300,000	\$ 4,195,000	\$ 310,000	\$ 182,116
Gas Utility Revenue and General Obligation	-	115,000	1,795,000	119,000	67,843
Gas Utility Revenue and General Obligation	-	80,000	1,205,000	80,000	46,965
Gas Utility Revenue and General Obligation	-	330,000	5,480,000	335,000	195,380
Gas Utility Revenue and General Obligation	1,190,000	-	1,190,000	-	28,065
<b>Total Gas Fund</b>	<b>\$ 1,190,000</b>	<b>\$ 825,000</b>	<b>\$ 13,865,000</b>	<b>\$ 844,000</b>	<b>\$ 520,369</b>
<b>Steam District #1 Fund -</b>					
Steam Utility Revenue and General Obligation	\$ -	\$ 35,000	\$ 105,000	\$ 35,000	\$ 3,693
Steam Utility Revenue and General Obligation	-	30,000	185,000	35,000	9,191
Steam Utility Revenue and General Obligation	-	30,000	230,000	35,000	9,268
Steam Utility Revenue and General Obligation	-	90,000	2,115,000	90,000	84,200
Steam Utility Revenue and General Obligation	-	-	1,250,000	70,000	43,840
Steam Utility Revenue and General Obligation	4,525,000	-	4,525,000	-	111,921
<b>Total Steam District #1 Fund</b>	<b>\$ 4,525,000</b>	<b>\$ 185,000</b>	<b>\$ 8,410,000</b>	<b>\$ 265,000</b>	<b>\$ 262,113</b>
<b>Sewer Fund -</b>					
Sewer Utility Revenue and General Obligation Refunding	\$ -	\$ 70,000	\$ 150,000	\$ 75,000	\$ 5,081
Sewer Utility Revenue and General Obligation	-	115,000	375,000	120,000	13,300
Sewer Utility Revenue and General Obligation	-	105,000	1,200,000	110,000	58,219
Sewer Utility Revenue and General Obligation	-	30,000	430,000	35,000	20,423
Sewer Utility Revenue and General Obligation	-	75,000	1,050,000	80,000	45,525
Sewer Utility Revenue and General Obligation	-	108,000	1,686,000	112,000	63,717
Sewer Utility Revenue and General Obligation	-	100,000	1,540,000	105,000	59,948
Sewer Utility Revenue and General Obligation Refunding	-	175,000	740,000	175,000	19,175
Sewer Utility Revenue and General Obligation	-	195,000	3,850,000	220,000	142,410
Sewer Utility Revenue and General Obligation	-	-	3,515,000	160,000	134,655
Sewer Utility Revenue and General Obligation	945,000	-	945,000	-	22,279
<b>Total Sewer Fund</b>	<b>\$ 945,000</b>	<b>\$ 973,000</b>	<b>\$ 15,481,000</b>	<b>\$ 1,192,000</b>	<b>\$ 584,732</b>
<b>Stormwater Fund:</b>					
Stormwater Utility Revenue	\$ -	\$ 76,000	\$ 1,200,000	\$ 80,000	\$ 45,347
Stormwater Utility Revenue	1,705,000	-	1,705,000	-	61,380
<b>Total Stormwater Fund</b>	<b>\$ 1,705,000</b>	<b>\$ 76,000</b>	<b>\$ 2,905,000</b>	<b>\$ 80,000</b>	<b>\$ 106,727</b>
<b>Total Revenue and General Obligation Bonds Payable</b>	<b>\$ 9,485,000</b>	<b>\$ 3,010,000</b>	<b>\$ 46,815,000</b>	<b>\$ 3,370,000</b>	<b>\$ 1,692,140</b>
<b>Total Business-type Activities Bonds Payable</b>	<b>\$ 9,485,000</b>	<b>\$ 3,130,000</b>	<b>\$ 47,615,000</b>	<b>\$ 3,495,000</b>	<b>\$ 1,718,575</b>
<b>Component Units:</b>					
<b>Spirit Mountain Recreation Area</b>					
<b>Revenue Bonds Payable</b>					
Spirit Mountain Recreation Area	\$ -	\$ 159,538	\$ 1,334,618	\$ 166,798	\$ 58,202
<b>Duluth Entertainment and Convention Center Authority</b>					
<b>General Obligation Bonds Payable -</b>					
Duluth Entertainment and Convention Center Refunding	\$ -	\$ 630,000	\$ 3,565,000	\$ 655,000	\$ 145,075
<b>Total Component Units Bonds Payable</b>	<b>\$ -</b>	<b>\$ 789,538</b>	<b>\$ 4,899,618</b>	<b>\$ 821,798</b>	<b>\$ 203,277</b>

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF NOTES PAYABLE  
DECEMBER 31, 2006**

	<u>Issued</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan. 1 Balance</u>
<b>Governmental Activities:</b>				
<b>General Obligation</b>				
Public Facilities Authority Note	\$ 364,195	08/08/02	08/20/18	\$ 325,000
Greater Minnesta Housing Fund Note	200,000	11/06/06	11/06/16	<u>-</u>
<b>Total General Obligation</b>				<u>\$ 325,000</u>
<b>Revenue Note</b>				
U.S. Dept. of Housing and Urban Development	\$ 7,876,000	08/01/05	08/01/25	<u>\$ 6,594,000</u>
<b>Tax Increment Revenue</b>				
Canal Park Tax Increment	\$ 325,000	12/01/91	02/01/08	\$ 160,000
Cirrus Tax Increment Taxable	1,041,778	03/06/97	08/01/07	370,623
Fremont Tax Increment Limited Revenue	650,000	07/01/97	02/01/12	<u>330,000</u>
<b>Total Tax Increment Revenue</b>				<u>\$ 860,623</u>
<b>Total Governmental Activities</b>				<u>\$ 7,779,623</u>
<b>Business-type Activities:</b>				
<b>General Obligation</b>				
<b>Water Fund -</b>				
Public Facilities Authority Note	\$ 870,000	08/25/03	08/20/18	\$ 785,691
Public Facilities Authority Note	1,971,532	07/02/04	08/20/18	<u>1,795,020</u>
<b>Total Water Fund</b>				<u>\$ 2,580,711</u>
<b>Sewer Fund -</b>				
Public Facilities Authority Note	\$ 100,000	08/25/03	08/20/18	\$ 90,309
Public Facilities Authority Note	1,179,115	12/12/03	08/20/18	<u>1,119,000</u>
<b>Total Sewer Fund</b>				<u>\$ 1,209,309</u>
<b>Total Business-type Activities</b>				<u>\$ 3,790,020</u>
<b>Component Units:</b>				
<b>Duluth Airport Authority</b>				
Revenue Note	\$ 497,379	11/01/05	06/01/19	<u>\$ 497,379</u>

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF NOTES PAYABLE  
DECEMBER 31, 2006**

	2006		Principal Outstanding 12/31/2006	2007	
	Issued	Retired		Principal Due in 2007	Interest Due in 2007
<b>Governmental Activities:</b>					
<b>General Obligation</b>					
Public Facilities Authority Note	\$ -	\$ 24,000	\$ 301,000	\$ 24,000	\$ 3,010
Greater Minnesta Housing Fund Note	200,000	-	200,000	-	-
<b>Total General Obligation</b>	<b>\$ 200,000</b>	<b>\$ 24,000</b>	<b>\$ 501,000</b>	<b>\$ 24,000</b>	<b>\$ 3,010</b>
<b>Revenue Note</b>					
U.S. Dept. of Housing and Urban Development	\$ 1,282,000	\$ 4,655,000	\$ 3,221,000	\$ 85,000	\$ 159,191
<b>Tax Increment Revenue</b>					
Canal Park Tax Increment	\$ -	\$ 40,000	\$ 120,000	\$ 45,000	\$ 8,800
Cirrus Tax Increment Taxable	-	140,580	230,043	230,043	16,850
Fremont Tax Increment Limited Revenue	-	35,000	295,000	40,000	15,675
<b>Total Tax Increment Revenue</b>	<b>\$ -</b>	<b>\$ 215,580</b>	<b>\$ 645,043</b>	<b>\$ 315,043</b>	<b>\$ 41,325</b>
<b>Total Governmental Activities</b>	<b>\$ 1,482,000</b>	<b>\$ 4,894,580</b>	<b>\$ 4,367,043</b>	<b>\$ 424,043</b>	<b>\$ 203,526</b>
<b>Business-type Activities:</b>					
<b>General Obligation</b>					
<b>Water Fund -</b>					
Public Facilities Authority Note	\$ -	\$ 51,124	\$ 734,567	\$ 52,021	\$ 20,707
Public Facilities Authority Note	16,281	153,000	1,658,301	120,301	41,850
<b>Total Water Fund</b>	<b>\$ 16,281</b>	<b>\$ 204,124</b>	<b>\$ 2,392,868</b>	<b>\$ 172,322</b>	<b>\$ 62,557</b>
<b>Sewer Fund -</b>					
Public Facilities Authority Note	\$ -	\$ 5,876	\$ 84,433	\$ 5,979	\$ 2,380
Public Facilities Authority Note	-	79,000	1,040,000	80,000	13,936
<b>Total Sewer Fund</b>	<b>\$ -</b>	<b>\$ 84,876</b>	<b>\$ 1,124,433</b>	<b>\$ 85,979</b>	<b>\$ 16,316</b>
<b>Total Business-type Activities</b>	<b>\$ 16,281</b>	<b>\$ 289,000</b>	<b>\$ 3,517,301</b>	<b>\$ 258,301</b>	<b>\$ 78,873</b>
<b>Component Units:</b>					
<b>Duluth Airport Authority</b>					
Revenue Note	\$ -	\$ -	\$ 497,379	\$ -	\$ 97,028

