

2017

Comprehensive Annual Financial Report



CITY OF DULUTH, MINNESOTA

For the Fiscal Year Ended December 31, 2017



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Department of Finance

For the Fiscal Year Ended December 31, 2017

**CITY OF DULUTH, MINNESOTA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2017**

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INTRODUCTORY SECTION



Chief Financial Officer • Wayne Parson, CPA (inactive)

City Auditor • Joshua Bailey

411 West First Street • Room 107 • Duluth, Minnesota • 55802-1190

218-730-5450 • Fax: 218-730-5919

wparson@duluthmn.gov • jbailey@duluthmn.gov • www.duluthmn.gov

An Equal Opportunity Employer

May 14, 2018

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, 2017.

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

The Minnesota Office of the State Auditor has issued an unmodified opinion on the City of Duluth's financial statements for the year ended December 31, 2017. 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, and encompasses 67 square miles of land and nearly 50 square miles of water. Situated on a hillside along Lake Superior's north shore, Duluth is 23 miles long and eight miles wide at its broadest point. Duluth's population exceeds 86,000 and contributes to a market area of more than 500,000 from northern Minnesota, northwest Wisconsin, the Upper Peninsula of Michigan, and lower Ontario. Duluth and its neighbor, Superior, Wisconsin, share the Great Lakes' largest port and one of the largest inland seaports in the world.

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

The City provides a full range of governmental services including police and fire protection, street construction and maintenance, library and recreational facilities, and public utilities for water, gas, sewer, and storm water services. Certain economic development activities are provided through a legally separate entity, Duluth Economic Development Authority, a discretely presented component unit of the City. The City also is financially accountable for several legally separate entities including an airport, convention center, transit services, and recreation area, all of which are reported separately in the City's financial statements. Additional information regarding these legally separate entities is provided in Note 1 of the notes 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 has become a strong regional center for shipping, tourism, education, health care, retail sales, technology, architecture, engineering and aviation. Duluth's unemployment averaged 3.7% for 2017, which was lower than the previous year's average unemployment rate of 4.0%. The total number of jobs reported to the state in 2017 peaked at 58,946.

According to the Minnesota Department of Employment and Economic Development (DEED), Duluth's aviation industry has grown 39% since 2007, with key anchors like Cirrus Aircraft and AAR continuing to soar, contributing \$646 million in the regional economy and directly supporting approximately 3,500 jobs in the Duluth metro area. Cirrus Aircraft's SF50 Vision Jet was awarded the prestigious 2017 Robert J. Collier Trophy for "the greatest achievement in aeronautics or astronautics in America, with respect to improving the performance, efficiency, and safety in air or space vehicles..." and is on display at the Smithsonian's Air and Space Museum.

The Port of Duluth-Superior has been one of the backbones of the region's economy, and has been long known as the Great Lakes' "Bulk Cargo Capital." It is the #1 tonnage port on the Great Lakes, and is the farthest-inland freshwater seaport. The Duluth-Superior port moves an average of 35 million short tons of cargo annually, ranking among the nation's top 25 ports. It accommodates the maritime transportation needs of a wide range of industries ranging from agriculture, forestry, mining, and manufacturing to construction, power generation, and passenger cruising. The Seaway Port Authority of Duluth reported that 838 ships visited the Port of Duluth-Superior in 2017, and moved 35.2 million tons of cargo including iron ore, coal, grain, limestone, cement, salt, wood pulp, steel, and wind turbine components, plus a variety of heavy-lift and project cargo. As the largest tonnage port on the Great Lakes-St. Lawrence Seaway, cargo movements through the Port of Duluth-Superior support approximately 11,500 jobs and \$545 million in wages, and contribute over \$1.5 billion to the local/regional economy.

Duluth continues to excel in the key industry of tourism, bringing approximately 6.7 million visitors to Duluth annually and injecting more than \$957 million each year directly into the immediate area. Duluth has turned itself into the top destination for Minnesotans as a primary getaway, according to Explore Minnesota Tourism. Duluth offers a variety of attractions and outdoor activities, including: Canal Park, Duluth's historic waterfront district, which is home to the famous Aerial Lift Bridge – Minnesota's most frequented tourist attraction, and a variety of hotels, restaurants, and shops; the 7.5 mile Lakewalk boardwalk on the shores of Lake Superior; Bayfront Festival Park – named the "Best Outdoor Music Venue" in the 2014 "Best of Minnesota" poll by the Minneapolis Star Tribune – which is a 20 acre waterfront park with a seasonal amphitheater, hosting outdoor summertime concerts and events, and during the holiday season, the Bentleyville Tour of Lights – America's largest free walk through holiday light display; The Great Lakes Aquarium – a \$30 million freshwater aquarium featuring more than 20 exhibits; Spirit Mountain Ski and Recreation Area – a year round recreation area with the Midwest's longest downhill ski run, Nordic skiing, a snow tubing park, an RV park, and an adventure park featuring mini golf, disk golf, mountain biking, scenic lift ride, alpine coaster ride, and a zip line. Duluth hosts world-class special events such as Grandma's Marathon, the 16th largest marathon in the United States; and, the Bayfront Blues Fest, which attracts over 20,000 people. The City has 129 municipal parks encompassing over 3,264 acres, two public golf courses, a zoo, and over 150 miles of trails for hikers, bicyclists, and cross country skiers. The City

has proposed a future addition of 70 miles of a new multi-use trail system and a 7.3 mile trail that would connect the entire length of the city from the west to the eastward-bound Lakewalk trail. Duluth was rated by Money magazine as one of the top four Midwestern small cities, based on livability; and in 2015, Duluth was voted as America's "Best Town" by an online poll conducted by Outside Magazine. In 2017, Duluth was named as America's fittest City according to Fitbit, which measured daily steps, active minutes, resting heart rate, and sleep duration, as tracked on their fitness tracking equipment; and, SmartAsset's 2017 edition name Duluth as the least stressed city in America. Lake Superior, the city's unique history, premier trails, and soft-adventure continue to define Duluth as a family friendly vacation destination and place to live.

The Duluth Entertainment Convention Center (DECC) remains a leader in convention center business and environmental stewardship. The DECC welcomed Executive Director Chelly Townsend on September 1st with the retirement of Dan Russell. Russell had served the DECC for 27 years. The DECC continues to operate at full strength with all of its facilities. In 2017 the DECC hosted 510 events with 45 conventions in CitySide and HarborSide Convention Centers. Pioneer Hall provided space for many tradeshow, expos, sporting events, and Curling Night in America. The DECC Arena held numerous events including the FIRST Robotics Competition, ice for the for Northland Figure Skaters, and many exhibits and tradeshow. Symphony Hall serves as the home to the Duluth-Superior Symphony Orchestra (DSSO) and to the Minnesota Ballet, and held varied events such as dance competitions and recitals, the Banff Mountain Film Festival, Martin Luther King Day, and many convention keynote speakers. Bayfront Park was under the management of the DECC for the sixth year with a full roster of events, including Bentleyville, Duluth Fourth Fest, Blues Fest, Pride Festival, All Pints North Brewfest, and the Hot Air Balloon Festival. AMSOIL Arena had its seventh successful year of operations, and is home to the University of Minnesota-Duluth's (UMD) hockey teams. Fans supported the women's Western Collegiate Hockey Conference (WCHA) team, and the men's National Collegiate Hockey Conference (NCHC) team; and, celebrated the UMD's men's 2017/2018 season's National Collegiate Athletic Association (NCAA) Division 1 Men's Hockey Championship. The silver LEED certified arena also featured youth and high school hockey, university commencements, the AAD Temple Shrine Circus; and, Thomas Rhett, Chris Stapleton, and Jeff Dunham concerts, to name a few. The DECC continues to focus on sustainability efforts, ongoing innovative projects, and energy efficiency upgrades. The DECC continues to divert at least 65% of their waste from the landfill through recycling, composting, and creating environmentally low-impact events.

According to the Minnesota Department of Employment and Economic Development (DEED), 34.8% of Minnesota residents have a bachelor's degree or higher, compared to 30.1% for the nation as a whole. Per DEED, the Duluth metro has more than 20,000 college and university students. The University of Minnesota, Duluth (UMD) and the College of St. Scholastica (CSS) are regularly ranked in the top tier of Midwestern universities by U.S. News and World Report's "America's Best Colleges" issue. UMD is a comprehensive regional university, and had an enrollment of 11,168 students in 2017. Undergraduate students can choose from 15 bachelor degrees in 84 majors and 72 minors as well as four certificates. UMD also offers graduate programs in 26 fields, 14 minors, and five certificates. The University of Minnesota Medical School and the University of Minnesota College of Pharmacy, both have programs on the UMD campus. In addition to offering the EdD, UMD participates in two all-university PhD programs (one of which is located primarily on the UMD campus) and cooperates significantly in the delivery of a number of Twin Cities-based PhD programs. CSS has been called a "hidden gem" by the Washington Post in its "100 Schools to Consider" and in 2014 was named by Money Magazine to the top third of all four-year colleges in the country, based on graduation rates, educational quality, affordability, and alumni earnings. Forbes Magazine named CSS in its "Top Colleges" list for 2017 based on outcomes, measured by student satisfaction, post-graduate success, and academic success. CSS has 6 academic schools, and offers degrees in more than 75 undergraduate majors and minors, 10 masters, and 3 doctoral programs, with a total 2017 enrollment of 4,325 students. Lake Superior College (LSC) is a two-year community and technical college in Duluth, and is a member of the Minnesota State Colleges and Universities System (MnSCU). LSC has a student population of over 5,800. The college offers pre-baccalaureate majors for students interested in transferring to 4-year educational institutions as well as more than 90 certificate, diploma, and degree programs in career and technical fields. LSC's Continuing Education/Customized Training division collaborates with area businesses and industry to design specialized opportunities for entry-level and advanced education. While courses are typically offered in traditional classroom and lab settings, LSC also offers over 150 courses via the internet, through its e-campus. In recent semesters, more than 25% of credits have been delivered online and a growing number of programs are offered completely online. These include dialysis patient care, accountant, business administration, computer, and web programming, and an Associate of Arts transfer degree. The American Institute of Economic Research named the Duluth metropolitan area as one of America's best small metropolitan areas for college students in their "Small Metro category" in its 2012 College Destinations index.

LONG-TERM FINANCIAL PLANNING

Unassigned fund balance in the General Fund (16.4% of total General Fund expenditures and transfers) exceeds the policy guidelines set by the Administration and Council for budgetary and planning purposes. According to the policy, unassigned fund balance should fall within the following range of General Fund expenditures and transfers: 5% as a minimum, 7% as a moderate scenario, with 10% regarded as optimum.

RELEVANT FINANCIAL POLICIES

The City established a Community Investment Fund in 1994. The Fund is financed by the City's share of revenues generated from the operation of the Fond-du-Luth Casino administered by the Fond du Lac Band of Lake Superior Chippewa. Investment earnings from the Community Investment Fund are dedicated to the City's General Fund by charter provision. All other monies appropriated from the Fund must be approved by resolution by at least seven members of the nine-member City Council. As of December 31, 2017, the Community Investment Fund reported a fund balance of \$23.2 million.

In 2007, the City established an irrevocable trust to pre-fund the City's other postemployment benefit liability. Contributions totaling \$27.3 million have been made to the irrevocable trust. The irrevocable trust balance including cumulative investment earnings was \$57.7 million at December 31, 2017. In November 2014, the City adopted a policy that established a funding framework for financing annual retiree healthcare costs through both annual appropriation and utilizing the irrevocable trust. Annual appropriation costs are capped at \$9 million. Annual retiree healthcare premium costs in excess of \$9 million will be paid from the irrevocable trust. For the year ended December 31, 2017, retiree health care premium costs did not exceed \$9 million. City pooled investment earnings were also dedicated as an additional funding source for future contributions to the irrevocable trust.

MAJOR INITIATIVES

The City has authorized the creation of tax increment district to assist with the financing of public improvements for a mixed-use multifamily and retail project known as ENDI. The \$38 million project consists of approximately 143 market-rate multifamily units and additional retail space. The project broke ground in June 2015 and was completed in January 2017.

The Duluth Economic Development Authority (DEDA) entered into an agreement with a developer to restore a historic theatre complex in Duluth's downtown waterfront district. The \$30 million project is financed through a combination of state and federal tax credits, low interest loans, and fundraising. In addition, skywalk connections will be completed to the downtown skywalk system. Construction began in June 2016 with a grand reopening held on February 1, 2018.

In November 2017, a transportation sales tax referendum was overwhelmingly approved by voters. The new ½% sales tax, if approved by the legislature, will garner an estimated \$7 million to be designated for the City's Street Improvement Program. Minnesota legislative approval is expected by May 2018.