**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF INTERGOVERNMENTAL REVENUES  
YEAR ENDED DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Funds</u>	<u>Totals</u>
<b>SHARED REVENUE:</b>						
<b>State of Minnesota</b>						
Local Government Aid	\$ 26,728,606	\$ -	\$ -	\$ -	\$ -	\$ 26,728,606
PERA Aid	124,428	-	-	-	54,402	178,830
Amortization Aid	3,693,950	-	-	-	-	3,693,950
Insurance Premium	1,702,916	-	-	-	-	1,702,916
<b>TOTAL SHARED REVENUE</b>	<b>32,249,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,402</b>	<b>32,304,302</b>
<b>STATE GRANTS:</b>						
<b>State of Minnesota, Department of</b>						
Employment and Economic Development						
Contamination Cleanup and Investigation	-	77,702	-	-	-	77,702
Public Facilities Authority - WIF Grant	-	-	-	-	619,798	619,798
Youth Program	-	95,950	-	-	-	95,950
Job Partnership	-	21,420	-	-	-	21,420
Dislocated Workers	-	105,346	-	-	-	105,346
Marketing and MN Careers	-	3,750	-	-	-	3,750
Employment and Economic Development Total	-	304,168	-	-	619,798	923,966
Human Services						
Senior Nutrition	-	51,533	-	-	-	51,533
Natural Resources						
Snowmobile Trail	7,198	-	-	-	-	7,198
Lake Superior Zoo	135,000	-	-	-	-	135,000
Natural Resources Total	142,198	-	-	-	-	142,198
Peace Officers Board						
Post Training Reimbursement	49,560	-	-	-	-	49,560
Public Safety						
Crime Victims Emergency Fund	-	1,500	-	-	-	1,500
Auto Theft Prevention	-	111,215	-	-	-	111,215
Narcotic/Gang Strike Force	-	187,500	-	-	-	187,500
Community Crime Prevention	-	48,314	-	-	-	48,314
HAZMAT Regional Response Team	73,918	-	-	-	-	73,918
Public Safety Total	73,918	348,529	-	-	-	422,447
Pollution Control Agency						
Miller Creek Implementation Project	-	9,000	-	-	-	9,000
Revenue						
Market Value Credit	687,173	-	448,052	49,174	-	1,184,399
Transportation						
MSA Street Maintenance Allotment	1,250,389	-	-	-	-	1,250,389
MSA Street Construction Allotment	-	-	-	3,176,676	-	3,176,676
Municipal Turnback	-	-	-	1,474,747	-	1,474,747
Bridge Bonding	-	-	-	480,712	-	480,712
Transportation Total	1,250,389	-	-	5,132,135	-	6,382,524
<b>TOTAL STATE GRANTS</b>	<b>2,203,238</b>	<b>713,230</b>	<b>448,052</b>	<b>5,181,309</b>	<b>619,798</b>	<b>9,165,627</b>
<b>OTHER GRANTS:</b>						
St. Louis County						
Job Training Services	-	1,085,487	-	-	-	1,085,487
Other	131,017	10,000	-	-	-	141,017
St. Louis County Total	131,017	1,095,487	-	-	-	1,226,504
Housing and Redevelopment Authority						
Lake Superior College - Water Line Improvemen	-	-	-	-	91,933	91,933
Seaway Port Authority - Helberg Drive	-	-	-	500,420	-	500,420
Independent School District #709	123,083	-	-	-	-	123,083
Other	18,047	15,468	-	-	-	33,515
<b>TOTAL OTHER GRANTS</b>	<b>\$ 297,406</b>	<b>\$ 1,110,955</b>	<b>\$ -</b>	<b>\$ 500,420</b>	<b>\$ 156,933</b>	<b>\$ 2,065,714</b>

(continued)



**CITY OF DULUTH, MINNESOTA  
SCHEDULE OF INTERGOVERNMENTAL REVENUES  
YEAR ENDED DECEMBER 31, 2006**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Funds</u>	<u>Totals</u>
<b>FEDERAL GRANTS:</b>						
<b>Federal, Department of</b>						
Agriculture						
Soil and Water Conservation	\$ -	\$ 8,885	\$ -	\$ -	\$ -	\$ 8,885
Commerce						
Coastal Zone Management Administration	-	60,179	-	-	93,341	153,520
Defense						
Army Corps of Engineers	-	-	-	137,222	-	137,222
Environmental Protection Agency						
Great Lakes Program	-	-	-	-	168,611	168,611
Brownfield Assessment and Cleanup	-	48,504	-	-	-	48,504
Environmental Protection Agency Total	-	48,504	-	-	168,611	217,115
Health and Human Services						
Senior Nutrition Program	-	201,578	-	-	-	201,578
Homeland Security						
Homeland Security Grant Program	-	275,628	-	-	-	275,628
State Domestic Preparedness Equipment	-	271,258	-	-	-	271,258
Homeland Security Total	-	546,886	-	-	-	546,886
Housing and Urban Development						
Community Development Block Grant	-	2,919,034	-	-	-	2,919,034
HOME Investment Partnership	-	1,030,437	-	-	-	1,030,437
Emergency Shelter	-	145,162	-	-	-	145,162
Housing and Urban Development Total	-	4,094,633	-	-	-	4,094,633
Interior						
Historic Preservation Fund	-	625	-	-	-	625
Justice						
Local Law Enforcement Block Grant	-	16,906	-	-	-	16,906
Grants to Encourage Arrest Policies	-	175,313	-	-	-	175,313
Bulletproof Vest Partnership Program	14,189	-	-	-	-	14,189
Enforcing Underage Drinking Laws Program	10,178	-	-	-	-	10,178
Public Safety Partnership & Community Polici	6,599	-	-	-	-	6,599
Alcohol Traffic Safety & Drunken Driving	42,074	-	-	-	-	42,074
Edward Bryne Memorial Formula Grant	-	212,463	-	-	-	212,463
Justice Total	73,040	404,682	-	-	-	477,722
Labor						
Senior Community Service Employment	-	296,956	-	-	-	296,956
Employment Service/Wagner-Peysar Funded	-	1,729	-	-	-	1,729
Career Youth	-	1,573	-	-	-	1,573
Special Allotment	-	8,085	-	-	-	8,085
Dislocated Workers	-	214,222	-	-	-	214,222
Workforce Investment Act	-	418,531	-	-	-	418,531
Labor Total	-	941,096	-	-	-	941,096
Transportation						
Recreational Trails Program	-	14,455	-	-	-	14,455
State and Community Highway Safety	-	4,873	-	-	-	4,873
Highway Planning and Construction	-	-	-	2,226,224	-	2,226,224
Transportation Total	-	19,328	-	2,226,224	-	2,245,552
<b>TOTAL FEDERAL GRANTS</b>	<u>73,040</u>	<u>6,326,396</u>	<u>-</u>	<u>2,363,446</u>	<u>261,952</u>	<u>9,024,834</u>
<b>TOTAL INTERGOVERNMENTAL REVENUE</b>	<u>\$ 34,823,584</u>	<u>\$ 8,150,581</u>	<u>\$ 448,052</u>	<u>\$ 8,045,175</u>	<u>\$ 1,093,085</u>	<u>\$ 52,560,477</u>

**CITY OF DULUTH, MINNESOTA  
BALANCE SHEET  
DULUTH ECONOMIC DEVELOPMENT AUTHORITY  
DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>			
	<b>Operating</b>	<b>Building Renovation Loan</b>	<b>Old Downtown Loan</b>	<b>District Storefront Loan</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 407,648	\$ 2,956,616	\$ 228,337	\$ 737,047
Assets held by trustee	-	-	-	-
Taxes receivable, net	-	-	-	-
Accounts receivable, net	5,177	-	-	-
Loans receivable, net	-	2,193,077	75,346	474,589
Deposits receivable	-	250,000	-	-
Due from other funds	200,000	-	-	-
Interfund loan receivable	-	-	-	-
Due from other governments	-	-	-	-
Prepays	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 612,825</b>	<b>\$ 5,399,693</b>	<b>\$ 303,683</b>	<b>\$ 1,211,636</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 5,840	\$ -	\$ -	\$ -
Contracts payable	180	-	-	-
Loans payable	781,397	-	-	-
Due to other funds	632,000	-	-	241,160
Interfund loan payable	-	-	-	-
Deferred revenues	2,447	-	-	-
<b>Total Liabilities</b>	<b>1,421,864</b>	<b>-</b>	<b>-</b>	<b>241,160</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances	38,167	-	-	-
Debt service	-	-	-	42,739
Noncurrent loans receivable	-	1,915,362	69,490	409,555
City debt	-	-	-	-
Prepaid items	-	-	-	-
Deposits	-	250,000	-	-
Unreserved - designated for capital projects	-	-	-	-
Unreserved - designated for loans	-	600,000	-	-
Unreserved - designated for new loan fund	-	750,000	-	-
Unreserved - undesignated, reported in:				
Special revenue funds	(847,206)	1,884,331	234,193	518,182
Capital project funds	-	-	-	-
<b>Total Fund Balances</b>	<b>(809,039)</b>	<b>5,399,693</b>	<b>303,683</b>	<b>970,476</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 612,825</b>	<b>\$ 5,399,693</b>	<b>\$ 303,683</b>	<b>\$ 1,211,636</b>

(continued)

**CITY OF DULUTH, MINNESOTA  
BALANCE SHEET  
DULUTH ECONOMIC DEVELOPMENT AUTHORITY  
DECEMBER 31, 2006**

	<b>Special Revenue Fund</b>			
	<b>Northwest Maintenance Facility</b>	<b>Debt Service</b>	<b>Capital Projects</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 208,363	\$ 5,328,743	\$ 1,587,719	\$ 11,454,473
Assets held by trustee	2,484,238	-	-	2,484,238
Taxes receivable, net	-	641,495	-	641,495
Accounts receivable, net	340,624	232,369	17,515	595,685
Loans receivable, net	-	24,239	2,025,588	4,792,839
Deposits receivable	-	-	-	250,000
Due from other funds	513,702	241,160	2,358,654	3,313,516
Interfund loan receivable	-	386,510	-	386,510
Due from other governments	-	-	306,000	306,000
Prepays	-	-	736,481	736,481
<b>TOTAL ASSETS</b>	<b>\$ 3,546,927</b>	<b>\$ 6,854,516</b>	<b>\$ 7,031,957</b>	<b>\$ 24,961,237</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ -	\$ 12,599	\$ 18,439
Contracts payable	-	-	96,253	96,433
Loans payable	-	-	-	781,397
Due to other funds	-	2,872,356	2,132,350	5,877,866
Interfund loan payable	386,510	-	-	386,510
Deferred revenues	1,148,863	607,279	2,265,348	4,023,937
<b>Total Liabilities</b>	<b>1,535,373</b>	<b>3,479,635</b>	<b>4,506,550</b>	<b>11,184,582</b>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances	-	-	71,562	109,729
Debt service	679,813	3,374,881	-	4,097,433
Noncurrent loans receivable	-	-	60,693	2,455,100
City debt	1,536,006	-	-	1,536,006
Prepaid items	-	-	736,481	736,481
Deposits	-	-	-	250,000
Unreserved - designated for capital projects	-	-	305,151	305,151
Unreserved - designated for loans	-	-	-	600,000
Unreserved - designated for new loan fund	-	-	-	750,000
Unreserved - undesignated, reported in:				
Special revenue funds	(204,265)	-	-	1,585,235
Capital project funds	-	-	1,351,520	1,351,520
<b>Total Fund Balances</b>	<b>2,011,554</b>	<b>3,374,881</b>	<b>2,525,407</b>	<b>13,776,655</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,546,927</b>	<b>\$ 6,854,516</b>	<b>\$ 7,031,957</b>	<b>\$ 24,961,237</b>

**CITY OF DULUTH, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
DULUTH ECONOMIC DEVELOPMENT AUTHORITY  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<b>Special Revenue Funds</b>			
	<b>Operating</b>	<b>Building Renovation</b>	<b>Old Downtown</b>	<b>District Storefront</b>
<b>REVENUES:</b>				
<b>Taxes</b>				
Tax increments	\$ -	\$ -	\$ -	\$ -
<b>Intergovernmental revenues</b>				
Market value credit aid	-	-	-	-
State and federal grants	77,702	-	-	-
<b>Charges for services</b>				
Parking meters	12,732	-	-	-
<b>Miscellaneous revenues</b>				
Earnings on investments	52,139	198,424	2,463	7,651
Interest	18	55,100	1,491	15,450
Bond fees	303,443	-	-	-
Land sales	1,466,010	-	-	-
Developer contributions	-	-	-	-
Other	117,408	4,819	-	-
<b>Total Revenues</b>	<b>2,029,452</b>	<b>258,343</b>	<b>3,954</b>	<b>23,101</b>
<b>EXPENDITURES:</b>				
<b>Current</b>				
<b>Urban and economic development</b>				
Other services and charges	392,967	7,160	-	-
Economic development projects	1,435,530	-	20,000	-
<b>Capital Outlay</b>				
<b>Urban and economic development</b>				
Improvements other than buildings	319,348	-	-	-
<b>Debt Service</b>				
Principal retirement	-	-	-	-
Interest and fiscal fees	-	-	-	-
Other	-	-	-	-
<b>Total Expenditures</b>	<b>2,147,845</b>	<b>7,160</b>	<b>20,000</b>	<b>-</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(118,393)</b>	<b>251,183</b>	<b>(16,046)</b>	<b>23,101</b>
<b>OTHER FINANCING SOURCES/USES:</b>				
<b>Operating transfer in</b>				
DEDA Funds	100,000	-	-	-
General Fund	-	-	-	-
Special Assessment Fund	-	-	-	-
Special Projects Fund	4,209	-	-	-
<b>Total Operating Transfer In</b>	<b>104,209</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Operating transfers out</b>				
DEDA Funds	-	-	-	(241,160)
General Fund	(44,738)	(155,441)	-	-
G.O. Debt Service Fund	(225,621)	-	-	-
Economic Development Fund	-	-	-	-
Community Development Fund	-	-	-	-
Medical District Expansion Fund	-	(1,000,000)	-	-
Special Assessment Fund	-	-	-	-
<b>Total Operating Transfers Out</b>	<b>(270,359)</b>	<b>(1,155,441)</b>	<b>-</b>	<b>(241,160)</b>
<b>Total Other Financing Sources (Uses)</b>	<b>(166,150)</b>	<b>(1,155,441)</b>	<b>-</b>	<b>(241,160)</b>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<b>(284,543)</b>	<b>(904,258)</b>	<b>(16,046)</b>	<b>(218,059)</b>
<b>FUND BALANCES:</b>				
Beginning of the year	(524,496)	6,303,951	319,729	1,188,535
End of the year	<u>\$ (809,039)</u>	<u>\$ 5,399,693</u>	<u>\$ 303,683</u>	<u>\$ 970,476</u>

(continued)

**CITY OF DULUTH, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
DULUTH ECONOMIC DEVELOPMENT AUTHORITY  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006**

	<u>Special Revenue Fund</u>			<u>Total</u>
	<u>Northwest Maintenance Facility</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>REVENUES:</b>				
<b>Taxes</b>				
Tax increments	\$ -	\$ 5,532,677	\$ -	\$ 5,532,677
<b>Intergovernmental revenues</b>				
Market value credit aid	-	81,488	-	81,488
State and federal grants	-	-	206,070	283,772
<b>Charges for services</b>				
Parking meters	-	-	182,776	195,508
<b>Miscellaneous revenues</b>				
Earnings on investments	4,247	210,320	40,806	516,050
Interest	29,119	-	4,784	105,962
Bond fees	-	-	-	303,443
Land sales	-	-	7,001	1,473,011
Developer contributions	-	232,369	-	232,369
Other	-	9,238	274,132	405,597
<b>Total Revenues</b>	<u>33,366</u>	<u>6,066,092</u>	<u>715,569</u>	<u>9,129,877</u>
<b>EXPENDITURES:</b>				
<b>Current</b>				
<b>Urban and economic development</b>				
Other services and charges	-	1,918	502,642	904,687
Economic development projects	-	-	116,264	1,571,794
<b>Capital Outlay</b>				
<b>Urban and economic development</b>				
Improvements other than buildings	-	-	17,244	336,592
<b>Debt Service</b>				
Principal retirement	-	1,591,505	-	1,591,505
Interest and fiscal fees	-	656,107	-	656,107
Other	1,383,363	251,526	-	1,634,889
<b>Total Expenditures</b>	<u>1,383,363</u>	<u>2,501,056</u>	<u>636,150</u>	<u>6,695,574</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>(1,349,997)</u>	<u>3,565,036</u>	<u>79,419</u>	<u>2,434,303</u>
<b>OTHER FINANCING SOURCES/USES:</b>				
<b>Operating transfer in</b>				
DEDA Funds	127,192	241,160	2,306,500	2,774,852
General Fund	875,000	-	-	875,000
Special Assessment Fund	-	-	26,864	26,864
Special Projects Fund	-	-	-	4,209
<b>Total Operating Transfer In</b>	<u>1,002,192</u>	<u>241,160</u>	<u>2,333,364</u>	<u>3,680,925</u>
<b>Operating transfers out</b>				
DEDA Funds	-	(2,433,692)	(100,000)	(2,774,852)
General Fund	-	(166,964)	(32,437)	(399,580)
G.O. Debt Service Fund	-	(1,030,274)	-	(1,255,895)
Economic Development Fund	-	-	(29,409)	(29,409)
Community Development Fund	-	(74,954)	(3,865)	(78,819)
Medical District Expansion Fund	-	-	(400,000)	(1,400,000)
Special Assessment Fund	-	-	(1,951,441)	(1,951,441)
<b>Total Operating Transfers Out</b>	<u>-</u>	<u>(3,705,884)</u>	<u>(2,517,152)</u>	<u>(7,889,996)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>1,002,192</u>	<u>(3,464,724)</u>	<u>(183,788)</u>	<u>(4,209,071)</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>(347,805)</u>	<u>100,312</u>	<u>(104,369)</u>	<u>(1,774,768)</u>
<b>FUND BALANCES:</b>				
Beginning of the year	2,359,359	3,274,569	2,629,776	15,551,423
End of the year	<u>\$ 2,011,554</u>	<u>\$ 3,374,881</u>	<u>\$ 2,525,407</u>	<u>\$ 13,776,655</u>

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# Statistical Section

# STATISTICAL SECTION

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

## Contents

### **Financial Trends** – Pages 139 - 144

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

### **Revenue Capacity** – Pages 145 - 147

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

### **Debt Capacity** – Pages 147 - 151

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

### **Demographic and Economic Information** – Pages 152 - 153

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

### **Operating Information** – Pages 154 - 158

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

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



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

	<u>2002*</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 119,109,618	\$ 129,099,323	\$ 146,521,749	\$ 155,698,901	\$ 171,675,354
Restricted	24,429,416	24,886,042	30,712,294	28,531,432	29,935,162
Unrestricted	<u>1,097,094</u>	<u>12,154,111</u>	<u>48,153,658</u>	<u>55,324,852</u>	<u>66,303,461</u>
Total governmental activities net assets	<u>\$ 144,636,128</u>	<u>\$ 166,139,476</u>	<u>\$ 225,387,701</u>	<u>\$ 239,555,185</u>	<u>\$ 267,913,977</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 84,981,950	\$ 83,949,511	\$ 87,721,493	\$ 91,986,495	\$ 95,017,361
Restricted	150,000	150,529	2,181,329	2,182,045	2,201,848
Unrestricted	<u>25,484,429</u>	<u>29,289,746</u>	<u>26,228,252</u>	<u>25,641,077</u>	<u>24,713,278</u>
Total business-type activities net assets	<u>\$ 110,616,379</u>	<u>\$ 113,389,786</u>	<u>\$ 116,131,074</u>	<u>\$ 119,809,617</u>	<u>\$ 121,932,487</u>
Primary government					
Invested in capital assets, net of related debt	\$ 204,091,568	\$ 213,048,834	\$ 234,243,242	\$ 247,685,396	\$ 266,692,715
Restricted	24,579,416	25,036,571	32,893,623	30,713,477	32,137,010
Unrestricted	<u>26,581,523</u>	<u>41,443,857</u>	<u>74,381,910</u>	<u>80,965,929</u>	<u>91,016,739</u>
Total primary government net assets	<u>\$ 255,252,507</u>	<u>\$ 279,529,262</u>	<u>\$ 341,518,775</u>	<u>\$ 359,364,802</u>	<u>\$ 389,846,464</u>