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, 2016. This was the forty-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 2017. In order to qualify for the Distinguished Budget Presentation Award, a governmental unit's budget must be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

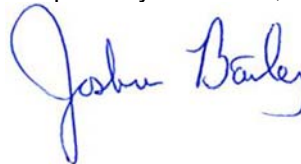
When looking at a report such as this CAFR, it is sometimes difficult to comprehend how much time and effort is devoted by employees from the beginning of the audit to the final printing and distribution of the CAFR. As the requirements and demands of financial reporting in government increase, so too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

Respectfully submitted,



Wayne Parson, CPA (inactive)
Chief Financial Officer

Respectfully submitted,



Joshua Bailey,
City Auditor

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

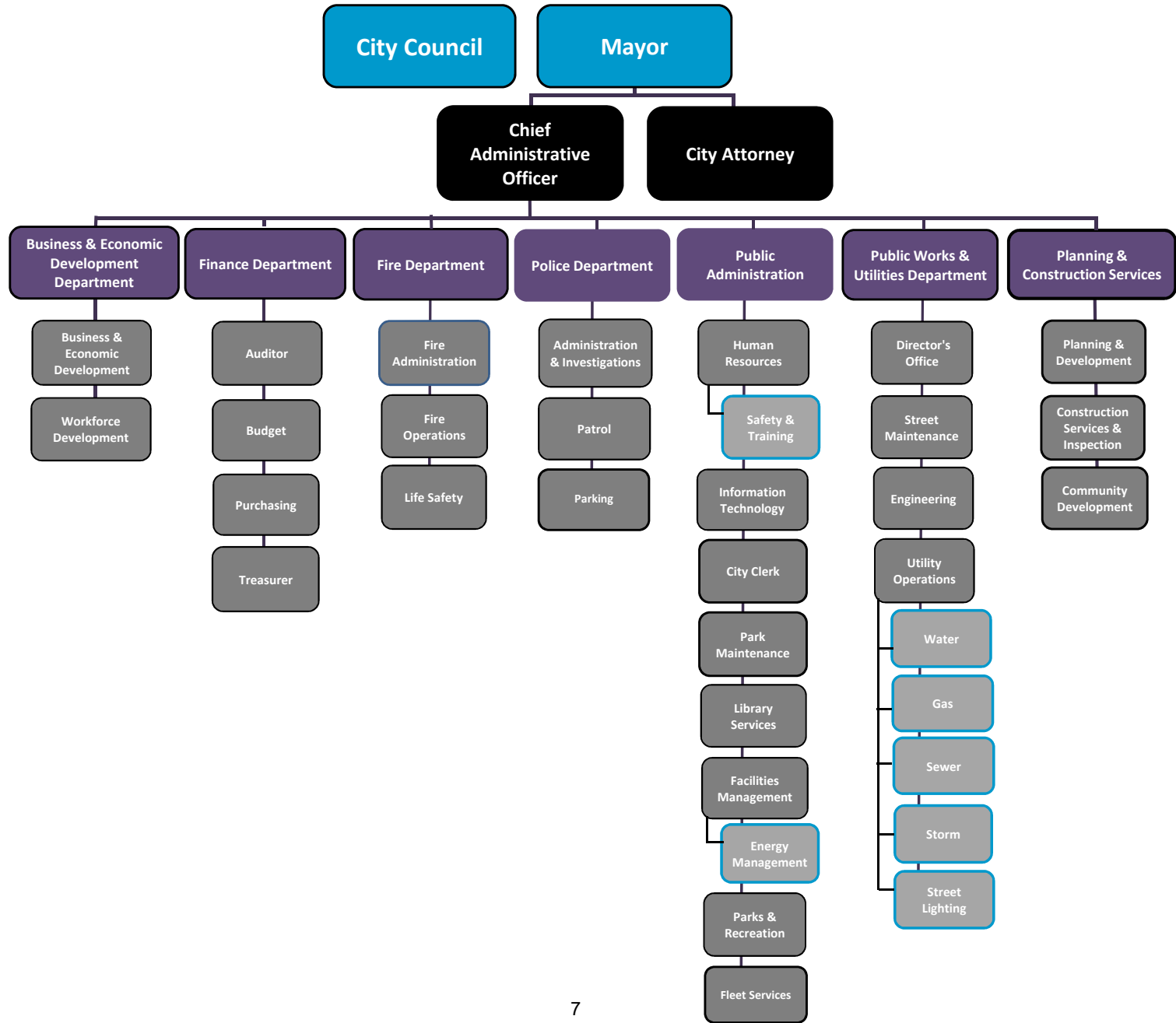
ELECTED POSITIONS	DISTRICT	TERM EXPIRES *
Mayor Emily Larson		2020
City Council		
Zack Filipovich	At large	2018
Elissa Hansen	At large	2020
Noah Hobbs	At large	2020
Barb Russ	At large	2018
Gary Anderson	1	2020
Joel Sipress	2	2018
Em Westerlund	3	2020
Howie Hanson	4	2018
Jay Fosle	5	2020

*All terms expire in January

APPOINTED POSITION

Attorney	Gunnar Johnson
Auditor	Joshua Bailey
Chief Administrative Officer	David Montgomery
Chief Financial Officer	Wayne Parson
Chief of Police	Michael Tusken
Clerk	Jeffrey Cox
Director of Business and Economic Development	Heather Rand
Director of Public Administration	Jim Filby Williams
Director of Public Works and Utilities	James Benning
Fire Chief	Dennis Edwards

CITY OF DULUTH ORGANIZATIONAL CHART





Government Finance Officers Association

**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, 2016

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

The Honorable Emily Larson, Mayor,
and Members of the City Council
City of Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents. The financial statements and related notes of the Spirit Mountain Recreation Area Authority component unit's activities are included as of and for the year ended April 30, 2017.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth as of December 31, 2017, including the Spirit Mountain Recreation Area Authority component unit as of April 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Duluth's basic financial statements. The introductory section, the combining and individual fund statements and schedules, the supplementary information, and the statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2018, on our consideration of the City of Duluth's and the Duluth Economic Development Authority component unit's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports 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 effectiveness of the City of Duluth's or the Duluth Economic Development Authority's internal control over financial reporting or on compliance. The reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Duluth's and the Duluth Economic Development Authority component unit's internal control over financial reporting and compliance.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 14, 2018

**Management's
Discussion and Analysis**

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**
(unaudited)

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, 2017, 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, 2017, by \$418.2 million; this amount is identified as net position.
- As of December 31, 2017, the City's governmental funds reported combined ending fund balances of \$82.1 million.
- Restricted fund balances were \$42.8 million of fund balance or 52.1%. These fund balances are not available for appropriation because of constraints placed on the use of these funds. The remaining fund balances of \$39.3 million, or 47.9%, are unrestricted and classified as committed, assigned, or unassigned.
- In 2007, the City created an irrevocable trust to pre-fund a portion of the City's other postemployment benefits. As of December 31, 2017, the trust reported net position totaling \$57.7 million.
- As of December 31, 2017, the General Fund's unrestricted, unassigned fund balance was \$13.2 million, or 16.4% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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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, street lighting, parking, and municipal golf courses. The government-wide financial statements include not only the City, referred to as the primary government, but also five legally separate component units, for which the City is financially accountable. Financial information for these component units is reported separately from the financial information of the City, as the primary government.

Financial statements for the Duluth Economic Development Authority are included in the Supplementary Information section of this report. Complete financial statements for the Duluth Entertainment and Convention Center Authority, the Duluth Airport Authority, the Duluth Transit Authority, and the Spirit Mountain Recreation Area Authority can be obtained from their respective offices, the addresses of which are provided in Note 1 of the notes to the financial statements.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

The City adopts an annual appropriated budget for its General Fund. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, included in the basic financial statement section of this report, 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.

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

Fiduciary Funds

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

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains the combining and individual fund statements referred to earlier in connection with nonmajor governmental, nonmajor proprietary, internal service funds, fiduciary funds, and miscellaneous schedules. These schedules and statements follow the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

An additional portion of the City's net position (11.6%) represents resources that are subject to external restrictions on how they may be used, with the largest amount set aside for debt service. The following table presents a summary of the City's net position at December 31 for the past two fiscal years (dollars in thousands):

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	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 134,895	\$ 135,358	\$ 39,264	\$ 37,132	\$ 174,159	\$ 172,490
Capital assets	289,994	293,272	284,633	282,423	574,627	575,695
Total assets	<u>\$ 424,889</u>	<u>\$ 428,630</u>	<u>\$ 323,897</u>	<u>\$ 319,555</u>	<u>\$ 748,786</u>	<u>\$ 748,185</u>
Deferred outflows of resources	\$ 66,959	\$ 82,063	\$ 6,384	\$ 7,350	\$ 73,343	\$ 89,413
Long-term liabilities outstanding	\$ 235,274	\$ 308,287	\$ 71,872	\$ 82,064	\$ 307,146	\$ 390,351
Other liabilities	10,783	12,526	9,960	10,903	20,743	23,429
Total liabilities	<u>\$ 246,057</u>	<u>\$ 320,813</u>	<u>\$ 81,832</u>	<u>\$ 92,967</u>	<u>\$ 327,889</u>	<u>\$ 413,780</u>
Deferred inflows of resources	\$ 71,229	\$ 14,631	\$ 4,784	\$ 2,195	\$ 76,013	\$ 16,826
Net position:						
Net investment in capital assets	\$ 245,733	\$ 242,875	\$ 227,779	\$ 218,517	\$ 473,512	\$ 461,392
Restricted	46,203	45,703	2,120	2,072	48,323	47,775
Unrestricted	(117,374)	(113,329)	13,766	11,154	(103,608)	(102,175)
Total net position	<u>\$ 174,562</u>	<u>\$ 175,249</u>	<u>\$ 243,665</u>	<u>\$ 231,743</u>	<u>\$ 418,227</u>	<u>\$ 406,992</u>

Overall, the City's net position improved in 2017. The City's total net position increased \$11.2 million, an increase of 2.8%. Net position invested in capital assets continues to increase largely due to the City's utility infrastructure replacement and the pay down of debt associated with those capital asset additions.

In governmental activities, the decrease in total liabilities of \$74.8 million was largely due to a pension liability decrease. This decrease was associated with changes in actuarial assumptions associated with the City's calculated share of the Minnesota Public Employees Retirement Association (PERA) unfunded liability. These actuarial changes, which are reported as deferred outflows and deferred inflows, are amortized and expensed over several years in accordance with GASB accounting standards. Due to the large dollar amount that can be associated with even slight actuarial changes, it is expected that substantial changes can occur from year to year in relation with accounting for this pension-related liability.

For business-type activities the decrease in total liabilities of \$11.1 million is largely due to the spend down of revenue related bonds and notes. Total assets increased due to utility infrastructure replacement projects.

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

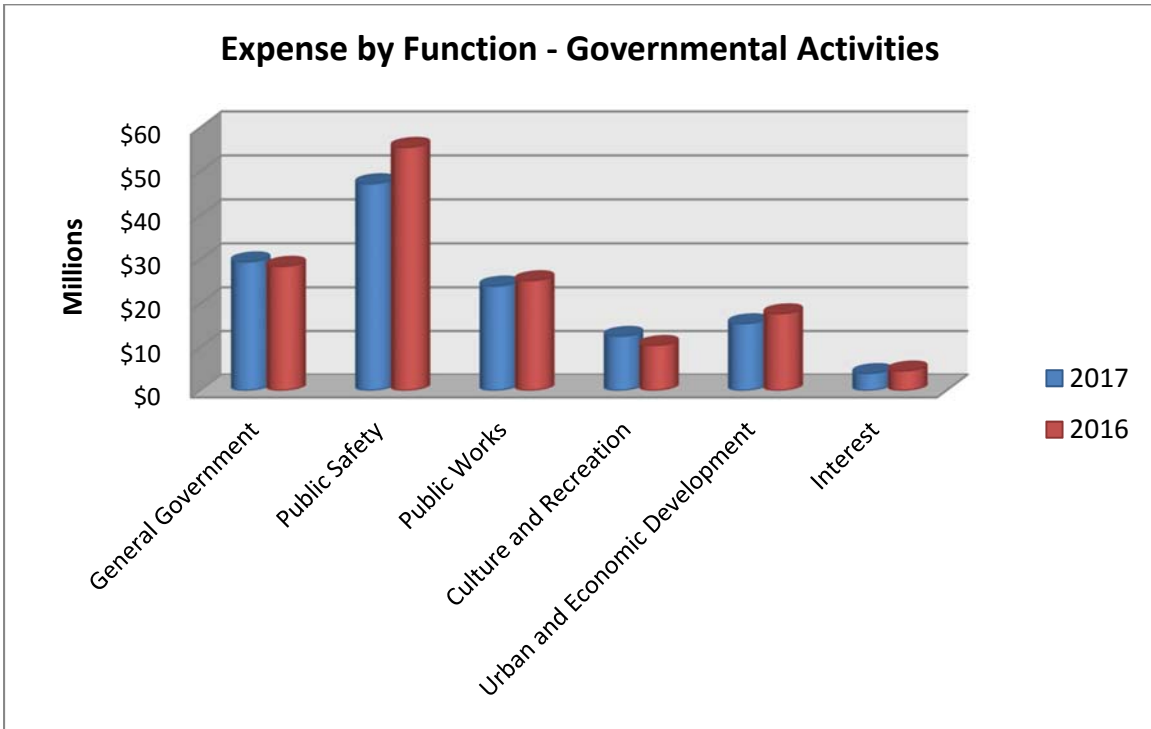
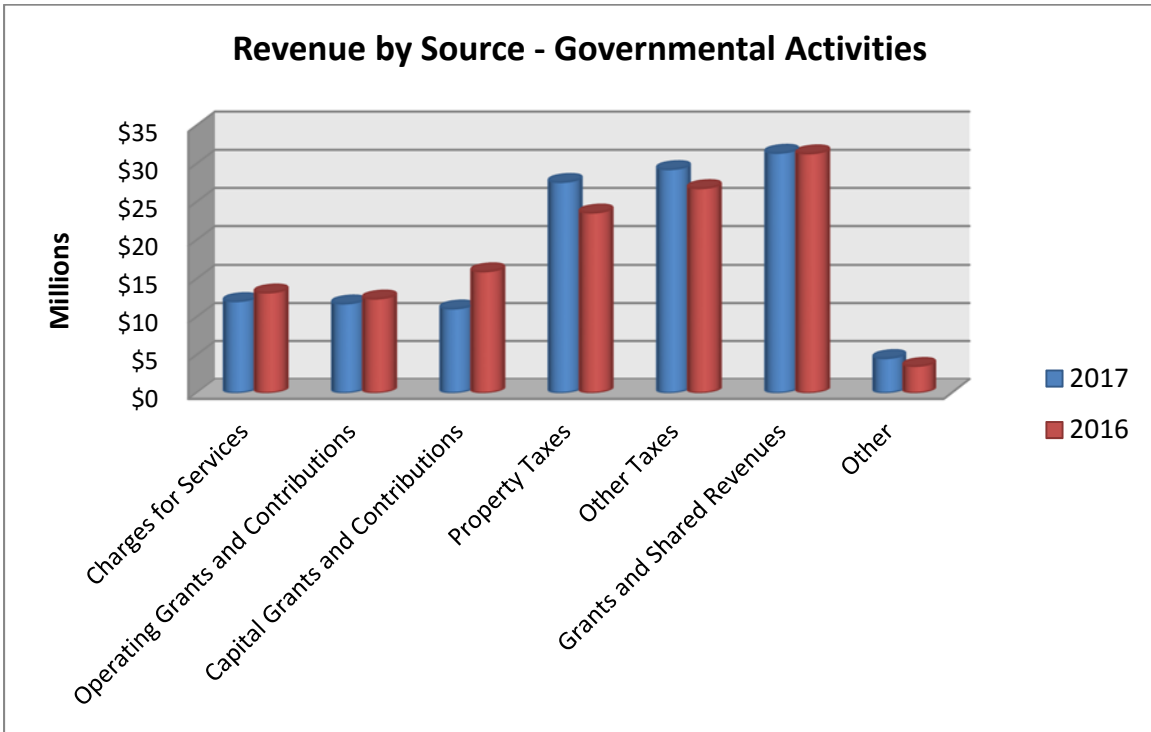
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	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 12,064	\$ 13,194	\$ 90,737	\$ 85,740	\$ 102,801	\$ 98,934
Operating grants and contributions	11,759	12,402	104	164	11,863	12,566
Capital grants and contributions	11,096	15,969	2,832	2,251	13,928	18,220
General revenues:						
Property taxes	27,597	23,587	756	647	28,353	24,234
Other taxes	29,276	26,783	-	-	29,276	26,783
Grants and shared revenues not restricted to specific programs	31,420	31,345	60	49	31,480	31,394
Other	4,569	3,532	237	155	4,806	3,687
Total revenues	<u>127,781</u>	<u>126,812</u>	<u>94,726</u>	<u>89,006</u>	<u>222,507</u>	<u>215,818</u>
Expenses:						
General government	29,491	28,488	-	-	29,491	28,488
Public safety	47,269	55,526	-	-	47,269	55,526
Public works	23,999	25,219	-	-	23,999	25,219
Culture and recreation	12,497	10,408	-	-	12,497	10,408
Urban and economic development	15,406	17,689	-	-	15,406	17,689
Interest	3,951	4,543	-	-	3,951	4,543
Water	-	-	11,160	10,997	11,160	10,997
Gas	-	-	31,538	27,526	31,538	27,526
Sewer	-	-	16,019	16,034	16,019	16,034
Stormwater	-	-	3,564	4,209	3,564	4,209
Steam	-	-	8,299	8,365	8,299	8,365
Golf	-	-	1,940	2,069	1,940	2,069
Parking	-	-	2,749	2,631	2,749	2,631
410 West First Street Ramp	-	-	1,267	768	1,267	768
Street lighting	-	-	2,123	2,308	2,123	2,308
Total expenses	<u>132,613</u>	<u>141,873</u>	<u>78,659</u>	<u>74,907</u>	<u>211,272</u>	<u>216,780</u>
Increase (decrease) in net position before transfers	(4,832)	(15,061)	16,067	14,099	11,235	(962)
Transfers	4,145	4,882	(4,145)	(4,882)	-	-
Increase in net position	<u>(687)</u>	<u>(10,179)</u>	<u>11,922</u>	<u>9,217</u>	<u>11,235</u>	<u>(962)</u>
Net position, January 1	<u>175,249</u>	<u>185,428</u>	<u>231,743</u>	<u>222,526</u>	<u>406,992</u>	<u>407,954</u>
Net position, December 31	<u>\$ 174,562</u>	<u>\$ 175,249</u>	<u>\$ 243,665</u>	<u>\$ 231,743</u>	<u>\$ 418,227</u>	<u>\$ 406,992</u>

Governmental activities revenue increased by \$1.0 million in 2017. This increase is primarily due to increased investment income earnings, property tax revenue, and an increase to the Minnesota Power franchise fee, partially offset by decreased capital grants associated with infrastructure projects. The business-type activities revenue increase of \$5.7 million was related to an increase in the sale of natural gas associated with the 2017 heating season. Total expenses decreased \$9.3 million for governmental activities. This decrease is related to expenditures recorded in relation to the City's pension liability. Actuarial changes, and the amortization of those changes, can cause

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significant changes in pension related expense. Business-type activities expenses increased \$3.8 million. This increase is primarily due to an increase in the volume of natural gas that is resold to customers by the City's Gas Utility.



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FUND FINANCIAL ANALYSIS

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

GOVERNMENTAL FUNDS

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

As of December 31, 2017, the City's governmental funds reported combined ending fund balances of \$82.1 million, an increase of \$3.1 million from 2016. Of the total fund balance amount, \$39.3 million, or 47.9%, is reported as unrestricted fund balance, either committed, assigned, or unassigned. The unrestricted fund balance includes \$24.6 million in committed funds which are formally designated by City Council resolution for specific purposes. The Community Investment Trust Special Revenue fund makes up 94.1% of the committed fund balance. Restricted fund balance of \$42.8 million is primarily composed of funds dedicated to debt service and capital projects.

The General Fund is the main operating fund of the City. At December 31, 2017, fund balance of the General Fund was \$15.6 million, with \$13.2 million, or 84.5% reported as unassigned. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance is 16.4% and total fund balance is 19.4% of total General Fund expenditures.

The Community Investment Trust Special Revenue fund balance increased \$2.9 million in 2017. This increase was due to the performance of the portfolio holdings in a strong year for the stock market.

The General Obligation Debt Service fund accounts for the accumulation of resources for, and payment of, general obligation bonds, notes, and certificates. Debt service payments from this fund are funded by property taxes, contributions from City Authorities, and transfers of City tourism taxes.

PROPRIETARY FUNDS

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

	Unrestricted Net Position December 31		Increase (Decrease) Net Position December 31	
	2017	2016	2017	2016
	410 West First Street Ramp	\$ 140	\$ 175	\$ (506)
Water	(812)	(1,477)	3,231	3,497
Gas	4,865	5,409	2,893	1,974
Sewer	2,659	620	4,156	4,832
Steam	(623)	200	602	(1,430)

Gas fund revenues increased due to an increase in the volume of natural gas that is passed on to customers. Unrestricted net position for the Sewer fund increased to less dollars from operations going towards capital improvements in 2017. The Steam fund was awarded \$15 million in state funds related to capital improvements being made in conjunction with the Superior Street project. Approximately, \$1.3 million in expenditures incurred in 2017 are eligible for this state funding.

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GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$1.1 million increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$0.6 million appropriation increase for prior year carryovers;
- \$0.3 million appropriation for grants, gifts and donations; and
- \$0.2 million appropriation for other budget allowable additions.

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

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

- Revenues and other financing sources were under budget by \$0.3 million. This unfavorable variance can be attributed to lower than anticipated sales tax revenue and gas fund payment in lieu of tax, partially offset by state shared revenue and engineering service revenue exceeding budgeted amounts.
- Expenditures and transfers were under budget by \$3.0 million due primarily to savings in retiree health insurance costs and personal costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2017, was \$574.6 million, net of accumulated depreciation. This investment includes land and improvements, buildings, equipment, roads and bridges, traffic signals, and utility-related infrastructure. In 2017, the City's total investment in capital assets, net of accumulated depreciation, decreased by \$1.1 million. Major capital assets additions in 2017 included: trail construction - \$3.9 million; street and bridge improvements - \$4.4 million; and utility related infrastructure improvements of \$8.6 million. Additional information related to the City's capital assets can be found in Note 7 of the notes to the financial statements. The following table shows the City's investment in capital assets, net of accumulated depreciation at December 31 for the past two fiscal years (dollars in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Capital Assets:				
Land and improvements	\$ 22,468	\$ 22,468	\$ 4,649	\$ 4,628
Buildings	42,359	44,185	51,305	53,149
Equipment	10,572	10,631	16,530	17,354
Infrastructure	200,572	198,301	198,119	187,337
Construction in progress	14,023	17,687	14,030	19,955
Total	<u>\$ 289,994</u>	<u>\$ 293,272</u>	<u>\$ 284,633</u>	<u>\$ 282,423</u>

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LONG-TERM DEBT

The City had \$156.0 million of bonded debt outstanding as of December 31, 2017. Of this amount, \$113.7 million is debt backed by the full faith and credit of the City. \$7.3 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 \$34.9 million outstanding revenue and general obligation bonds if income from various enterprise operations is insufficient to retire their respective bonds. Several types of revenue bonds constitute the remainder of the City’s debt, and are secured solely by specific revenue sources. The following table shows the City’s outstanding bonded debt for both governmental and business-type activities as of December 31 for the past two fiscal years (dollars in thousands):

	<u>Balance</u> <u>12/31/17</u>	<u>Balance</u> <u>12/31/16</u>
Governmental Activities:		
General Obligation Bonds	\$ 86,615	\$ 91,300
General Obligation Tax Abatement Bonds	13,435	13,805
Special Assessment Debt with Government Commitment	7,320	10,765
General Obligation Certificates	<u>13,670</u>	<u>13,250</u>
 Total Governmental Activities Bonded Debt	 <u>\$ 121,040</u>	 <u>\$ 129,120</u>
 Business-type Activities:		
Revenue and General Obligation Bonds	<u>\$ 34,927</u>	<u>\$ 39,222</u>

During 2017, the City’s total bonded debt decreased by \$12.4 million.

In 2017, the City issued \$1.5 million of general obligation bonds and \$3.6 million of general obligation certificates. The City has an “Aa2” rating from Moody’s Investors Service and an “AA” rating from Standard and Poor’s.

State statutes limit the amount of general obligation debt the City can incur to no more than 2% of the market value of taxable property in the City. The City’s current legal debt margin is \$122.5 million, which is significantly higher than the City’s net debt of \$38.2 million. Additional information about the City’s long-term debt can be found in Note 12 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The final approved 2018 General Fund budget is \$86.0 million. State local government aid (LGA) payments are anticipated to supply 34.5% of General Fund revenues. State aid payments are the single biggest financing source for the General Fund.

After nearly a decade of uncertainty in the State of Minnesota’s Local Government Aid program, the 2013 State Legislature adopted reforms which will benefit Duluth and other cities by increasing the funding for LGA by \$80 million and revising the formula used to determine who gets aid and how much. The “need” factor will be three-tiered depending on the population of the city with separate calculations for cities under 2,500 in population, cities between 2,500 and 10,000 in population, and cities over 10,000 in population because different factors explain variations in a city’s revenue base for different size cities. All three formulas were derived using revenue base (levy plus aid) as a proxy for city need. The new formula also stabilizes a city’s allocation by capping the maximum annual loss for any city as well as distributing proportionally larger increases to cities whose current aid amount is furthest from their unmet need. For Duluth, these changes increased LGA by \$2.2 million in 2018 to \$29.6 million compared to the \$27.4 million received in 2011, 2012 and 2013. In 2014, 2015, 2016, and 2017 the LGA revenue was \$29.0, \$29.2, \$29.3 and \$29.3 million respectively.

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In 2017, the City contracted with an actuary to calculate its annual required contribution for other postemployment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. The annual required contribution for 2017 was \$10.9 million. For the year ended December 31, 2017, the City made contributions of \$0.4 million to an irrevocable trust and paid an additional \$9.7 million of retiree claims resulting in an increase of \$0.8 million in the City's net other postemployment benefits liability. As of December 31, 2017, the City's net other postemployment benefits liability is \$41.1 million.