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

Source: Statement of Net Assets

Unaudited

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

	<u>2002*</u>	<u>2003</u>	<u>2004**</u>	<u>2005</u>	<u>2006</u>
<b>Expenses</b>					
Governmental activities:					
General government	\$ 19,163,984	\$ 18,164,487	\$ 20,669,584	\$ 21,287,443	\$ 20,902,934
Public safety	26,045,849	25,163,652	25,285,634	28,069,291	28,480,845
Public works	16,485,742	14,061,511	12,580,602	13,720,883	13,823,001
Culture and recreation	8,541,853	7,493,744	6,385,653	7,400,480	9,107,022
Urban and economic development	13,939,868	11,081,790	14,173,566	23,676,985	12,773,203
Interest	<u>6,855,458</u>	<u>6,046,179</u>	<u>6,917,787</u>	<u>6,749,211</u>	<u>7,427,045</u>
Total governmental activities expenses	<u>91,032,754</u>	<u>82,011,363</u>	<u>86,012,826</u>	<u>100,904,293</u>	<u>92,514,050</u>
Business-type activities:					
Water	9,734,767	8,945,765	8,465,593	9,463,342	9,827,419
Gas	36,290,401	38,806,370	41,883,691	50,491,710	45,278,118
Sewer	15,355,339	15,240,922	14,610,838	13,454,790	14,928,433
Stormwater	2,227,108	2,354,872	2,470,513	2,508,496	2,776,726
Steam district #1	3,399,206	3,597,759	3,893,705	4,085,845	4,628,019
Steam district #2	7,917,186	8,497,270	8,677,762	8,919,977	9,314,893
Golf	<u>1,756,201</u>	<u>1,754,734</u>	<u>1,762,485</u>	<u>1,908,334</u>	<u>1,889,657</u>
Total business-type activities expenses	<u>76,680,208</u>	<u>79,197,692</u>	<u>81,764,587</u>	<u>90,832,494</u>	<u>88,643,265</u>
Total primary government net assets	<u>\$ 167,712,962</u>	<u>\$ 161,209,055</u>	<u>\$ 167,777,413</u>	<u>\$ 191,736,787</u>	<u>\$ 181,157,315</u>
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
General government	\$ 4,124,263	\$ 4,307,134	\$ 4,935,952	\$ 1,434,650	\$ 1,804,560
Public safety	1,956,737	2,040,761	2,555,502	2,394,256	3,305,117
Public works	957,365	670,756	364,600	724,710	1,096,718
Culture and recreation	578,927	737,820	679,580	856,974	807,245
Urban and economic development	10,919	68,323	1,914,397	7,300,488	908,279
Operating grants and contributions	14,328,781	11,580,360	11,944,143	9,884,061	10,469,744
Capital grants and contributions	<u>14,919,934</u>	<u>11,074,089</u>	<u>13,955,413</u>	<u>11,565,853</u>	<u>12,445,080</u>
Total governmental activities program revenues	<u>36,876,926</u>	<u>30,479,243</u>	<u>36,349,587</u>	<u>34,160,992</u>	<u>30,836,743</u>
Business-type activities:					
Charges for services:					
Water	9,598,099	9,732,863	9,884,976	10,315,543	11,025,294
Gas	38,088,753	42,245,487	45,110,428	55,339,940	49,534,016
Sewer	16,498,761	16,872,231	16,639,746	14,347,815	15,507,006
Stormwater	3,106,087	2,904,443	2,924,170	2,982,846	3,098,403
Steam district #1	3,548,873	3,683,243	4,016,386	4,416,123	4,686,723
Steam district #2	5,972,570	6,136,880	6,383,327	6,584,168	6,959,000
Golf	1,482,071	1,570,600	1,732,131	1,699,090	1,893,564
Capital grants and contributions	<u>2,965,465</u>	<u>1,762,519</u>	<u>943,565</u>	<u>2,179,046</u>	<u>2,960,981</u>
Total business-type activities program revenues	<u>81,260,679</u>	<u>84,908,266</u>	<u>87,634,729</u>	<u>97,864,571</u>	<u>95,664,987</u>
Total primary government program revenues	<u>\$ 118,137,605</u>	<u>\$ 115,387,509</u>	<u>\$ 123,984,316</u>	<u>\$ 132,025,563</u>	<u>\$ 126,501,730</u>

(continued)

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

	<u>2002*</u>	<u>2003</u>	<u>2004**</u>	<u>2005</u>	<u>2006</u>
<b>Net (expense)/revenue</b>					
Governmental activities	\$ (54,155,828)	\$ (51,532,120)	\$ (49,663,239)	\$ (66,743,301)	\$ (61,677,307)
Business-type activities	<u>4,580,471</u>	<u>5,710,574</u>	<u>5,870,142</u>	<u>7,032,077</u>	<u>7,021,722</u>
Total primary government net expense	<u>\$ (49,575,357)</u>	<u>\$ (45,821,546)</u>	<u>\$ (43,793,097)</u>	<u>\$ (59,711,224)</u>	<u>\$ (54,655,585)</u>
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Taxes					
Property taxes	\$ 9,856,199	\$ 9,510,074	\$ 15,478,942	\$ 16,489,656	\$ 15,709,840
Market value credit aid	-	1,254,477	1,196,015	1,260,395	1,184,399
Sales taxes	15,350,586	14,903,251	15,478,954	15,963,891	16,860,351
Other taxes	1,945,693	1,937,557	1,924,690	1,945,956	2,006,659
Casino shared revenues	5,521,705	5,440,225	5,653,523	5,608,777	5,844,787
Grants and shared revenues not restricted to specific programs	35,095,985	32,840,817	32,502,413	31,443,085	32,249,900
Investment income	3,406,336	1,168,695	2,243,381	2,858,882	5,131,090
Gain on sale or disposition of capital assets	55,325	335,352	-	-	262,367
Miscellaneous	751,895	570,108	641,584	4,900,055	5,170,612
Transfers	<u>3,742,445</u>	<u>3,214,912</u>	<u>3,695,422</u>	<u>4,070,710</u>	<u>5,616,094</u>
Total governmental activities	<u>75,726,169</u>	<u>71,175,468</u>	<u>78,814,924</u>	<u>84,541,407</u>	<u>90,036,099</u>
Business-type activities:					
Investment income	718,578	244,231	485,428	715,342	824,428
Gain on sale or disposition of capital assets	20,519	33,514	81,140	1,834	30,268
Transfers	<u>(3,742,445)</u>	<u>(3,214,912)</u>	<u>(3,695,422)</u>	<u>(4,070,710)</u>	<u>(5,616,094)</u>
Total business-type activities	<u>(3,003,348)</u>	<u>(2,937,167)</u>	<u>(3,128,854)</u>	<u>(3,353,534)</u>	<u>(4,761,398)</u>
Total primary government	<u>\$ 72,722,821</u>	<u>\$ 68,238,301</u>	<u>\$ 75,686,070</u>	<u>\$ 81,187,873</u>	<u>\$ 85,274,701</u>
<b>Change in Net Assets</b>					
Governmental activities	\$ 21,570,341	\$ 19,643,348	\$ 29,151,685	\$ 17,798,106	\$ 28,358,792
Business-type activities	<u>1,577,123</u>	<u>2,773,407</u>	<u>2,741,288</u>	<u>3,678,543</u>	<u>2,260,324</u>
Total primary government	<u>\$ 23,147,464</u>	<u>\$ 22,416,755</u>	<u>\$ 31,892,973</u>	<u>\$ 21,476,649</u>	<u>\$ 30,619,116</u>

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

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

Source: Statement of Activities

Unaudited

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

	Fiscal Year				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
General fund					
Reserved	\$ 575,108	\$ 376,609	\$ 371,825	\$ 738,919	\$ 596,978
Unreserved	<u>7,471,147</u>	<u>5,069,273</u>	<u>6,483,798</u>	<u>7,327,952</u>	<u>4,918,653</u>
Total general fund	<u>\$ 8,046,255</u>	<u>\$ 5,445,882</u>	<u>\$ 6,855,623</u>	<u>\$ 8,066,871</u>	<u>\$ 5,515,631</u>
All other governmental funds					
Reserved	\$ 9,726,322	\$ 8,830,393	\$ 16,968,754	\$ 11,193,204	\$ 10,761,317
Unreserved, reported in:					
Special revenue funds	16,437,963	20,537,988	25,409,190	31,085,989	36,855,586
Debt service funds	6,205,104	7,351,597	9,722,211	9,925,436	11,776,691
Capital projects funds	<u>54,256</u>	<u>2,419,444</u>	<u>1,634,016</u>	<u>1,513,699</u>	<u>34,412</u>
Total all other governmental funds	<u>\$ 32,423,645</u>	<u>\$ 39,139,422</u>	<u>\$ 53,734,171</u>	<u>\$ 53,718,328</u>	<u>\$ 59,428,006</u>

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General fund					
Reserved	\$ 523,439	\$ 518,339	\$ 575,992	\$ 650,718	\$ 816,458
Unreserved	<u>5,531,067</u>	<u>4,487,573</u>	<u>5,439,550</u>	<u>4,224,264</u>	<u>4,237,396</u>
Total general fund	<u>\$ 6,054,506</u>	<u>\$ 5,005,912</u>	<u>\$ 6,015,542</u>	<u>\$ 4,874,982</u>	<u>\$ 5,053,854</u>
All other governmental funds					
Reserved	\$ 12,536,767	\$ 13,621,208	\$ 19,033,022	\$ 34,078,985	\$ 23,363,256
Unreserved, reported in:					
Special revenue funds	41,990,679	47,128,380	58,384,931	61,376,988	65,770,619
Debt service funds	13,471,340	13,892,475	13,165,779	9,480,448	8,968,752
Capital projects funds	<u>(3,757,026)</u>	<u>(4,241,951)</u>	<u>2,139,384</u>	<u>(4,653,373)</u>	<u>(2,523,300)</u>
Total all other governmental funds	<u>\$ 64,241,760</u>	<u>\$ 70,400,112</u>	<u>\$ 92,723,116</u>	<u>\$ 100,283,048</u>	<u>\$ 95,579,327</u>

Source: Balance Sheet & Combining Balance Sheet

Unaudited

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

	Fiscal Year				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Revenues</b>					
Taxes:					
Property Taxes	\$ 11,729,677	\$ 10,816,450	\$ 10,963,758	\$ 11,059,701	\$ 11,815,267
Sales Taxes	11,860,365	12,959,573	14,471,956	14,640,400	15,252,121
Other Taxes	1,369,862	1,400,031	1,438,462	1,652,556	1,737,308
Licenses and permits	475,164	478,421	506,255	513,534	624,432
Intergovernmental revenues	39,262,584	43,136,338	43,225,541	49,733,588	46,273,269
Charges for Services	4,909,481	4,873,979	5,987,971	5,510,166	5,190,480
Fines and forfeits	964,047	975,635	1,099,323	1,130,118	1,074,390
Special assessments	1,874,090	2,028,627	2,647,287	2,338,340	2,384,289
Investment income	-	-	-	-	-
Miscellaneous revenues	<u>11,205,056</u>	<u>10,763,282</u>	<u>10,411,150</u>	<u>15,202,653</u>	<u>14,449,871</u>
Total revenues	<u>83,650,326</u>	<u>87,432,336</u>	<u>90,751,703</u>	<u>101,781,056</u>	<u>98,801,427</u>
<b>Expenditures</b>					
General government	10,196,670	12,532,047	13,042,360	17,105,024	17,694,117
Public safety	23,091,149	24,663,727	22,051,960	25,772,933	28,683,145
Public works	12,482,046	13,147,744	12,910,980	9,198,817	9,860,405
Culture and recreation	4,588,635	5,143,559	6,384,545	6,338,207	7,392,309
Urban and economic development	7,841,087	9,497,827	9,098,115	8,997,600	9,976,323
Debt Service					
Principal retirement	7,245,323	7,439,149	8,701,607	9,283,026	10,753,925
Interest and fiscal fees	4,083,853	3,736,297	4,261,599	5,082,661	4,685,976
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital Outlay	<u>18,973,337</u>	<u>19,129,319</u>	<u>27,894,133</u>	<u>28,633,109</u>	<u>17,876,628</u>
Total Expenditures	<u>88,502,100</u>	<u>95,289,669</u>	<u>104,345,299</u>	<u>110,411,377</u>	<u>106,922,828</u>
Excess of revenues over (under) expenditures	<u>(4,851,774)</u>	<u>(7,857,333)</u>	<u>(13,593,596)</u>	<u>(8,630,321)</u>	<u>(8,121,401)</u>
<b>Other financing sources (uses)</b>					
Sale of bonds	14,930,000	14,190,000	23,435,000	7,395,000	11,030,000
Premium on sale of bonds	-	-	-	-	-
Sale of refunding bonds	-	-	-	-	-
Sale of capital asset	-	-	-	-	-
Loan proceeds	-	-	-	-	-
Payment to refunded bond escrow agent	(5,398,919)	-	-	-	-
Capital leases***	79,897	35,045	-	-	-
Transfers in	10,502,725	14,084,907	22,853,210	18,135,168	16,479,062
Transfers out	<u>(13,751,935)</u>	<u>(16,541,545)</u>	<u>(16,690,124)</u>	<u>(15,704,442)</u>	<u>(17,227,936)</u>
Total other financing sources (uses)	<u>6,361,768</u>	<u>11,768,407</u>	<u>29,598,086</u>	<u>9,825,726</u>	<u>10,281,126</u>
Net change in fund balances	<u>\$ 1,509,994</u>	<u>\$ 3,911,074</u>	<u>\$ 16,004,490</u>	<u>\$ 1,195,405</u>	<u>\$ 2,159,725</u>
Debt service as a percentage of noncapital expenditures	16.3%	14.7%	17.0%	17.6%	17.3%

\*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.

\*\*\*After the implementation of GASB Statement No. 34, Capital Leases are reported as assets.

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

(continued)

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

	Fiscal Year				
	<u>2002*</u>	<u>2003</u>	<u>2004**</u>	<u>2005</u>	<u>2006</u>
<b>Revenues</b>					
Taxes:					
Property Taxes	\$ 9,955,083	\$ 9,259,909	\$ 15,522,334	\$ 16,321,413	\$ 15,469,329
Sales Taxes	15,350,586	14,903,251	15,478,954	15,963,891	16,860,351
Other Taxes	1,945,693	1,937,557	1,924,690	1,945,956	2,006,659
Licenses and permits	609,550	658,314	680,953	853,927	987,464
Intergovernmental revenues	57,166,830	54,781,689	52,057,762	49,263,351	51,467,392
Charges for Services	5,831,871	6,091,850	6,549,128	7,969,577	8,718,615
Fines and forfeits	947,610	994,710	1,083,084	1,002,752	905,324
Special assessments	3,530,095	2,671,352	2,735,163	3,237,809	2,964,983
Investment income	3,102,648	1,089,073	2,044,335	2,574,786	4,576,550
Miscellaneous revenues	<u>9,010,620</u>	<u>11,093,844</u>	<u>12,536,138</u>	<u>12,091,312</u>	<u>14,978,054</u>
Total revenues	<u>107,450,586</u>	<u>103,481,549</u>	<u>110,612,541</u>	<u>111,224,774</u>	<u>118,934,721</u>
<b>Expenditures</b>					
General government	19,124,773	19,040,102	19,574,200	19,885,273	21,248,502
Public safety	29,423,941	28,861,649	29,082,948	31,519,654	33,176,998
Public works	9,833,899	9,618,124	9,947,392	9,979,171	10,358,429
Culture and recreation	7,395,397	6,919,311	6,945,317	6,713,232	6,978,630
Urban and economic development	12,565,206	12,005,724	15,511,249	19,828,474	12,694,861
Debt Service					
Principal retirement	10,247,366	11,107,478	13,610,613	16,956,649	15,175,505
Interest and fiscal fees	4,599,568	4,179,881	4,857,973	5,040,518	5,589,857
Revenue pledge	-	-	-	2,612,545	1,383,363
Bond issuance costs	48,934	148,000	180,618	407,773	269,189
Capital Outlay	<u>23,186,154</u>	<u>18,671,264</u>	<u>17,010,131</u>	<u>23,478,917</u>	<u>30,731,546</u>
Total Expenditures	<u>116,425,238</u>	<u>110,551,533</u>	<u>116,720,441</u>	<u>136,422,206</u>	<u>137,606,880</u>
Excess of revenues over (under) expenditures	<u>(8,974,652)</u>	<u>(7,069,984)</u>	<u>(6,107,900)</u>	<u>(25,197,432)</u>	<u>(18,672,159)</u>
<b>Other financing sources (uses)</b>					
Sale of bonds	12,975,000	8,670,000	7,885,000	28,265,000	17,050,000
Premium on sale of bonds	-	-	159,777	197,367	287,586
Sale of refunding bonds	-	6,925,000	-	-	-
Sale of capital asset	55,325	335,352	24,000	-	-
Loan proceeds	-	-	-	6,594,000	1,482,000
Payment to refunded bond escrow agent	(1,683,463)	(6,965,522)	-	(7,690,417)	(10,626,155)
Capital leases***	-	-	-	-	-
Transfers in	16,410,573	12,769,347	18,584,108	19,413,529	28,843,364
Transfers out	<u>(13,430,154)</u>	<u>(9,554,435)</u>	<u>(14,773,286)</u>	<u>(15,162,675)</u>	<u>(22,889,485)</u>
Total other financing sources (uses)	<u>14,327,281</u>	<u>12,179,742</u>	<u>11,879,599</u>	<u>31,616,804</u>	<u>14,147,310</u>
Net change in fund balances	<u>\$ 5,352,629</u>	<u>\$ 5,109,758</u>	<u>\$ 5,771,699</u>	<u>\$ 6,419,372</u>	<u>\$ (4,524,849)</u>
Debt service as a percentage of noncapital expenditures	16.0%	16.9%	19.3%	21.7%	21.5%

Unaudited

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

Fiscal Year Ended December 31	Real Estate			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
1997	\$ 1,800,329,000	\$ 24,143,479	\$ 396,717,400	\$ 17,726,625
1998	1,840,179,800	23,427,568	429,203,000	16,244,813
1999	1,854,134,700	22,129,138	493,181,000	15,522,020
2000	1,922,466,200	22,525,173	517,519,800	15,931,235
2001*	2,206,052,200	25,102,366	539,538,800	16,559,268
2002	2,477,595,400	23,719,895	595,371,300	10,699,179
2003	2,725,278,200	25,641,929	614,750,100	11,088,605
2004	3,351,249,500	29,833,979	656,921,700	12,405,482
2005	3,972,632,500	35,109,144	774,858,900	14,716,781
2006	4,133,977,600	39,255,023	842,705,400	15,426,663

Fiscal Year Ended December 31	Personal Property			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
1997	\$ 10,860,100	\$ 117,389	\$ 49,330,800	\$ 2,397,016
1998	12,312,400	127,604	46,677,400	1,949,479
1999	13,776,800	138,993	46,849,800	1,719,647
2000	14,917,500	150,364	48,451,900	1,719,575
2001*	15,782,000	159,627	48,848,600	1,734,748
2002	16,271,300	162,086	53,649,900	1,060,715
2003	16,922,200	168,654	52,149,700	1,032,377
2004	17,023,600	169,124	55,445,500	1,096,921
2005	17,840,900	176,231	73,834,400	1,462,013
2006	18,907,200	186,412	66,647,400	1,318,231