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

REQUESTS FOR INFORMATION

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

Basic Financial Statements

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 57,921,111	\$ 9,220,080	\$ 67,141,191	\$ 11,624,415
Investments, at fair value	23,155,370	-	23,155,370	-
Assets held by trustee	6,950,379	-	6,950,379	-
Receivables, net	32,567,475	12,932,025	45,499,500	9,275,324
Due from primary government	-	-	-	702,107
Internal balances	(1,639,540)	1,639,540	-	-
Due from component units	5,491,119	-	5,491,119	-
Due from other governments	10,128,442	1,956,376	12,084,818	1,001,239
Inventories	270,597	2,977,363	3,247,960	494,024
Prepays	50,000	4,347,338	4,397,338	165,225
Restricted assets:				
Cash and cash equivalents	-	4,347,271	4,347,271	1,452,212
Accounts receivable	-	-	-	139,277
Loans receivable	-	1,844,202	1,844,202	-
Grants receivable	-	-	-	12,217,397
Assets held by trustee	-	-	-	806
Planning and development costs	-	-	-	1,429,144
Capital assets (Note 7):				
Non-depreciable	36,490,819	18,679,544	55,170,363	12,749,548
Depreciable, net	253,503,054	265,953,470	519,456,524	268,150,230
Total Assets	424,888,826	323,897,209	748,786,035	319,400,948
Deferred Outflows of Resources				
Deferred pension obligation outflows	64,207,039	5,734,688	69,941,727	3,286,761
Deferred loss from debt refunding	2,751,924	649,496	3,401,420	-
Total Deferred Outflows of Resources	66,958,963	6,384,184	73,343,147	3,286,761
Liabilities				
Accounts payable and other short-term liabilities	6,056,326	7,631,042	13,687,368	8,430,563
Accrued interest payable	1,874,660	517,073	2,391,733	3,273
Due to component units	722,370	-	722,370	-
Due to primary government	-	-	-	5,491,465
Due to other government	399,645	958,480	1,358,125	21,327
Unearned revenues	1,729,048	854,452	2,583,500	1,598,351
Noncurrent liabilities (Note 12):				
Due within one year	15,924,322	7,975,214	23,899,536	2,152,758
Due in more than one year	219,349,982	63,896,611	283,246,593	20,695,526
Total Liabilities	246,056,353	81,832,872	327,889,225	38,393,263
Deferred Inflows of Resources				
Deferred pension obligation inflows	71,229,379	4,783,933	76,013,312	2,333,364
Net Position				
Net investment in capital assets	245,733,061	227,778,536	473,511,597	268,907,456
Restricted for:				
General government	5,556,983	-	5,556,983	-
Public safety	1,274,108	-	1,274,108	-
Public works	-	1,631,449	1,631,449	-
Culture and recreation	2,598,349	-	2,598,349	-
Urban and economic development	5,876,285	-	5,876,285	-
Debt service	22,784,080	488,525	23,272,605	-
Capital outlay	8,113,230	-	8,113,230	9,938,558
Unrestricted	(117,374,039)	13,766,078	(103,607,961)	3,115,068
Total Net Position	\$ 174,562,057	\$ 243,664,588	\$ 418,226,645	\$ 281,961,082

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 29,490,639	\$ 5,706,995	\$ 77,770	\$ 150,830
Public safety	47,268,796	2,869,629	2,587,351	225,039
Public works	23,999,112	56,549	1,854,503	8,903,822
Culture and recreation	12,497,000	1,247,455	534,962	1,066,430
Urban and economic development	15,406,291	2,183,548	6,704,151	749,986
Interest	3,951,480	-	-	-
Total Governmental Activities	<u>132,613,318</u>	<u>12,064,176</u>	<u>11,758,737</u>	<u>11,096,107</u>
Business-type activities:				
Water	11,159,899	14,428,987	-	33,866
Gas	31,537,930	36,122,015	74,584	416,895
Sewer	16,018,954	19,538,573	-	692,202
Stormwater	3,564,421	5,298,272	-	-
Steam	8,298,624	7,712,154	29,586	1,296,791
Golf	1,940,477	1,730,447	-	-
Parking	2,748,883	4,060,636	-	392,432
410 West First Street ramp	1,266,511	446,597	-	-
Street lighting	2,123,129	1,399,669	-	-
Total Business-type Activities	<u>78,658,828</u>	<u>90,737,350</u>	<u>104,170</u>	<u>2,832,186</u>
Total Primary Government	<u>\$ 211,272,146</u>	<u>\$ 102,801,526</u>	<u>\$ 11,862,907</u>	<u>\$ 13,928,293</u>
Component units :				
Duluth Economic Development Authority	\$ 8,453,702	\$ 1,105,915	\$ 4,627,989	\$ -
Duluth Entertainment and Convention Center Authority	15,388,706	9,163,181	-	200,000
Duluth Airport Authority	14,226,915	6,035,669	-	21,931,918
Duluth Transit Authority	21,525,542	2,834,021	13,861,545	575,266
Spirit Mountain Recreation Area Authority	5,981,931	4,571,809	-	443,067
Total Component Units	<u>\$ 65,576,796</u>	<u>\$ 23,710,595</u>	<u>\$ 18,489,534</u>	<u>\$ 23,150,251</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Functions/Programs</u>	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Primary Government:				
Governmental activities:				
General government	\$ (23,555,044)	\$ -	\$ (23,555,044)	\$ -
Public safety	(41,586,777)	-	(41,586,777)	-
Public works	(13,184,238)	-	(13,184,238)	-
Culture and recreation	(9,648,153)	-	(9,648,153)	-
Urban and economic development	(5,768,606)	-	(5,768,606)	-
Interest	(3,951,480)	-	(3,951,480)	-
Total Governmental Activities	<u>(97,694,298)</u>	<u>-</u>	<u>(97,694,298)</u>	<u>-</u>
Business-type activities:				
Water	-	3,302,954	3,302,954	-
Gas	-	5,075,564	5,075,564	-
Sewer	-	4,211,821	4,211,821	-
Stormwater	-	1,733,851	1,733,851	-
Steam	-	739,907	739,907	-
Golf	-	(210,030)	(210,030)	-
Parking	-	1,704,185	1,704,185	-
410 West First Street ramp	-	(819,914)	(819,914)	-
Street lighting	-	(723,460)	(723,460)	-
Total Business-type Activities	<u>-</u>	<u>15,014,878</u>	<u>15,014,878</u>	<u>-</u>
Total Primary Government	<u>(97,694,298)</u>	<u>15,014,878</u>	<u>(82,679,420)</u>	<u>-</u>
Component units :				
Duluth Economic Development Authority	-	-	-	(2,719,798)
Duluth Entertainment and Convention Center Authority	-	-	-	(6,025,525)
Duluth Airport Authority	-	-	-	13,740,672
Duluth Transit Authority	-	-	-	(4,254,710)
Spirit Mountain Recreation Area Authority	-	-	-	(967,055)
Total Component Units	<u>-</u>	<u>-</u>	<u>-</u>	<u>(226,416)</u>
General Revenues:				
Property taxes	27,596,775	756,037	28,352,812	3,156,797
Sales taxes	25,188,254	-	25,188,254	1,708,506
Franchise taxes	3,883,316	-	3,883,316	-
Other taxes	204,587	-	204,587	-
Grants and shared revenues not restricted to specific programs	31,420,457	59,826	31,480,283	-
Investment income	3,571,853	86,837	3,658,690	157,173
Gain on sale or disposition of capital assets	-	57,913	57,913	-
Miscellaneous	997,006	90,095	1,087,101	824,872
Transfers	4,144,712	(4,144,712)	-	-
Total General Revenues and Transfers	<u>97,006,960</u>	<u>(3,094,004)</u>	<u>93,912,956</u>	<u>5,847,348</u>
Change in Net Position	(687,338)	11,920,874	11,233,536	5,620,932
Net Position - Beginning	175,249,395	231,743,714	406,993,109	276,340,150
Net Position - Ending	<u>\$ 174,562,057</u>	<u>\$ 243,664,588</u>	<u>\$ 418,226,645</u>	<u>\$ 281,961,082</u>

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

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	General	Community Investment Trust	General Obligation	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 6,073,704	\$ -	\$ 13,402,127	\$ 33,091,388	\$ 52,567,219
Investments, at fair value	-	23,155,370	-	-	23,155,370
Receivables, net					
Taxes	3,371,605	-	298,462	1,024,077	4,694,144
Accounts	493,189	-	-	226,638	719,827
Assessments	1,059,013	-	-	3,508,595	4,567,608
Loans	1,783,406	-	-	4,102,132	5,885,538
Due from other funds	242,630	-	-	1,796,649	2,039,279
Due from component units	4,850,963	-	-	640,156	5,491,119
Interfund loan receivables	3,646,345	-	-	-	3,646,345
Due from other governments	703,589	-	-	9,424,853	10,128,442
Total Assets	\$ 22,224,444	\$ 23,155,370	\$ 13,700,589	\$ 53,814,488	\$112,894,891
Liabilities					
Accounts payable	1,714,480	-	-	588,304	2,302,784
Contracts payable	109,120	-	-	2,488,908	2,598,028
Due to other funds	253,884	-	-	2,020,802	2,274,686
Due to component units	10,860	-	-	711,510	722,370
Interfund loan payable	-	-	-	811,417	811,417
Due to other governments	30,049	-	-	329,618	359,667
Accrued salaries payable	927,811	-	-	22,572	950,383
Unearned revenue	100,090	-	-	1,628,958	1,729,048
Total Liabilities	3,146,294	-	-	8,602,089	11,748,383
Deferred Inflows of Resources					
Unavailable revenue	3,471,347	-	221,022	15,328,372	19,020,741
Fund Balances					
Restricted	99,766	-	13,479,567	29,228,683	42,808,016
Committed	36,242	23,155,370	-	1,427,723	24,619,335
Assigned	2,280,311	-	-	1,209,071	3,489,382
Unassigned	13,190,484	-	-	(1,981,450)	11,209,034
Total Fund Balances	15,606,803	23,155,370	13,479,567	29,884,027	82,125,767
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 22,224,444	\$ 23,155,370	\$ 13,700,589	\$ 53,814,488	\$112,894,891

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

**CITY OF DULUTH, MINNESOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2017**

Fund Balance--total governmental funds		\$ 82,125,767
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds. The cost of the assets is \$508,760,034, and the accumulated depreciation is \$219,076,821.		289,683,213
Other long-term assets are not available to pay for current-period expenditures, and therefore are deferred in the funds.		35,636,262
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and debt refunding that are not recognized in the governmental funds.		
Deferred pension obligation outflows	63,704,948	
Deferred loss from debt refunding	2,751,924	
Deferred pension obligation inflows	<u>(70,810,529)</u>	
		(4,353,657)
Internal service funds are used by management to charge the costs of fleet services, group health insurance, loss control activities, and vacation benefits payable to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position for \$5,778,189 less \$3,890,345 attributed to business-type activities.		1,887,844
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	131,630,268	
Other post employment benefits	44,287,491	
Pension liability	52,586,625	
Capital lease	38,328	
Interest accrued on long-term debt	<u>1,874,660</u>	
		<u>(230,417,372)</u>
Net position of governmental activities		<u>\$ 174,562,057</u>

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>General</u>	<u>Community Investment Trust</u>	<u>General Obligation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes					
Property taxes	\$ 14,811,607	\$ -	\$ 6,805,401	\$ 5,989,903	\$ 27,606,911
Sales taxes	13,564,369	-	-	11,623,885	25,188,254
Other taxes	4,079,605	-	-	8,298	4,087,903
Licenses and permits	1,643,318	-	-	116,189	1,759,507
Intergovernmental revenues	33,763,551	-	226,514	17,363,828	51,353,893
Charges for services	5,208,699	-	-	962,306	6,171,005
Fines and forfeits	573,778	-	-	1,332,626	1,906,404
Special assessments	487,412	-	-	1,265,521	1,752,933
Investment income	11,589	3,396,379	(14,367)	134,178	3,527,779
Miscellaneous revenues	1,391,556	-	1,320,424	2,097,891	4,809,871
Total Revenues	<u>75,535,484</u>	<u>3,396,379</u>	<u>8,337,972</u>	<u>40,894,625</u>	<u>128,164,460</u>
Expenditures					
Current					
General government	23,814,778	-	38,925	869,052	24,722,755
Public safety	37,588,299	-	-	1,674,989	39,263,288
Public works	11,761,550	-	-	1,433,368	13,194,918
Culture and recreation	4,285,646	-	-	5,494,220	9,779,866
Urban and economic development	3,042,553	-	-	11,980,388	15,022,941
Debt service					
Principal retirement	-	-	9,795,000	3,476,000	13,271,000
Interest and fiscal fees	-	-	4,147,641	455,558	4,603,199
Bond issuance costs	-	-	-	91,522	91,522
Capital outlay					
Capital outlay	-	-	-	14,753,506	14,753,506
Total Expenditures	<u>80,492,826</u>	<u>-</u>	<u>13,981,566</u>	<u>40,228,603</u>	<u>134,702,995</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,957,342)</u>	<u>3,396,379</u>	<u>(5,643,594)</u>	<u>666,022</u>	<u>(6,538,535)</u>
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	5,160,000	5,160,000
Premium on issuance of bonds	-	-	-	326,247	326,247
Transfers in	7,236,155	-	5,198,664	8,934,221	21,369,040
Transfers out	(40,000)	(457,945)	-	(16,726,383)	(17,224,328)
Total Other Financing Sources (Uses)	<u>7,196,155</u>	<u>(457,945)</u>	<u>5,198,664</u>	<u>(2,305,915)</u>	<u>9,630,959</u>
Net Change in Fund Balances	<u>2,238,813</u>	<u>2,938,434</u>	<u>(444,930)</u>	<u>(1,639,893)</u>	<u>3,092,424</u>
Fund Balances - January 1, 2017	13,367,990	20,216,936	13,924,497	31,523,920	79,033,343
Fund Balances - December 31, 2017	<u>\$ 15,606,803</u>	<u>\$ 23,155,370</u>	<u>\$ 13,479,567</u>	<u>\$ 29,884,027</u>	<u>\$ 82,125,767</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, 2017**

Net change in fund balances - total governmental funds \$ 3,092,424

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	13,029,455	
Depreciation expense	<u>(16,242,928)</u>	
Excess of capital outlay over depreciation expense		(3,213,473)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of \$(1,517,602) from internal funds less \$117,149 attributed to business-type activities is reported with governmental activities. (1,634,751)

Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, proceeds were received from:
Bonds issued, including a bond premium of \$326,247 (5,486,247)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of:
Bond principal retirement 13,307,734

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. Unavailable revenues decreased by this amount this year. 573,184

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	87,736	
Increase in net other post employment benefits payable	(1,670,951)	
Increase in pension obligation	(5,050,213)	
Decrease in loans receivable	(1,348,286)	
Amortization of deferred loss on debt refunding	(171,104)	
Amortization of bond premiums	<u>826,609</u>	
Total additional expenditures		<u>(7,326,209)</u>

Change in net position of governmental activities \$ (687,338)