Fiscal Year Ended December 31	Total		Percentage of Total Tax Capacity to	
	Estimated Market Value	Tax Capacity	Total Estimated Market Value	Tax Rate
	1997	\$ 2,257,237,300	\$ 44,384,509	1.97%
1998	2,328,372,600	41,749,464	1.79%	0.23789
1999	2,407,942,300	39,509,798	1.64%	0.26063
2000	2,503,355,400	40,326,347	1.61%	0.26126
2001*	2,810,221,600	43,556,009	1.55%	0.26405
2002	3,142,887,900	35,641,875	1.13%	0.28976
2003	3,409,100,200	37,931,565	1.11%	0.29027
2004	4,080,640,300	43,505,506	1.07%	0.26866
2005	4,839,166,700	51,464,169	1.06%	0.24215
2006	5,062,237,600	56,186,329	1.11%	0.22183

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

Unaudited



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

Fiscal Year	City	Overlapping Rates			Total Direct & Overlapping Rates
		Schools	County	Special	
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
2005	0.24215	0.11405	0.67545	0.06902	1.10067
2006	0.22183	0.10994	0.63330	0.06576	1.03083

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

Source: St. Louis County web site

Unaudited

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

Taxpayer	Type of Business	2006		1997			
		Estimated Market Value	Rank	Estimated Market Value	Rank		
Minnesota Power	Electric utility	\$ 124,721,900	1	2.46%	\$ 72,475,600	1	3.21%
Simon Property, Inc.	Shopping mall	110,996,900	2	2.19%	59,391,200	2	2.63%
St. Mary's / Duluth Clinic	Healthcare / hospital	83,704,000	3	1.65%	15,232,500	4	0.67%
St. Lukes Hospital	Healthcare / hospital	42,824,500	4	0.85%	-	-	-
StoraEnso North America	Paper mill	22,393,900	5	0.44%	47,137,200	3	2.09%
JMM Limited Partnership	Retail/Hotel	18,047,800	6	0.36%	11,889,000	5	0.53%
IRET Properties	Property management	15,645,700	7	0.31%	-	-	-
Northwest Air	Airbus maintenance	15,194,500	8	0.30%	-	-	-
US Bank	Bank/Office building	12,162,600	9	0.24%	8,171,100	6	0.36%
Marshall School	School	10,862,000	10	0.21%	-	-	-
Qwest	Telephone utility	-	-	-	5,220,000	7	0.23%
Cargill, Inc.	Terminal grain elevator	-	-	-	4,954,900	8	0.22%
Greysolon Apartments	Apartments	-	-	-	4,847,000	9	0.21%
Miner's, Inc.	Grocery wholesaler	-	-	-	4,693,900	10	0.21%
		<u>\$ 456,553,800</u>		<u>9.01%</u>	<u>\$ 234,012,400</u>		<u>10.36%</u>

Source: City Assessor

Unaudited

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

<b>Fiscal Year Ended December 31</b>	<b>Total Tax Levy for Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>% of Levy</b>		<b>Amount</b>	<b>% of Levy</b>
1997	\$ 8,138,791	\$ 7,854,817	96.5%	\$ 186,916	\$ 8,041,733	98.8%
1998	8,281,291	7,935,851	95.8%	196,949	8,132,800	98.2%
1999	8,666,391	8,402,586	97.0%	346,412	8,748,998	101.0%
2000	8,795,700	8,560,631	97.3%	259,045	8,819,676	100.3%
2001	9,658,700	9,440,473	97.7%	217,751	9,658,224	100.0%
2002	9,038,100	8,889,198	98.4%	222,164	9,111,362	100.8%
2003	9,679,200	9,511,986	98.3%	164,775	9,676,761	100.0%
2004	10,153,500	9,872,757	97.2%	132,886	10,005,643	98.5%
2005	10,730,400	10,507,463	97.9%	104,311	10,611,774	98.9%
2006	11,102,100	10,839,881	97.6%	-	10,839,881	97.6%

Unaudited

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

<b>Governmental Activities</b>								
<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>General Obligation Tax Increment Bonds</b>	<b>General Obligation Tax Abatement Bonds</b>	<b>Tax Increment Revenue Bonds</b>	<b>Lease Revenue Bonds</b>	<b>Special Assessment Debt with Government Commitment</b>	<b>General Obligation Certificates</b>	<b>Capital Leases</b>
1997	\$ 12,256	\$ -	\$ -	\$ 19,000	\$ 2,645	\$ 23,894	\$ 5,965	\$ 754
1998	11,926	-	-	16,900	2,565	28,817	6,260	764
1999	16,653	-	-	15,000	2,485	36,747	6,150	734
2000	26,951	-	-	10,900	2,310	45,198	6,100	629
2001	28,953	-	-	9,500	2,215	46,888	5,205	604
2002	30,093	-	-	8,100	2,115	49,443	5,175	533
2003	28,208	-	-	6,500	2,005	52,555	4,590	508
2004	26,974	** 4,348	-	** 10,167	1,890	53,018	4,310	483
2005	33,813	7,282	310	3,919	1,770	53,919	3,915	458
2006	32,439	6,381	310	2,543	1,640	53,600	4,395	433

<b>Business-Type Activities</b>						
<b>Fiscal Year</b>	<b>Revenue Bonds</b>	<b>Revenue and Obligation Bonds</b>	<b>Capital Leases</b>	<b>Total Primary Government</b>	<b>Percentage of Personal Income*</b>	<b>Per Capita*</b>
1997	\$ 3,140	\$ 29,299	\$ -	\$ 64,514	4.54%	\$ 757
1998	2,940	26,299	-	67,232	4.37%	789
1999	2,725	23,625	-	77,769	4.76%	918
2000	2,260	20,292	-	92,088	5.25%	1,059
2001	2,010	20,942	-	93,365	5.07%	1,084
2002	1,755	30,100	-	95,459	4.91%	1,109
2003	1,490	36,380	-	94,366	4.78%	1,096
2004	1,040	38,210	122	101,190	4.88%	1,180
2005	920	40,340	80	105,386	5.07%	1,227
2006	800	46,815	424	101,741	4.88%	1,183

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

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

Unaudited

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Tax Capacity</u>	<u>Gross Bonded Debt</u>	<u>Less Debt Service Funds</u>	<u>Net Bonded Debt</u>	<u>Percent of Net Bonded Debt to Tax Capacity</u>	<u>Net Bonded Debt per Capita</u>
1997	85,225	\$ 44,384,509	\$ 18,185,900	\$ 2,301,076	\$ 15,884,824	35.79%	\$ 186.39
1998	85,249	41,749,464	19,552,900	3,053,890	16,499,010	39.52%	\$ 193.54
1999	84,691	39,509,798	31,930,500	3,345,682	28,584,818	72.35%	\$ 337.52
2000	86,918	40,326,347	30,460,500	3,445,454	27,015,046	66.99%	\$ 310.81
2001	86,125	43,556,009	34,157,800	3,623,861	30,533,939	70.10%	\$ 354.53
2002	86,044	35,641,875	35,268,100	1,881,129	33,386,971	93.67%	\$ 388.02
2003	86,082	37,931,565	32,798,400	4,880,479	27,917,921	73.60%	\$ 324.32
2004*	85,782	43,505,506	35,632,400	5,903,348	29,729,052	68.33%	\$ 346.57
2005	85,889	51,464,169	45,320,700	6,287,564	39,033,136	75.85%	\$ 454.46
2006	85,996	56,186,329	43,525,000	6,162,546	37,362,454	66.50%	\$ 434.47

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

**City of Duluth, Minnesota**  
**Direct and Overlapping Governmental Activities Debt**  
**As of December 31, 2006**

<u>Governmental Unit</u>	<u>General Obligation Debt</u>	<u>Percent Chargeable to City</u>	<u>Amount Chargeable to City</u>
Independent School District 709	\$ 29,275,000	93.30%	\$ 27,313,575
Independent School District 704	12,220,000	6.20%	757,640
St. Louis County	45,095,000	37.90%	17,091,005
Western Lake Superior Sanitary District	56,827,738	74.09%	42,103,671
Subtotal, overlapping debt			87,265,891
City of Duluth direct debt			101,741,821
Total direct and overlapping debt			\$ 189,007,712

Unaudited

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

	Fiscal Year				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Taxable market value	\$ 2,257,237,300	\$ 2,328,372,600	\$ 2,407,942,300	\$ 2,503,355,400	\$ 2,810,221,600
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 45,144,746</u>	<u>\$ 46,567,452</u>	<u>\$ 48,158,846</u>	<u>\$ 50,067,108</u>	<u>\$ 56,204,432</u>
Debt applicable to limit:					
Total bonds payable	95,707,162	103,385,448	116,311,690	114,011,221	115,712,623
Less: Deductions allowable	<u>(77,521,262)</u>	<u>(83,832,548)</u>	<u>(84,381,190)</u>	<u>(83,550,721)</u>	<u>(87,249,823)</u>
Total net debt applicable to limit	<u>\$ 18,185,900</u>	<u>\$ 19,552,900</u>	<u>\$ 31,930,500</u>	<u>\$ 30,460,500</u>	<u>\$ 28,462,800</u>
Total net debt applicable to the limit as a percentage of debt limit	40.28%	41.99%	66.30%	60.84%	50.64%