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, 2017

	Budgeted Amounts		Actual Amounts	Actual to
	Original	Final	(Budgetary Basis) (Note 2)	Modified Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 33,024,900	\$ 33,024,900	\$ 32,455,581	\$ (569,319)
Licenses and permits	1,341,700	1,422,700	1,643,318	220,618
Intergovernmental revenues	33,255,300	33,412,406	33,763,551	351,145
Charges for services	5,362,900	5,362,900	5,208,699	(154,201)
Fines and forfeits	581,000	581,000	573,778	(7,222)
Special assessments	426,400	501,520	487,412	(14,108)
Investment income	-	-	11,589	11,589
Miscellaneous revenues	1,082,600	1,251,385	1,391,556	140,171
Total revenues	<u>75,074,800</u>	<u>75,556,811</u>	<u>75,535,484</u>	<u>(21,327)</u>
Expenditures				
Current				
General government	25,325,600	25,438,549	23,842,964	1,595,585
Public safety	37,069,200	37,990,870	37,588,299	402,571
Public works	12,665,200	12,634,137	11,797,865	836,272
Culture and recreation	4,453,600	4,453,600	4,285,646	167,954
Urban and economic development	3,063,700	3,134,014	3,058,363	75,651
Total expenditures	<u>82,577,300</u>	<u>83,651,170</u>	<u>80,573,137</u>	<u>3,078,033</u>
Excess (deficiency) of revenues over expenditures	<u>(7,502,500)</u>	<u>(8,094,359)</u>	<u>(5,037,653)</u>	<u>3,056,706</u>
Other Financing Sources (Uses)				
Transfers in	7,502,500	7,530,636	7,236,155	(294,481)
Transfers out	-	(40,000)	(40,000)	-
Total other financing sources (uses)	<u>7,502,500</u>	<u>7,490,636</u>	<u>7,196,155</u>	<u>(294,481)</u>
Net change in fund balance - budgetary basis	-	(603,723)	2,158,502	2,762,225
Net adjustments to reflect operations in accordance with generally accepted accounting principles	-	-	80,311	80,311
Net change in fund balance - GAAP basis	-	(603,723)	2,238,813	<u>\$ 2,842,536</u>
Fund balance - January 1, 2017	<u>13,367,990</u>	<u>13,367,990</u>	<u>13,367,990</u>	
Fund balance - December 31, 2017	<u>\$ 13,367,990</u>	<u>\$ 12,764,267</u>	<u>\$ 15,606,803</u>	

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

Business-type Activities - Enterprise Funds

	410 West First Street Ramp	Water	Gas	Sewer
Assets				
Current assets				
Cash and cash equivalents	\$ 218,310	\$ -	\$ 327,842	\$ 1,039,221
Restricted cash and cash equivalents				
Customer deposits	-	89,818	2,530,585	-
Construction	-	-	-	488,525
Loans	-	-	632,453	-
Restricted assets held by trustee	-	-	-	-
Receivables, net				
Accounts	51,739	1,431,621	6,896,258	2,070,736
Restricted loans	-	-	546,608	-
Assessments	-	32,959	2,037	40,479
Due from other funds	-	21,295	6,720	15,662
Interfund loan receivable	-	-	1,495,783	1,495,782
Due from other governments	-	131	5,628	636,500
Inventories	-	1,188,683	1,176,261	80,667
Prepays	-	950,780	3,030,769	321,303
Total current assets	<u>270,049</u>	<u>3,715,287</u>	<u>16,650,944</u>	<u>6,188,875</u>
Noncurrent assets				
Assessments receivable	-	101,694	5,604	137,390
Restricted loans receivable	-	-	1,285,810	-
Capital assets, net	19,955,228	62,635,055	54,740,804	96,134,500
Total noncurrent assets	<u>19,955,228</u>	<u>62,736,749</u>	<u>56,032,218</u>	<u>96,271,890</u>
Total Assets	<u>20,225,277</u>	<u>66,452,036</u>	<u>72,683,162</u>	<u>102,460,765</u>
Deferred Outflows of Resources				
Deferred loss from debt refunding	-	714	17,084	87,357
Deferred pension obligation outflows	-	1,636,294	2,152,947	911,412
Total Deferred Outflows of Resources	<u>-</u>	<u>1,637,008</u>	<u>2,170,031</u>	<u>998,769</u>
Liabilities				
Current liabilities				
Accounts payable	6,682	234,224	2,604,954	56,279
Contracts payable	-	69,135	523,481	94,964
Claims payable	-	-	-	-
Notes payable	-	1,085,856	-	1,543,144
Leases payable	-	236,786	217,054	203,899
Due to other funds	-	19,105	19,323	15,170
Interfund loan payable	-	376,543	-	-
Due to other governments	-	90,251	86,896	750,055
Accrued interest payable	123,829	66,986	40,822	132,356
Accrued salaries payable	-	77,970	108,366	46,477
Compensated absences	-	239,195	369,540	137,839
Unearned revenue	-	42,894	677,908	50,595
Deposits	-	10,000	2,537,385	-
Revenue bonds payable	-	348,851	480,000	1,289,599
Total current liabilities	<u>130,511</u>	<u>2,897,796</u>	<u>7,665,729</u>	<u>4,320,377</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

Business-type Activities - Enterprise Funds

	410 West First Street Ramp	Water	Gas	Sewer
Noncurrent liabilities				
Notes payable	-	6,562,000	-	8,857,383
Loans payable	-	-	-	-
Claims payable	-	-	-	-
Interfund loan payable	-	-	-	-
Compensated absences	-	-	-	-
Leases payable	-	1,473,869	1,351,047	1,269,165
Pension liability	-	3,673,795	4,833,785	2,046,295
Revenue bonds payable	12,522,008	459,481	541,245	3,896,320
Total noncurrent liabilities	12,522,008	12,169,145	6,726,077	16,069,163
Total Liabilities	12,652,519	15,066,941	14,391,806	20,389,540
Deferred Inflows of Resources				
Deferred pension obligation inflows	-	1,365,013	1,796,010	760,309
Net Position				
Net investment in capital assets	7,433,220	52,468,926	52,168,542	79,162,347
Restricted for health insurance trust	-	-	-	-
Restricted for special accounts	-	-	-	488,525
Restricted for loans	-	-	1,631,449	-
Unrestricted	139,538	(811,836)	4,865,386	2,658,813
Total Net Position	\$ 7,572,758	\$ 51,657,090	\$ 58,665,377	\$ 82,309,685

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	Business-type Activities - Enterprise Funds			Governmental
	Steam	Other Enterprise Funds	Total Enterprise Funds	Activities - Internal Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ 7,634,707	\$ 9,220,080	\$ 5,353,892
Restricted cash and cash equivalents				
Customer deposits	-	-	2,620,403	-
Construction	605,890	-	1,094,415	-
Loans	-	-	632,453	-
Restricted assets held by trustee	-	-	-	6,950,379
Receivables, net				
Accounts	1,246,297	887,145	12,583,796	84,837
Restricted loans	-	-	546,608	-
Assessments	-	27,987	103,462	-
Due from other funds	25,529	12,325	81,531	270,720
Interfund loan receivable	-	-	2,991,565	-
Due from other governments	1,296,791	17,326	1,956,376	-
Inventories	411,430	120,322	2,977,363	270,597
Prepays	-	44,486	4,347,338	50,000
Total current assets	<u>3,585,937</u>	<u>8,744,298</u>	<u>39,155,390</u>	<u>12,980,425</u>
Noncurrent assets				
Assessments receivable	-	79	244,767	-
Restricted loans receivable	11,784	-	1,297,594	-
Capital assets, net	10,845,153	40,322,274	284,633,014	310,660
Total noncurrent assets	<u>10,856,937</u>	<u>40,322,353</u>	<u>286,175,375</u>	<u>310,660</u>
Total Assets	<u>14,442,874</u>	<u>49,066,651</u>	<u>325,330,765</u>	<u>13,291,085</u>
Deferred Outflows of Resources				
Deferred loss from debt refunding	125,635	418,706	649,496	-
Deferred pension obligation outflows	-	1,034,035	5,734,688	502,091
Total Deferred Outflows of Resources	<u>125,635</u>	<u>1,452,741</u>	<u>6,384,184</u>	<u>502,091</u>
Liabilities				
Current liabilities				
Accounts payable	314,173	182,986	3,399,298	181,542
Contracts payable	584,810	126,956	1,399,346	76
Claims payable	-	-	-	1,640,240
Notes payable	-	-	2,629,000	-
Leases payable	-	-	657,739	-
Due to other funds	156	26,331	80,085	36,759
Interfund loan payable	2,615,022	702,251	3,693,816	582,677
Due to other governments	29,393	1,885	958,480	39,978
Accrued interest payable	72,026	81,054	517,073	-
Accrued salaries payable	-	44,750	277,563	23,513
Compensated absences	-	136,902	883,476	3,073,754
Unearned revenue	-	83,055	854,452	-
Deposits	-	7,450	2,554,835	-
Revenue bonds payable	650,000	1,036,549	3,804,999	-
Total current liabilities	<u>4,265,580</u>	<u>2,430,169</u>	<u>21,710,162</u>	<u>5,578,539</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2017**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Steam	Other Enterprise Funds	Total Enterprise Funds	
Noncurrent liabilities				
Notes payable	-	-	15,419,383	-
Loans payable	-	112,489	112,489	-
Claims payable	-	-	-	890,305
Interfund loan payable	-	1,550,000	1,550,000	-
Compensated absences	-	3,007	3,007	-
Leases payable	-	-	4,094,081	-
Pension liability	-	2,321,603	12,875,478	1,127,293
Revenue bonds payable	6,400,552	7,572,567	31,392,173	-
Total noncurrent liabilities	6,400,552	11,559,666	65,446,611	2,017,598
Total Liabilities	10,666,132	13,989,835	87,156,773	7,596,137
Deferred Inflows of Resources				
Deferred pension obligation inflows	-	862,601	4,783,933	418,850
Net Position				
Net investment in capital assets	4,526,126	32,019,375	227,778,536	310,660
Restricted for health insurance trust	-	-	-	5,556,983
Restricted for special accounts	-	-	488,525	-
Restricted for loans	-	-	1,631,449	-
Unrestricted	(623,749)	3,647,581	9,875,733	(89,454)
Total Net Position	\$ 3,902,377	\$ 35,666,956	\$239,774,243	\$ 5,778,189

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

	3,890,345
Net position of business-type activities	<u>\$ 243,664,588</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 POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Business-type Activities - Enterprise Funds			
	410 West First Street Ramp	Water	Gas	Sewer
Operating Revenues				
Sales	\$ -	\$ -	\$ 34,329,107	\$ -
Charges for services	446,597	14,292,925	826,499	19,338,680
Fines and forfeits	-	-	-	-
Miscellaneous revenues	-	152,459	1,055,209	210,976
Total Operating Revenues	<u>446,597</u>	<u>14,445,384</u>	<u>36,210,815</u>	<u>19,549,656</u>
Operating Expenses				
Cost of sales and services	-	-	18,991,411	-
Personal services	-	5,540,443	7,550,590	3,071,627
Supplies	-	1,281,962	1,215,758	272,271
Utilities	34,291	1,276,122	43,548	168,332
Other services and charges	211,547	1,187,472	1,876,158	10,205,388
Depreciation	520,571	1,826,882	1,409,755	1,935,127
Medical and insurance	-	-	-	-
Total Operating Expenses	<u>766,409</u>	<u>11,112,881</u>	<u>31,087,220</u>	<u>15,652,745</u>
Operating Income (Loss)	<u>(319,812)</u>	<u>3,332,503</u>	<u>5,123,595</u>	<u>3,896,911</u>
Nonoperating Revenues (Expenses)				
Property taxes	-	-	-	-
Investment income	(562)	(2,067)	6,957	(6,561)
Intergovernmental revenue	-	16,919	28,949	8,283
Other revenue	-	-	414,994	-
Other expense	-	-	(345,994)	-
Gain (loss) on sale or disposition of capital assets	-	15,762	24,416	17,735
Interest and fiscal fees	(500,102)	(182,025)	(86,980)	(361,272)
Total Nonoperating Revenues (Expenses)	<u>(500,664)</u>	<u>(151,411)</u>	<u>42,342</u>	<u>(341,815)</u>
Income (Loss) Before Contributions and Transfers	<u>(820,476)</u>	<u>3,181,092</u>	<u>5,165,937</u>	<u>3,555,096</u>
Capital contributions	-	33,866	70,901	692,202
Transfers in	314,441	144,300	14,900	7,450
Transfers out	-	(127,984)	(2,358,466)	(98,909)
Change in Net Position	<u>(506,035)</u>	<u>3,231,274</u>	<u>2,893,272</u>	<u>4,155,839</u>
Total Net Position - January 1, 2017	<u>8,078,793</u>	<u>48,425,816</u>	<u>55,772,105</u>	<u>78,153,846</u>
Total Net Position - December 31, 2017	<u>\$ 7,572,758</u>	<u>\$ 51,657,090</u>	<u>\$ 58,665,377</u>	<u>\$ 82,309,685</u>

(continued)

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	Steam	Other Enterprise Funds	Total Enterprise Funds	Activities - Internal Service Funds
Operating Revenues				
Sales	\$ -	\$ 515,840	\$ 34,844,947	\$ 1,880,989
Charges for services	7,416,954	10,824,529	53,146,184	20,942,499
Fines and forfeits	-	928,111	928,111	-
Miscellaneous revenues	295,200	310,638	2,024,482	738,946
Total Operating Revenues	<u>7,712,154</u>	<u>12,579,118</u>	<u>90,943,724</u>	<u>23,562,434</u>
Operating Expenses				
Cost of sales and services	-	251,987	19,243,398	1,619,700
Personal services	-	3,236,492	19,399,152	5,483,056
Supplies	3,087,134	543,204	6,400,329	43,427
Utilities	399,646	856,114	2,778,053	28,480
Other services and charges	3,358,588	3,975,406	20,814,559	2,897,016
Depreciation	1,200,684	1,279,886	8,172,905	64,630
Medical and insurance	-	-	-	14,993,636
Total Operating Expenses	<u>8,046,052</u>	<u>10,143,089</u>	<u>76,808,396</u>	<u>25,129,945</u>
Operating Income (Loss)	<u>(333,898)</u>	<u>2,436,029</u>	<u>14,135,328</u>	<u>(1,567,511)</u>
Nonoperating Revenues (Expenses)				
Property taxes	-	756,037	756,037	-
Investment income	-	(16,415)	(18,648)	44,073
Intergovernmental revenue	29,586	465	84,202	5,836
Other revenue	-	-	414,994	-
Other expense	-	-	(345,994)	-
Gain (loss) on sale or disposition of capital assets	(39,776)	-	18,137	-
Interest and fiscal fees	(209,525)	(241,907)	(1,581,811)	-
Total Nonoperating Revenues (Expenses)	<u>(219,715)</u>	<u>498,180</u>	<u>(673,083)</u>	<u>49,909</u>
Income (Loss) Before Contributions and Transfers	<u>(553,613)</u>	<u>2,934,209</u>	<u>13,462,245</u>	<u>(1,517,602)</u>
Capital contributions	1,296,791	392,432	2,486,192	-
Transfers in	-	34,739	515,830	-
Transfers out	(141,400)	(1,933,783)	(4,660,542)	-
Change in Net Position	<u>601,778</u>	<u>1,427,597</u>	<u>11,803,725</u>	<u>(1,517,602)</u>
Total Net Position - January 1, 2017	<u>3,300,599</u>	<u>34,239,359</u>	<u>227,970,518</u>	<u>7,295,791</u>
Total Net Position - December 31, 2017	<u>\$ 3,902,377</u>	<u>\$ 35,666,956</u>	<u>\$239,774,243</u>	<u>\$ 5,778,189</u>

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

Change in net position	\$ 11,803,725
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	117,149
Change in net position of business-type activities	<u>\$ 11,920,874</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, 2017**

Business-type Activities - Enterprise Funds

	410 West First Street Parking Ramp	Water	Gas	Sewer
Cash Flows from Operating Activities				
Cash received from customers	\$ 425,905	\$ 14,281,631	\$ 33,956,282	\$ 19,211,177
Cash paid to suppliers	(257,071)	(4,007,814)	(23,329,588)	(11,381,507)
Cash paid to employees	-	(5,327,891)	(7,070,792)	(3,150,367)
Other operating revenues	-	62,998	646,274	157,909
Net cash provided (used) by operating activities	<u>168,834</u>	<u>5,008,924</u>	<u>4,202,176</u>	<u>4,837,212</u>
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	314,441	279,300	14,900	7,450
Transfers to other funds	-	(130,128)	(2,360,610)	(101,153)
Property taxes	-	-	-	-
Operating grants	-	19,254	223,427	10,151
Interfund financing	-	(478,490)	(273,733)	(1,495,782)
Net cash provided (used) by noncapital financing activities	<u>314,441</u>	<u>(310,064)</u>	<u>(2,396,016)</u>	<u>(1,579,334)</u>
Cash Flows from Capital and Related Financing Activities				
Capital grants and contributions	-	41,579	72,121	245,858
Principal paid on bonds, notes and capitalized leases	-	(1,634,597)	(1,111,987)	(3,076,798)
Interest paid on bonds, notes and capitalized leases	(426,296)	(199,521)	(121,318)	(381,724)
Sale of capital assets	-	14,867	19,311	13,985
Acquisition or construction of capital assets	-	(2,918,769)	(3,506,962)	(1,007,491)
Net cash provided (used) by capital and related financing activities	<u>(426,296)</u>	<u>(4,696,441)</u>	<u>(4,648,835)</u>	<u>(4,206,170)</u>
Cash Flows from Investing Activities				
Investment earnings	(562)	(2,067)	6,957	(6,561)
Net increase (decrease) in cash and cash equivalents	56,417	352	(2,835,718)	(954,853)
Cash and cash equivalents - January 1, 2017	161,893	89,466	6,326,598	2,482,599
Cash and cash equivalents - December 31, 2017	<u>\$ 218,310</u>	<u>\$ 89,818</u>	<u>\$ 3,490,880</u>	<u>\$ 1,527,746</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	\$ (319,812)	\$ 3,332,503	\$ 5,123,595	\$ 3,896,911
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation	520,571	1,826,882	1,409,755	1,935,127
Change in assets and liabilities:				
Decrease (increase) in receivables	(20,692)	(96,747)	(1,819,280)	(145,142)
Decrease (increase) in inventories	-	6,926	(138,263)	(7,663)
Decrease (increase) in prepaids	-	(333,441)	(527,223)	(66,119)
Decrease (increase) in deferred pension obligation outflows	-	216,136	196,350	200,867
Increase (decrease) in payables	(11,233)	61,220	114,146	(725,142)
Increase (decrease) in unearned revenues	-	(11,925)	(405,710)	(37,141)
Increase (decrease) in deferred pension obligation inflows	-	742,970	1,007,121	386,808
Increase (decrease) in pension liability	-	(735,600)	(758,315)	(601,294)
Total adjustments	<u>488,646</u>	<u>1,676,421</u>	<u>(921,419)</u>	<u>940,301</u>
Net cash provided (used) by operating activities	<u>\$ 168,834</u>	<u>\$ 5,008,924</u>	<u>\$ 4,202,176</u>	<u>\$ 4,837,212</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, 2017**

	Enterprise Funds		Governmental	
	Steam	Other Enterprise Funds	Activities - Internal Service Funds	
Cash Flows from Operating Activities				
Cash received from customers	\$ 7,511,318	\$ 12,125,933	\$ 87,512,246	\$ 23,683,851
Cash paid to suppliers	(6,815,863)	(5,529,491)	(51,321,334)	(19,253,487)
Cash paid to employees	-	(3,161,200)	(18,710,250)	(5,435,579)
Other operating revenues	31,031	320,021	1,218,233	3,057
Net cash provided (used) by operating activities	726,486	3,755,263	18,698,895	(1,002,158)
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	-	34,739	650,830	-
Transfers to other funds	(143,015)	(1,936,027)	(4,670,933)	-
Property taxes	-	750,136	750,136	-
Operating grants	29,586	1,866	284,284	5,836
Interfund financing	2,248,005	232,667	232,667	249,005
Net cash provided (used) by noncapital financing activities	2,134,576	(916,619)	(2,753,016)	254,841
Cash Flows from Capital and Related Financing Activities				
Capital grants and contributions	-	392,432	751,990	-
Principal paid on bonds, notes and capitalized leases	(635,000)	(1,063,125)	(7,521,507)	-
Interest paid on bonds, notes and capitalized leases	(178,563)	(203,928)	(1,511,350)	-
Sale of capital assets	-	-	48,163	-
Acquisition or construction of capital assets	(2,387,416)	(605,806)	(10,426,444)	-
Net cash provided (used) by capital and related financing activities	(3,200,979)	(1,480,427)	(18,659,148)	-
Cash Flows from Investing Activities				
Investment earnings	-	(16,415)	(18,648)	44,073
Net increase (decrease) in cash and cash equivalents	(339,917)	1,341,802	(2,731,917)	(703,244)
Cash and cash equivalents - January 1, 2017	945,807	6,292,905	16,299,268	13,007,515
Cash and cash equivalents - December 31, 2017	\$ 605,890	\$ 7,634,707	\$ 13,567,351	\$ 12,304,271
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	\$ (333,898)	\$ 2,436,029	\$ 14,135,328	\$ (1,567,511)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation	1,200,684	1,279,886	8,172,905	64,630
Change in assets and liabilities:				
Decrease (increase) in receivables	(163,805)	(72,180)	(2,317,846)	97,130
Decrease (increase) in inventories	(38,597)	(2,000)	(179,597)	576
Decrease (increase) in prepaids	-	32,251	(894,532)	-
Decrease (increase) in deferred pension obligation outflows	-	187,991	801,344	57,436
Increase (decrease) in payables	62,102	97,474	(401,433)	319,187
Increase (decrease) in unearned revenues	-	(69,215)	(523,991)	-
Increase (decrease) in deferred pension obligation inflows	-	452,247	2,589,146	230,961
Increase (decrease) in pension liability	-	(587,220)	(2,682,429)	(204,567)
Total adjustments	1,060,384	1,319,234	4,563,567	565,353
Net cash provided (used) by operating activities	\$ 726,486	\$ 3,755,263	\$ 18,698,895	\$ (1,002,158)

(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, 2017**

Noncash Investing, Capital and Financing Activities

Water

Capital contributions are reported net of timing differences totaling \$7,713 due to receivables.

Gas

Capital contributions are reported net of timing differences totaling \$1,220 due to receivables.

Sewer

Capital contributions are reported net of timing differences totaling (\$446,344) due to receivables.

Steam

Capital contributions are reported net of timing differences totaling (\$1,296,791) due to receivables.

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017**

	Other Postemployment Benefits Trust Fund	Agency Fund
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 44,393	\$ 2,753,166
Receivables:		
Loans	-	243,584
Accounts receivable	208,039	-
Investments, at fair value:		
Fixed income pool	22,128,396	-
Equity pool	35,336,311	-
	<u>57,717,139</u>	<u>\$ 2,996,750</u>
Liabilities		
Accounts payable	\$ -	\$ 1,568
Due to agency	<u>-</u>	<u>2,995,182</u>
Total Liabilities	<u>-</u>	<u>\$ 2,996,750</u>
Net position restricted for postemployment benefits other than pensions	<u>\$ 57,717,139</u>	

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POSTEMPLOYMENT BENEFITS TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

Additions

Employer Contributions	<u>\$ 10,222,267</u>
Investment earnings:	
Interest and dividends	1,214,542
Net increase in fair value of investments	6,967,672
Less investment expenses	(3,543)
Net investment earnings	<u>8,178,671</u>
Total Additions	<u>18,400,938</u>

Deductions

Benefits	<u>9,747,296</u>
Net increase in net position	8,653,642

Net position restricted for postemployment benefits other than pensions

Net Position - January 1, 2017	<u>49,063,497</u>
Net Position - December 31, 2017	<u><u>\$ 57,717,139</u></u>

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2017**

	Duluth Economic Development Authority	Duluth Entertainment and Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	Totals
Assets						
Cash and cash equivalents	\$ 3,677,482	\$ 1,866,558	\$ 7,429	\$ 5,737,309	\$ 335,637	\$ 11,624,415
Receivables, net:						
Taxes	79,481	-	-	12,543	-	92,024
Accounts	23,478	902,058	480,494	59,937	16,833	1,482,800
Loans	7,689,514	-	-	-	-	7,689,514
Grants	-	-	10,986	-	-	10,986
Due from primary government	1,499	693,888	-	6,720	-	702,107
Due from other governments	-	-	-	1,001,239	-	1,001,239
Inventories	-	161,153	26,812	193,611	112,448	494,024
Prepays	-	47,707	47,211	70,307	-	165,225
Restricted assets:						
Cash and cash equivalents	-	1,308,212	144,000	-	-	1,452,212
Accounts receivable	-	37,226	102,051	-	-	139,277
Grants receivable	-	-	12,217,397	-	-	12,217,397
Assets held by trustee	-	806	-	-	-	806
Planning and development costs	-	-	1,381,682	-	47,462	1,429,144
Capital assets, net:						
Non-depreciable	4,361,597	949,506	4,162,345	222,367	3,053,733	12,749,548
Depreciable	10,740,087	85,530,210	116,162,685	39,705,636	16,011,612	268,150,230
Total Assets	26,573,138	91,497,324	134,743,092	47,009,669	19,577,725	319,400,948
Deferred Outflows of Resources						
Deferred pension obligation outflows	-	1,773,408	571,852	-	941,501	3,286,761
Liabilities						
Accounts payable and other						
short-term liabilities	242,621	614,027	172,403	1,027,780	217,897	2,274,728
Contracts payable	-	-	4,809,707	-	-	4,809,707
Accrued interest payable	-	-	-	-	3,273	3,273
Due to primary government	622,305	11,254	3,650,258	400	1,207,248	5,491,465
Due to other government	-	-	-	-	21,327	21,327
Unearned revenue	-	835,517	76,252	106,492	580,090	1,598,351
Deposits	-	1,346,128	-	-	-	1,346,128
Non-current liabilities:						
Due within one year	-	155,293	1,090,970	578,396	328,099	2,152,758
Due in more than one year	-	4,825,877	12,549,078	-	3,320,571	20,695,526
Total Liabilities	864,926	7,788,096	22,348,668	1,713,068	5,678,505	38,393,263
Deferred Inflows of Resources						
Deferred pension obligation inflows	-	1,316,644	433,590	-	583,130	2,333,364
Net Position						
Net investment in capital assets	14,909,184	86,479,716	110,052,807	39,928,003	17,537,746	268,907,456
Restricted for:						
Capital projects	5,324,134	-	-	4,614,424	-	9,938,558
Unrestricted	5,474,894	(2,313,724)	2,479,879	754,174	(3,280,155)	3,115,068
Total Net Position	\$ 25,708,212	\$ 84,165,992	\$ 112,532,686	\$ 45,296,601	\$ 14,257,591	\$ 281,961,082