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Taxable market value	\$ 3,142,887,900	\$ 3,409,100,200	\$ 4,080,640,300	\$ 4,839,166,700	\$ 5,062,237,600
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 62,857,758</u>	<u>\$ 68,182,004</u>	<u>\$ 81,612,806</u>	<u>\$ 96,783,334</u>	<u>\$ 101,244,752</u>
Debt applicable to limit:					
Total bonds payable	126,781,000	131,728,000	139,957,491	146,189,413	148,923,488
Less: Deductions allowable	<u>(100,307,900)</u>	<u>(107,309,600)</u>	<u>(117,408,091)</u>	<u>(116,546,513)</u>	<u>(119,604,288)</u>
Total net debt applicable to limit	<u>\$ 26,473,100</u>	<u>\$ 24,418,400</u>	<u>\$ 22,549,400</u>	<u>\$ 29,642,900</u>	<u>\$ 29,319,200</u>
Total net debt applicable to the limit as a percentage of debt limit	42.12%	35.81%	27.63%	30.63%	28.96%

Unaudited

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

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<b><u>WATER REVENUE BOND</u></b>							
1997	\$ 8,021,377	\$ 5,678,645	\$ 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	6,609,669	1,799,721	650,000	264,633	914,633	1.97
2002	9,787,215	6,601,830	3,185,385	685,000	328,420	1,013,420	3.14
2003	9,841,217	7,318,249	2,522,968	882,000	304,781	1,186,781	2.13
2004	10,041,273	7,165,410	2,875,863	918,000	269,155	1,187,155	2.42
2005	10,450,145	8,033,370	2,416,775	1,002,124	253,705	1,255,829	1.92
2006	11,104,194	8,399,508	2,704,686	989,000	218,199	1,207,199	2.24

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

**GAS REVENUE BOND**

2001	\$ 41,036,149	\$ 39,003,580	\$ 2,032,569	\$ -	\$ 155,865	\$ 155,865	13.04
2002	38,394,277	33,626,427	4,767,850	235,000	338,116	573,116	8.32
2003	42,313,867	37,357,082	4,956,785	455,000	493,552	948,552	5.23
2004	45,272,089	40,575,751	4,696,338	757,000	544,805	1,301,805	3.61
2005	55,642,735	48,960,275	6,682,460	825,000	519,365	1,344,365	4.97
2006	49,890,597	43,701,022	6,189,575	844,000	520,369	1,364,369	4.54

**SEWER REVENUE BOND**

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	16,560,152	13,815,859	2,744,293	925,000	396,905	1,321,905	2.08
2003	16,913,297	14,380,362	2,532,935	714,000	365,128	1,079,128	2.35
2004	16,407,422	13,705,780	2,701,642	750,000	441,383	1,191,383	2.27
2005	14,506,025	12,332,037	2,173,988	1,057,876	564,507	1,622,383	1.34
2006	15,700,498	13,679,753	2,020,745	1,192,000	584,732	1,776,732	1.14

(continued)

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

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<b><u>STORMWATER REVENUE BOND</u></b>							
2002	\$ 2,774,284	\$ 1,869,425	\$ 904,859	\$ -	\$ 47,999	\$ 47,999	18.85
2003	2,861,113	2,147,125	713,988	74,000	51,437	125,437	5.69
2004	2,904,664	2,220,714	683,950	75,000	49,575	124,575	5.49
2005	3,012,171	2,232,765	779,406	76,000	47,592	123,592	6.31
2006	3,050,492	2,442,658	607,834	80,000	106,727	186,727	3.26

**STEAM DISTRICT #1 REVENUE BOND**

1997	\$ 3,168,977	\$ 2,815,583	\$ 353,394	\$ 195,000	\$ 64,900	\$ 259,900	1.36
1998	2,866,971	2,589,815	277,156	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
2005	4,416,123	3,491,603	924,520	185,000	165,218	350,218	2.64
2006	4,687,255	3,994,525	692,730	265,000	262,113	527,113	1.31

**GOLF REVENUE BOND**

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	250,000	135,323	385,323	1.07
2001	1,564,975	1,274,932	290,043	255,000	120,573	375,573	0.77
2002	1,487,619	1,392,197	95,422	265,000	105,528	370,528	0.26
2003	1,572,912	1,411,583	161,329	275,000	89,893	364,893	0.44
2004	1,735,653	1,441,402	294,251	120,000	31,595	151,595	1.94
2005	1,699,090	1,633,529	65,561	120,000	29,195	149,195	0.44
2006	1,901,413	1,672,256	229,157	125,000	26,435	151,435	1.51

Notes:

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

Unaudited

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
1997	85,225	\$ 1,420,155,691	\$ 16,664	13,134	4.5%
1998	85,249	1,538,706,228	18,050	12,885	3.5%
1999	84,691	1,634,828,334	19,303	12,528	3.6%
2000	86,918	1,754,033,601	20,180	12,166	4.3%
2001	86,125	1,842,756,661	21,396	12,464	4.1%
2002	86,044	1,943,385,113	22,586	12,555	4.2%
2003	86,082	1,972,288,627	22,912	12,321	5.3%
2004	85,782	2,072,565,791	24,161	11,979	5.4%
2005	85,889	2,079,354,886	24,210	11,123	4.8%
2006	* 85,996	* 2,086,143,981	* 24,259	10,050	4.2%

Data sources:

The population figures are estimates of the State Demographer.

Total personal income is from the Minnesota Department of Employment and Economic Development's website.

The school enrollment figures were provided by the Duluth School District.

The unemployment rates were provided by the Minnesota Department of Economic Security.

\*Estimates

Unaudited

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

<u>Employer</u>	<u>Type of Business</u>	<u>2006</u>			<u>1997</u>		
		<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
SMDC / Miller Dwan	Healthcare / hospital	4,665	1	7.79%	4,206	1	7.62%
Benedictine Healthcare System	Healthcare	3,593	2	6.00%	-	-	-
University of Minnesota - Duluth	Education	1,700	3	2.84%	1,571	4	2.85%
St. Louis County	Government	1,640	4	2.74%	1,600	3	2.90%
St. Luke's Hospital	Healthcare / hospital	1,592	5	2.66%	1,334	5	2.42%
Independent School District No. 709	Education	1,426	6	2.38%	1,700	2	3.08%
Allete (Minnesota Power)	Electric utility	1,400	7	2.34%	1,125	7	2.04%
Canadian National Railway	Railroad	1,100	8	1.84%	-	-	-
Duluth Air National Guard Base	Military	1,097	9	1.83%	-	-	-
City of Duluth / Authorities	Government	1,060	10	1.77%	1,060	8	1.92%
State of Minnesota	Government	-	-	-	1,189	6	2.15%
U.S. Postal Service	Government / postal encoding center	-	-	-	930	9	1.69%
Miller Dwan Medical Center	Healthcare	-	-	-	800	10	1.45%
		<u>19,273</u>		<u>32.19%</u>	<u>15,515</u>		<u>28.12%</u>

Source: Northland Connection's website

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

Unaudited

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

<b>Function:</b>	<b>Full-time Equivalent Employees as of December 31</b>				
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
General government	161.2	163.0	160.0	156.0	154.8
Public safety					
Police	166.0	178.0	186.0	182.0	180.0
Fire	163.0	163.0	161.0	161.0	163.0
Public works	116.7	116.5	110.5	109.7	107.0
Culture and recreation					
Parks and recreation	20.2	20.2	20.2	22.2	23.2
Zoo	13.0	13.0	13.0	13.0	13.0
Library	65.8	68.6	68.6	68.6	65.6
Urban and economic development	52.0	51.0	53.0	53.0	49.0
Water & Gas	172.0	170.0	167.0	163.0	143.8
Sewer	37.5	39.5	34.0	33.1	35.8
Stormwater	-	-	18.5	18.2	16.7
Golf	10.0	10.0	10.0	10.0	8.0
<b>Total</b>	<b>977.4</b>	<b>992.8</b>	<b>1,001.8</b>	<b>989.8</b>	<b>959.9</b>

<b>Function:</b>	<b>Full-time Equivalent Employees as of December 31</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
General government	155.8	152.8	146.0	145.0	144.0
Public safety					
Police	179.0	179.0	171.0	169.0	173.0
Fire	161.0	162.0	159.0	154.0	159.0
Public works	105.8	103.8	92.4	90.4	90.4
Culture and recreation					
Parks and recreation	23.2	23.2	22.2	20.2	18.2
Zoo	13.0	13.0	12.0	11.0	11.0
Library	65.6	65.6	59.7	58.6	58.6
Urban and economic development	47.0	47.0	41.0	37.0	37.0
Water & Gas	141.8	139.9	135.5	135.2	131.9
Sewer	34.7	33.6	33.3	37.4	38.6
Stormwater	19.9	17.9	19.8	20.0	20.1
Golf	8.0	8.0	8.0	5.0	5.0
<b>Total</b>	<b>954.8</b>	<b>945.8</b>	<b>899.9</b>	<b>882.8</b>	<b>886.8</b>