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, 2017**

Program Revenues

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Duluth Economic Development Authority				
Governmental activities:				
Economic development	\$ 8,453,702	\$ 1,105,915	\$ 4,627,989	\$ -
Duluth Entertainment and Convention Center Authority				
Business-type activities:				
Entertainment and convention facility	15,388,706	9,163,181	-	200,000
Duluth Airport Authority				
Business-type activities:				
Airport facility	14,226,915	6,035,669	-	21,931,918
Duluth Transit Authority				
Business-type activities:				
Public transportation	21,525,542	2,834,021	13,861,545	575,266
Spirit Mountain Recreation Area Authority				
Business-type activities:				
Ski hill operations	5,981,931	4,571,809	-	443,067
Total Component Units	<u>\$ 65,576,796</u>	<u>\$ 23,710,595</u>	<u>\$ 18,489,534</u>	<u>\$ 23,150,251</u> (continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net (Expense) Revenue and Changes in Net Position						
Functions/Programs	Duluth Economic Development Authority	Duluth Entertainment and Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	Totals
Duluth Economic Development Authority						
Governmental activities:						
Economic development	\$ (2,719,798)	\$ -	\$ -	\$ -	\$ -	\$ (2,719,798)
Duluth Entertainment and Convention Center Authority						
Business-type activities:						
Entertainment and convention facility	-	(6,025,525)	-	-	-	(6,025,525)
Duluth Airport Authority						
Business-type activities:						
Airport facility	-	-	13,740,672	-	-	13,740,672
Duluth Transit Authority						
Business-type activities:						
Public transportation	-	-	-	(4,254,710)	-	(4,254,710)
Spirit Mountain Recreation Area Authority						
Business-type activities:						
Ski hill operations	-	-	-	-	(967,055)	(967,055)
Total Component Units						<u>(226,416)</u>
General Revenues:						
Property taxes	1,664,897	-	-	1,491,900	-	3,156,797
Sales taxes	-	1,708,506	-	-	-	1,708,506
Investment income	38,357	23,540	35,474	59,802	-	157,173
Miscellaneous	161,353	515,910	-	-	147,609	824,872
Total General Revenues	<u>1,864,607</u>	<u>2,247,956</u>	<u>35,474</u>	<u>1,551,702</u>	<u>147,609</u>	<u>5,847,348</u>
Change in Net Position	(855,191)	(3,777,569)	13,776,146	(2,703,008)	(819,446)	5,620,932
Net Position - Beginning	26,563,403	87,943,561	98,756,540	47,999,609	15,077,037	276,340,150
Net Position - Ending	<u>\$ 25,708,212</u>	<u>\$ 84,165,992</u>	<u>\$ 112,532,686</u>	<u>\$ 45,296,601</u>	<u>\$ 14,257,591</u>	<u>\$ 281,961,082</u>

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

**Notes to the
Financial Statements**

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 each 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 (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

DISCRETELY PRESENTED COMPONENT UNITS

As required by generally accepted accounting principles, the financial statements in this report present the City, the primary government, and its five component units: the Duluth Economic Development Authority (DEDA), the Duluth Entertainment and Convention Center Authority (DECC), 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 DECC, which has seven City appointees and four directors appointed by the Governor of Minnesota. Three of the seven board members of DEDA must be City Councilors.

The Council approves the budget of each component unit. The Council also approves the issuance and funding of debt for each component unit. The Council currently provides an annual subsidy to the DECC and the Spirit Mountain Recreation Area Authority. For the Duluth Transit Authority, the Council approves rate changes and approves an annual tax levy to finance operating and capital needs. The Council must approve any expenditure greater than \$100,000 for DEDA.

Combining statements for the City's component units are presented in the basic financial statements section of this report. Financial statements for DEDA are included as schedules in the supplementary information section of this report. Complete financial statements for each of the other component units can be obtained from their respective offices at the following addresses:

Duluth Economic Development Authority
411 West First Street Room 402
Duluth, MN 55802

Duluth Transit Authority
2402 West Michigan Street
Duluth, MN 55806

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

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

Duluth Airport Authority
Duluth International Airport
Duluth, MN 55811

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) 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. The agency fund type has no measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. 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:

General Fund	The City's primary operating fund. It accounts for all financial transactions not accounted for in another fund.
Community Investment Trust Fund	This fund accounts for the City's share of revenues that were received from the operation of the Fond du Luth Casino, in accordance with an agreement with the Fond du Lac Band of Lake Superior Chippewa. 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.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

General Obligation Debt Service Fund This fund accounts for accumulation of resources for, and payment of, general obligation bonds, notes and certificates.

The City reports the following major proprietary funds:

410 West First Street Ramp Enterprise Fund This fund accounts for the construction, operation, and maintenance of the parking ramp located at 410 West First Street.

Water Enterprise Fund This fund accounts for the collection, treatment, and distribution of water.

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

Sewer Enterprise Fund This fund accounts for the operation and maintenance of the sanitary sewer system.

Steam Enterprise Fund This fund accounts for the generation and distribution of steam in the downtown area.

Additionally, the City reports the following fund types:

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

Trust Fund This fund accounts for irrevocable trust established for funding other postemployment benefits for eligible retired employees under a single-employer defined benefit plan.

Agency Fund This fund accounts for assets held by the City as an agent for the Duluth 1200 Loan Fund.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2017. GASB is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

Propriety 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.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

These assets are funds held pursuant to a self-insurance trust agreement.

RECEIVABLES AND PAYABLES

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

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

Taxes and tax increments receivable consist of uncollected taxes levied and payable in prior years, net of allowance for uncollectible taxes. These receivables are deferred 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 unavailable revenue equal to the loan amount, and recognize 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, razings, administration fines, 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, and revenues are deferred until the collections are received. Assessments for utility improvements are reported in proprietary funds.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the City has two items that qualify for reporting in this category: deferred amounts from debt refunding and deferred pension obligations.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category: unavailable revenue and deferred pension obligations. These amounts are recognized as an inflow of resources in the period that the amounts become available.

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 method.

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

The City Council has authorized the Department of Public Works and Utilities to enter into cooperative agreements for the purpose of purchasing and storing natural gas for future use.

RESTRICTED ASSETS

Restricted assets consist of customer deposits, employee flexible benefits plan, sewer surcharges, 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, trails, 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 acquisition value.

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.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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	10-75

COMPENSATED ABSENCES

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

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

Sick leave is recorded as an expenditure or expense when paid. Employees are granted from 18 to 120 days of sick leave each year, depending on their union bargaining unit. Employees are not compensated for unused sick leave. Any contingent liability for unused sick leave has not been determined and is not recognized in the financial statements.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary fund type statements of net position. Bond premiums and discounts are amortized over the life of the bonds.

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

FUND EQUITY

In the fund financial statements, governmental funds report the following fund balance classifications:

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

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

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

Assigned - amounts intended to be used for certain purposes as determined by Council resolution or by joint action by the Chief Administrative Officer and Chief Financial Officer pursuant to the City's Fund Balance Reporting and Governmental Fund Type Definitions Policy.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

RECLASSIFICATIONS

Several account balances were reclassified for the year ended December 31, 2017, 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.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA except that PERA's fiscal year end is June 30. For this purpose, plan contributions are recognized as of employer payroll paid dates, and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Plan investments are reported at fair value.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

The budget is adopted on a basis consistent with generally accepted accounting principles, 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.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

The budget ordinance approved by the Council establishes appropriations for the General Fund. The total of all appropriations within a department are defined as a budget item and form the legal level of budgetary control, as defined in the budget ordinance. The Mayor, Chief Administrative Officer, or a designee may make transfers between appropriations. However, the total of all transfers to or from any budget item in excess of 10% of that budget item must be approved by the City Council. The budget ordinance allows the budget to be increased for reimbursements received for damages or repairs to city property or work done for others and not anticipated in the original budget. It also allows for grants accepted by city council resolution to be added to the budget. Finally, the budget ordinance requires that use of the General Fund's fund balance that has been assigned in a prior year must be approved by the Council if used for a purpose other than what had been specified. The Council may revise the budget at any time by ordinance upon recommendation of the Administration.

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

FEDERAL AUDIT REQUIREMENTS

The Single Audit Act requires the City to have a single, independent audit of its financial operations, including compliance with certain provisions of federal law and regulations. This audit requirement was complied with for fiscal year ended December 31, 2017. An auditor's report on compliance and internal accounting control will be issued at a later date.

DEFICIT FUND EQUITY

The following special revenue funds had deficit fund balances due to grants earned but not received within 45 days of the end of the current fiscal year: Disaster Recovery - \$1,220,567 and Home Investment Partnerships Program - \$88,848. These deficits will be eliminated upon receipt of the grant funds. The Lake Superior Zoo deficit fund balance of \$393,972 will be eliminated through operational changes and efficiencies.

The Tax Increment debt service fund had a deficit fund balance of of \$1,499 at the end of the current fiscal year which will be eliminated through future revenue streams.

The Special Assessment capital project fund had a deficit fund balance of \$276,564 at the end of the current fiscal year which will be eliminated through future financing and grant receipts.

The following internal service funds had deficit net positions at the end of the current fiscal year which will be eliminated through future charges: Employee Vacation Compensation - \$19,216 and Fleet Services - \$936,537.

The Golf enterprise fund had a deficit net position of \$890,115 at the end of the current fiscal year which will be eliminated through operational changes and efficiencies.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

3. DEPOSITS AND INVESTMENTS

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

Government-wide Statement of Net Position

Governmental Activities

Cash and cash equivalents	\$ 57,921,111
Investments, at fair value	23,155,370
Assets held by trustee	6,950,379

Business-type Activities

Cash and cash equivalents	9,220,080
Cash and cash equivalents - restricted assets	4,347,271

Discrete Component Units

Cash and cash equivalents	11,624,415
Cash and cash equivalents - restricted assets	1,452,212
Assets held by trustee - restricted assets	806

Statement of Fiduciary Net Position

Cash and cash equivalents	2,797,559
Investments, at fair value	57,464,707

Total Cash and Investments

\$ 174,933,910

DEPOSITS

Minnesota Statutes § 118A.02 and § 118A.04 authorize 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 United States 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, 2017, deposits with financial institutions were fully insured or collateralized by securities held in the City's name.

INVESTMENTS

Minnesota Statutes § 118A.04 and § 118A.05 authorize 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 Statute § 118A.04 subdivision 6), and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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3. DEPOSITS AND INVESTMENTS (continued)

2) any security which is (1) a 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 which is rated "AA" or better by a national bond rating service; and (3) a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and is rated "A" or better by a national bond rating agency.

3) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less.

4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers' acceptances of United States banks.

5) in general obligation temporary bonds of the same governmental entity issued under Minnesota Statutes § 429.091, subdivision 7, § 469.178, subdivision 5, or § 475.61, subdivision 6.

6) repurchase agreements consisting of collateral allowable in Minnesota Statute § 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 Statute § 118A.05, subdivision 3.

7) securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of Minnesota Statute § 118A.05, subdivision 2, clause (1) or (2), and having an office in Minnesota. Securities lending transactions may be entered into with entities meeting the qualifications of Minnesota Statute § 118A.05, subdivision 2, and the collateral for such transactions shall be restricted to the securities described in Minnesota Statutes § 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 § 118A.04 and § 118A.05, subdivision 2;
- (2) units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency, in which investments are restricted to securities described in Minnesota Statutes § 118A.04 and § 118A.05;
- (3) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
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3. DEPOSITS AND INVESTMENTS (continued)

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

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

At December 31, 2017, 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.S. Government Agency Securities	\$ 60,019,831	\$ 46,006,542	\$ 14,013,289
Negotiable Certificates of Deposit	10,271,732	986,957	9,284,775
Municipal Bonds	10,366,893	-	10,366,893
Mutual Funds	91,071,028	91,071,028	-
Total Investments	171,729,484	<u>\$ 138,064,527</u>	<u>\$ 33,664,957</u>
Deposits	3,204,426		
Total Deposits and Investments	<u>\$ 174,933,910</u>		

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

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, 2017, is as follows:

<u>S & P Rating</u>	<u>Fair Value</u>
AAA	\$ 4,858,536
AA+	62,238,809
AA	2,792,114
AA-	497,265
<u>Moody's Rating</u>	
Aaa	10,450,951
<u>Not Rated</u>	
Mutual Funds	80,620,077
Negotiable Certificates of Deposit	10,271,732
Total	<u>\$ 171,729,484</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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3. DEPOSITS AND INVESTMENTS (continued)

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, 2017, 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 United States government and agency securities can be held without limit. Other investments in a single security type or with a single financial institution shall not exceed 50% of the City's total investment portfolio. The City limits its commercial paper holdings to a maximum of \$5,000,000 in any issuer. Investments in any one issuer that represent 5% or more of the City's investments are as follows:

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Mortgage Association	\$ 8,941,988
Federal Home Loan Bank	\$ 36,975,155

Fair Value of Investment. The City of Duluth measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At December 31, 2017, the City of Duluth had the following recurring fair value measurements.

<u>Investments By Fair Value Level</u>	<u>12/31/2016</u>	<u>Fair Value Measurements Using:</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Government Agency Securities	\$ 60,019,831	\$ 1,694,358	\$ 58,325,473	\$ -
Negotiable Certificates of Deposit	10,271,732	-	10,271,732	-
Municipal Bonds	10,366,893	-	10,366,893	-
Total Investments by Fair Value	<u>80,658,456</u>	<u>\$ 1,694,358</u>	<u>\$ 78,964,098</u>	<u>\$ -</u>
Investments Measured at Net Asset Value (NAV)				
Mutual Funds	<u>10,450,951</u>			
Total Investments by Fair Value and Measured at NAV	91,109,407			
Deposits	3,204,426			
State Board of Investment Funds	<u>80,620,077</u>			
Total Deposits and Investments	<u>\$ 174,933,910</u>			

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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3. DEPOSITS AND INVESTMENTS (continued)

The mutual funds are liquid assets the City holds in addition to cash to ensure adequate cash flow for operating activities.

The City holds \$42,454,312 in the Internal Equity Pool and \$15,010,396 in the Internal Fixed Pool, with the State Board of Investment, an external investment pool, related to the City's Other Postemployment Benefits Trust Fund. The fair value of the investment is the fair value per share of the underlying portfolio. Pursuant to Minnesota Statute § 353.95, the City may only redeem these funds for the use of postemployment benefits. The City invests in this pool due to the increased investment authority, historical rates of return on investments, and the reduction of the postemployment benefit liability recorded in its financial statements.