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

Source: City of Duluth Budget Office

Unaudited



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

Function:	Fiscal Year				
	1997	1998	1999	2000	2001
<b>Police</b>					
Criminal offences*	14,836	15,280	8,763	12,467	17,839
Adult and juvenile arrests	7,952	8,647	6,912	9,387	4,755
Traffic violations	8,314	8,202	8,463	8,724	7,389
Parking violations	61,822	65,161	62,205	59,248	59,690
<b>Fire</b>					
Number of calls answered	5,442	6,116	6,164	6,257	6,759
Number of inspections conducted	3,216	3,275	3,400	3,450	3,000
<b>Public works</b>					
<b>Construction permits:</b>					
Permits issued	2,516	2,947	2,909	2,522	2,499
Estimated cost of construction during year	\$ 55,385,998	\$ 55,832,881	\$ 128,133,601	\$ 73,534,868	\$ 74,490,278
<b>Culture and recreation</b>					
<b>Parks and recreation department**</b>					
Participation in special events	-	-	-	44,160	94,400
Participation in recreation	-	-	-	285,887	261,301
Zoo regular customers	-	-	-	134,764	114,000
<b>Library</b>					
Registered borrowers	68,576	76,316	83,843	81,815	79,442
Cataloged items in collection	351,432	340,715	353,427	344,788	345,112
Items loaned	1,285,033	990,626	902,640	923,029	942,089
Reference/research questions answered	190,875	181,020	188,614	191,162	190,261
<b>Water</b>					
Meters in service	26,986	27,035	27,118	27,206	27,265
Average number of gallons treated per month	587,545,000	594,780,500	537,550,000	536,100,000	551,560,000
Daily average consumption in gallons	18,893,240	19,554,427	18,147,022	17,592,030	18,141,408
<b>Gas</b>					
Meters in service	23,737	23,863	24,119	24,242	24,413
MMBTU sold	5,459,629	5,007,959	4,893,775	5,087,104	4,805,908
<b>Sewer</b>					
Number of service connections	37,355	28,835	28,835	27,487	28,835
Daily average treatment in gallons	15,730,000	15,730,000	17,085,000	15,330,000	16,500,000
Maximum daily capacity of treatment plant in gallons	86,570,000	86,570,000	86,570,000	86,570,000	86,570,000
<b>Stormwater***</b>					
Cleaning storm sewer pipe (in feet)	-	-	-	50,784	28,845
<b>Steam District #1</b>					
Steam sold	341,762	300,974	317,372	331,980	333,314
<b>Steam District #2</b>					
Steam flow (1000's lbs.)	1,306,283	1,290,964	1,397,933	1,769,265	1,975,384
<b>Golf**</b>					
Season passes	-	-	-	1,338	1,256
Daily tickets	-	-	-	41,646	39,883
Carts	-	-	-	9,757	10,870
Rounds played	-	-	-	108,000	98,462

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

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

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

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

Sources: Various government departments.

(continued)

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

Function:	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Police</b>					
Criminal offences*	17,928	17,610	16,352	9,659	9,916
Adult and juvenile arrests	6,805	4,503	4,042	3,329	4,648
Traffic violations	8,602	7,290	5,978	3,752	6,184
Parking violations	69,453	68,721	69,906	66,555	76,095
<b>Fire</b>					
Number of calls answered	6,944	7,015	7,345	7,461	7,981
Number of inspections conducted	3,140	3,500	1,200	1,200	1,200
<b>Public works</b>					
<b>Construction permits:</b>					
Permits issued	2,743	2,659	2,456	2,400	2,080
Estimated cost of construction during year	\$ 105,056,128	\$ 101,287,887	\$ 175,360,742	\$ 121,160,329	\$ 194,794,123
<b>Culture and recreation</b>					
<b>Parks and recreation department**</b>					
Participation in special events	57,752	43,825	53,330	58,492	48,510
Participation in recreation	306,168	287,127	253,496	129,000	129,998
Zoo regular customers	113,982	116,862	107,227	93,870	102,865
<b>Library</b>					
Registered borrowers	77,580	59,080	63,851	49,011	48,884
Cataloged items in collection	345,709	341,119	341,034	354,480	355,668
Items loaned	976,951	972,650	970,342	969,186	969,972
Reference/research questions answered	197,796	230,310	237,517	226,222	231,445
<b>Water</b>					
Meters in service	27,459	27,572	27,696	27,809	27,948
Average number of gallons treated per month	531,922,500	562,962,000	537,703,000	514,360,000	518,865,000
Daily average consumption in gallons	17,947,726	15,214,250	17,630,000	16,910,466	17,058,575
<b>Gas</b>					
Meters in service	24,613	24,857	24,970	25,085	25,278
MMBTU sold	5,124,065	5,289,874	5,066,848	4,777,330	4,285,167
<b>Sewer</b>					
Number of service connections	28,835	28,835	28,835	28,840	28,845
Daily average treatment in gallons	16,500,000	16,500,000	16,500,000	14,580,000	14,780,000
Maximum daily capacity of treatment plant in gallons	86,570,000	86,570,000	86,570,000	86,570,000	86,570,000
<b>Stormwater***</b>					
Cleaning storm sewer pipe (in feet)	24,052	19,734	40,535	14,448	10,599
<b>Steam District #1</b>					
Steam sold	333,657	363,175	353,808	376,485	422,651
<b>Steam District #2</b>					
Steam flow (1000's lbs.)	1,555,902	1,277,989	2,141,686	2,321,074	2,413,617
<b>Golf**</b>					
Season passes	1,195	1,231	1,159	1,037	1,046
Daily tickets	37,673	37,399	35,826	35,524	41,467
Carts	11,875	13,079	12,652	13,509	14,323
Rounds played	91,613	98,436	91,909	84,382	89,287

Unaudited

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

Function:	Fiscal Year				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Police</b>					
Patrol units	66	79	80	80	76
<b>Fire</b>					
Fire stations	9	9	9	9	9
<b>Public works</b>					
<b>Miles of streets and alleys:</b>					
Miles of streets - paved	448.45	449.41	455.22	457.13	459.46
Miles of streets - unpaved	85.35	85.00	83.92	83.10	81.05
Miles of Sidewalk	379.90	379.90	379.90	380.60	380.60
<b>Number of street lights:</b>					
Ornamental lamps (no. of bulbs)	3,209	3,184	3,184	3,184	3,291
Overhead street lamps	3,743	3,750	3,750	3,750	3,740
<b>Culture and recreation</b>					
<b>Parks and recreation department</b>					
Number of parks	105	105	105	129	131
Park acreage	11,482	11,482	11,482	11,862	11,493
Number of ski hills	2	2	2	2	2
Number of municipal tennis courses	36	36	36	21	31
Community clubs/field houses operated	29	29	29	2	27
Number of athletic fields	39	39	39	39	39
<b>Library department</b>					
Libraries/branches	4	3	3	3	3
<b>Water</b>					
Miles of water mains	392.11	392.42	393.23	396.93	397.67
Number of hydrants	2,137	2,139	2,164	2,194	2,199
Maximum daily capacity of plant in gallons	32,000,000	32,000,000	32,000,000	32,000,000	32,000,000
<b>Gas</b>					
Miles of gas mains	435.80	439.00	444.30	451.40	458.30
<b>Sewer</b>					
Miles of sanitary sewers	383.30	387.53	387.83	400.20	419.94
<b>Stormwater</b>					
Miles of storm sewers	-	257.16	258.76	260.00	260.88
<b>Steam District #1</b>					
Miles of line	9.50	9.75	9.75	9.75	10.00
<b>Steam District #2</b>					
Feet of line	580	580	580	580	580
<b>Golf</b>					
Number of municipal golf courses	2	2	2	2	2

Sources: Various government departments.

(continued)

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

Function:	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>Police</b>					
Patrol units	78	81	75	92	87
<b>Fire</b>					
Fire stations	9	9	9	9	9
<b>Public works</b>					
<b>Miles of streets and alleys:</b>					
Miles of streets - paved	460.46	462.87	466.63	469.20	471.90
Miles of streets - unpaved	81.05	80.13	78.56	77.31	76.61
Miles of Sidewalk	380.60	380.77	380.83	381.33	382.56
<b>Number of street lights:</b>					
Ornamental lamps (no. of bulbs)	3,241	3,241	3,241	3,712	3,758
Overhead street lamps	3,740	3,740	3,740	3,727	3,732
<b>Culture and recreation</b>					
<b>Parks and recreation department</b>					
Number of parks	129	129	129	129	107
Park acreage	11,862	11,862	11,862	11,862	11,862
Number of ski hills	2	2	2	2	2
Number of municipal tennis courses	31	30	23	23	22
Community clubs/field houses operated	27	27	27	27	27
Number of athletic fields	39	39	39	39	36
<b>Library department</b>					
Libraries/branches	3	3	3	3	3
<b>Water</b>					
Miles of water mains	397.85	403.38	406.24	408.22	408.30
Number of hydrants	2,196	2,231	2,279	2,363	2,373
Maximum daily capacity of plant in gallons	32,000,000	32,000,000	32,000,000	32,000,000	32,000,000
<b>Gas</b>					
Miles of gas mains	465.30	478.50	482.20	488.30	495.34
<b>Sewer</b>					
Miles of sanitary sewers	420.81	420.81	404.00	408.00	409.00
<b>Stormwater</b>					
Miles of storm sewers	262.48	262.48	311.00	349.00	351.00
<b>Steam District #1</b>					
Miles of line	10.00	10.00	10.50	11.00	11.00
<b>Steam District #2</b>					
Feet of line	580	580	580	580	580
<b>Golf</b>					
Number of municipal golf courses	2	2	2	2	2

Unaudited

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

	Fiscal Year				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>COMPONENT UNITS-</b>					
<b>Duluth Entertainment and Convention Center (DECC) -</b>					
Number of events	510	538	543	551	554
Number of conventions	45	35	38	39	48
<b>Duluth Airport Authority -</b>					
Number of passengers	246,707	236,058	294,180	295,700	288,140
<b>Duluth Transit Authority -</b>					
Number of buses	82	88	72	87	87
Number of routes	22	19	19	18	18
Number of passengers	3,138,804	3,073,963	3,037,905	3,046,353	3,148,888
Service area (square miles)	138	143	143	143	143
<b>Spirit Mountain Recreation Area Authority -</b>					
Skier visits	232,266	235,917	210,219	297,883	259,441
Season passes	6,997	7,174	7,488	10,712	10,086

	Fiscal Year				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>COMPONENT UNITS-</b>					
<b>Duluth Entertainment and Convention Center (DECC) -</b>					
Number of events	588	512	522	545	534
Number of conventions	60	38	44	43	43
<b>Duluth Airport Authority -</b>					
Number of passengers	303,070	253,454	316,912	305,750	290,421
<b>Duluth Transit Authority -</b>					
Number of buses	72	66	66	72	61
Number of routes	18	18	17	29	29
Number of passengers	3,048,430	2,771,990	2,647,051	2,709,249	2,692,931
Service area (square miles)	143	143	143	143	143
<b>Spirit Mountain Recreation Area Authority -</b>					
Skier visits	256,937	254,616	235,410	257,600	264,424
Season passes	11,129	9,385	8,630	9,209	8,920

Unaudited