The City also holds \$17,212,083 in the Internal Equity Pool, \$5,943,281 in the Internal Fixed Pool, and \$6 in the Cash Pool, with the State Board of Investment, an external investment pool, related to the City's Community Investment Trust Fund. The fair value of the investment is the fair value per share of the underlying portfolio. The City invests in this pool, in accordance with Minnesota Statute § 11A.235, due to the increased investment authority and historical rates of return on investments.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
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4. PROPERTY TAXES

Property tax levies are set by the City Council in December 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 45 days after year-end are recognized as revenue and the remainder is deferred. The current year collection rate at December 31, 2017, was 98.4%.

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 \$850,668. The uncollectible amounts related to the revenues of the City's utility enterprise funds at December 31, 2017, are as follows:

Water	\$	123,683
Gas		503,489
Sewer		217,145
Steam		24,737
Nonmajor		84,414
Total Uncollectible	\$	<u>953,468</u>

6. DEFERRED INFLOWS OF RESOURCES

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following schedule shows the detail of deferred inflows of resources at December 31, 2017:

General		
Assessments	\$	1,059,012
Grants		171,070
Loans		1,783,406
Taxes		457,859
General Obligation		
Taxes		221,022
Nonmajor		
Assessments		3,508,595
Grants		7,891,167
Loans		3,808,674
Taxes		119,936
Total for Governmental Funds	\$	<u>19,020,741</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

7. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

<u>PRIMARY GOVERNMENT</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 22,467,642	\$ -	\$ -	\$ 22,467,642
Construction in progress	17,687,191	9,129,569	12,793,583	14,023,177
Total capital assets, not being depreciated	<u>40,154,833</u>	<u>9,129,569</u>	<u>12,793,583</u>	<u>36,490,819</u>
Capital assets, being depreciated:				
Buildings	85,833,272	1,486,921	-	87,320,193
Equipment	35,891,476	3,400,883	577,053	38,715,306
Infrastructure	335,895,062	11,847,938	18,875	347,724,125
Total capital assets being depreciated	<u>457,619,810</u>	<u>16,735,742</u>	<u>595,928</u>	<u>473,759,624</u>
Less accumulated depreciation for:				
Buildings	41,648,472	3,312,512	-	44,960,984
Equipment	25,260,301	3,435,040	552,145	28,143,196
Infrastructure	137,593,894	9,560,006	1,510	147,152,390
Total accumulated depreciation	<u>204,502,667</u>	<u>16,307,558</u>	<u>553,655</u>	<u>220,256,570</u>
Total capital assets, being depreciated, net	<u>253,117,143</u>	<u>428,184</u>	<u>42,273</u>	<u>253,503,054</u>
Governmental activities capital assets, net	<u>\$293,271,976</u>	<u>\$ 9,557,753</u>	<u>\$12,835,856</u>	<u>\$289,993,873</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 4,628,407	\$ 21,051	\$ -	\$ 4,649,458
Construction in progress	19,955,142	8,558,977	14,484,033	14,030,086
Total capital assets, not being depreciated	<u>24,583,549</u>	<u>8,580,028</u>	<u>14,484,033</u>	<u>18,679,544</u>
Capital assets, being depreciated:				
Buildings	83,326,983	27,311	-	83,354,294
Equipment	48,017,727	2,004,720	584,890	49,437,557
Infrastructure	243,071,796	14,404,376	-	257,476,172
Total capital assets, being depreciated	<u>374,416,506</u>	<u>16,436,407</u>	<u>584,890</u>	<u>390,268,023</u>
Less accumulated depreciation for:				
Buildings	30,178,240	1,870,961	-	32,049,201
Equipment	30,663,898	2,738,116	493,523	32,908,491
Infrastructure	55,734,429	3,622,432	-	59,356,861
Total accumulated depreciation *	<u>116,576,567</u>	<u>8,231,509</u>	<u>493,523</u>	<u>124,314,553</u>
Total capital assets, being depreciated, net	<u>257,839,939</u>	<u>8,204,898</u>	<u>91,367</u>	<u>265,953,470</u>
Business-type activities capital assets, net	<u>\$282,423,488</u>	<u>\$16,784,926</u>	<u>\$14,575,400</u>	<u>\$284,633,014</u>

* Accumulated depreciation on assets transferred from governmental activities to business-type activities was \$31,291.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

7. CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 1,547,916
Public Safety	2,432,963
Public works, including depreciation of general infrastructure assets	10,109,941
Culture and recreation	2,018,622
Urban and economic development	133,486
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>64,630</u>
Total depreciation expense - governmental activities	<u><u>\$16,307,558</u></u>

Business-type activities:	
Parking	\$ 550,954
410 West First Street Ramp	520,571
Water	1,826,882
Gas	1,409,755
Sewer	1,935,127
Golf	104,405
Stormwater	418,799
Steam	1,200,684
Street Lighting	<u>205,728</u>
Total depreciation expense - business-type activities	<u><u>\$ 8,172,905</u></u>

<u>COMPONENT UNITS</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 11,211,743	\$ -	\$ -	\$ 11,211,743
Construction in progress	2,896,966	21,074,879	22,434,040	1,537,805
Total capital assets, not being depreciated	<u>14,108,709</u>	<u>21,074,879</u>	<u>22,434,040</u>	<u>12,749,548</u>
Capital assets, being depreciated:				
Buildings	319,360,934	882,653	-	320,243,587
Equipment	74,621,053	1,135,617	521,815	75,234,855
Infrastructure	95,782,900	22,312,063	-	118,094,963
Other	802,903	41,052	-	843,955
Total capital assets being depreciated	<u>490,567,790</u>	<u>24,371,385</u>	<u>521,815</u>	<u>514,417,360</u>
Less accumulated depreciation for:				
Buildings	109,610,985	10,258,490	-	119,869,475
Equipment	49,796,037	4,779,172	463,253	54,111,956
Infrastructure	66,258,601	5,447,216	-	71,705,817
Other	551,269	28,613	-	579,882
Total accumulated depreciation	<u>226,216,892</u>	<u>20,513,491</u>	<u>463,253</u>	<u>246,267,130</u>
Total capital assets, being depreciated, net	<u>264,350,898</u>	<u>3,857,894</u>	<u>58,562</u>	<u>268,150,230</u>
Total component unit capital assets, net	<u><u>\$278,459,607</u></u>	<u><u>\$24,932,773</u></u>	<u><u>\$22,492,602</u></u>	<u><u>\$280,899,778</u></u>

Depreciation expense was charged to component units as follows:

Duluth Economic Development Authority	\$ 996,480
Duluth Entertainment and Convention Center Authority	3,805,218
Duluth Airport Authority	9,733,437
Duluth Transit Authority	4,920,516
Spirit Mountain Recreation Area Authority	1,057,840
Total depreciation expense - component units	<u><u>\$20,513,491</u></u>

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

8. PURCHASE AND CONSTRUCTION COMMITMENTS

At December 31, 2017, the City had construction commitments of approximately \$2,140,226 for various utility improvements. The Duluth Airport Authority component unit had construction commitments of \$4,802,170 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.

At December 31, 2017, the City had purchase commitments represented by open encumbrances. These are included as part of fund balance as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 76,711
Community Investment	364,997
Other Governmental Funds	<u>8,600,998</u>
Total Purchase Commitments	<u><u>\$ 9,042,707</u></u>

9. 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 \$500,000 per single loss occurrence. At that point, the City is covered for losses by the Workers' Compensation Reinsurance Association (WCRA), 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 WCRA provides full indemnification for the City for claims arising under Minnesota Statute 176 in excess of the \$500,000 retention limit.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

9. RISK MANAGEMENT (continued)

The accrued liability for workers' compensation is estimated by the benefits administrator at the time an injury or illness is reported. Interest cost is not included in the estimate. The estimated liability for general liability matters is accrued if the City determines settlement is probable, based on a case-by-case evaluation. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims incurred but not reported have been considered in the sense that management's experience has shown that they do not affect the predictions. An actuary was not used in determining the liabilities, but actuarial guidelines were used. The estimated liability for claims payable at year end is present valued at 5%. In addition, the City Attorney estimated settlements to be \$113,279 for various claims and cases which are considered reasonably possible losses to the City. Considerable prejudgment interest liability is not considered by the City Attorney in making a 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 2016 and 2017 were as follows:

	Liability January 1	Claims and Changes in Estimates	Less Claims Payments	Liability December 31
2016	\$ 983,435	521,892	643,729	\$ 861,598
2017	\$ 861,598	1,025,621	785,497	\$ 1,101,722

The Group Health Fund, an internal service fund, was established for the payment of employee medical and dental claims. The City pays Delta Dental of Minnesota, HealthPartners, and ClearScript an administrative fee to process dental, medical, and prescription drug claims, respectively. The City assumes all risk, except that which is covered by a medical stop-loss policy purchased from HealthPartners. The stop-loss policy has an individual limit of \$750,000 and an aggregate limit of 120% 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 2016 and 2017 were as follows:

	Liability January 1	Claims and Changes in Estimates	Less Claims Payments	Liability December 31
2016	\$ 1,454,679	11,079,985	11,262,298	\$ 1,272,366
2017	\$ 1,272,366	10,136,407	9,979,950	\$ 1,428,823

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

10. 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 2017:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Component Units</u>
Impound lot	\$ 3,724	\$ -
Land & right-of-way	24,265	54,606
Buildings	667,772	-
Equipment	675,952	4,500
Total Expense	<u>\$ 1,371,713</u>	<u>\$ 59,106</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, 2017:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	<u>Component Units</u>
2018	\$ 18,902	\$ 54,604
2019	18,902	-
2020	18,902	-
2021	18,902	-
2022	1,000	-
2023-2027	5,000	-
2028-2032	5,000	-
2033-2037	5,000	-
2038-2042	5,000	-
2043-2047	5,000	-
2048-2052	5,000	-
2053-2057	5,000	-
2058-2062	3,000	-
Total minimum payments required	<u>\$ 114,608</u>	<u>\$ 54,604</u>

Component unit subleases of noncancelable operating leases provide for future minimum rentals to be received totaling \$54,604 at December 31, 2017.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

10. LEASE OBLIGATIONS (continued)

CAPITAL LEASES

Capitalized leases for the City and its component units at December 31, 2017, consist of the following capital assets shown at original costs as summarized below:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Equipment	\$ 208,209	\$ 9,377,739	\$ 3,453,731
Less: Accumulated amortization	(145,746)	(5,314,052)	(1,336,347)
Total Expense	<u>\$ 62,463</u>	<u>\$ 4,063,687</u>	<u>\$ 2,117,384</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>
2018	\$ 39,992	\$ 831,660	\$ 286,924
2019	-	831,660	257,348
2020	-	831,661	227,291
2021	-	831,660	213,207
2022	-	831,660	213,208
2023-2027	-	1,247,491	574,767
Total minimum lease payments	39,992	5,405,792	1,772,745
Less: Imputed interest	(1,664)	(653,971)	(245,146)
Present value of minimum lease payments	<u>\$ 38,328</u>	<u>\$ 4,751,821</u>	<u>\$ 1,527,599</u>

11. SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2017, follows:

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/17</u>
Duluth Economic Development Authority				
Accounts Payable	\$ 135,614	-	43,695	\$ 91,919

Represents temporary financing obtained from the Duluth 1200 Fund for public costs associated with the Cirrus Design Corporation expansion project at the Duluth International Airport; to be repaid through tax abatement agreements and tax increment financing.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

12. LONG-TERM DEBT

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2017, follows:

	Balance 01/01/17	Additions	Deletions	Balance 12/31/17	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 91,300,000	\$ 1,545,000	\$ 6,230,000	\$ 86,615,000	\$ 4,890,000
General Obligation - Tax Abatement	13,805,000	-	370,000	13,435,000	830,000
Special Assessment Debt with Government Commitment	10,765,000	-	3,445,000	7,320,000	2,155,000
General Obligation Certificates	13,250,000	3,615,000	3,195,000	13,670,000	3,260,000
Add Deferred Amounts:					
For Bond Premiums	8,417,630	326,247	826,609	7,917,268	-
General Obligation Public					
Facilities Authority Notes	53,000	-	26,000	27,000	27,000
Revenue Notes	2,651,000	-	5,000	2,646,000	10,000
Capital Leases Payable	75,062	-	36,734	38,328	38,328
Pension Liability	120,111,568	-	66,397,650	53,713,918	-
Compensated Absences	3,108,094	3,153,394	3,187,734	3,073,754	3,073,754
Claims and Judgments	2,133,964	11,162,028	10,765,447	2,530,545	1,640,240
Net Other Postemployment Benefits Payable					
	42,616,540	1,670,951	-	44,287,491	-
Total Governmental Long-Term Liabilities	<u>\$ 308,286,858</u>	<u>\$ 21,472,620</u>	<u>\$ 94,485,174</u>	<u>\$ 235,274,304</u>	<u>\$ 15,924,322</u>
Business-Type Activities:					
Bonds Payable:					
Revenue and General Obligation Bonds	\$ 39,222,029	\$ -	\$ 4,295,022	\$ 34,927,007	\$ 3,804,999
Add Deferred Amounts:					
For Bond Premiums	377,013	-	106,848	270,165	-
General Obligation Public					
Facilities Authority Notes	20,519,069	122,314	2,593,000	18,048,383	2,629,000
Capital Leases Payable	5,385,324	-	633,504	4,751,820	657,739
Loans Payable	162,493	-	50,004	112,489	-
Pension Liability	15,557,907	-	2,682,429	12,875,478	-
Compensated Absences	840,253	1,017,708	971,478	886,483	883,476
Total Business-Type Long-Term Liabilities	<u>\$ 82,064,088</u>	<u>\$ 1,140,022</u>	<u>\$ 11,332,285</u>	<u>\$ 71,871,825</u>	<u>\$ 7,975,214</u>
Component Unit Activities:					
Duluth Entertainment and Convention Center Authority					
Compensated Absences	\$ 208,527	\$ 136,920	\$ 130,156	\$ 215,291	\$ 155,293
Pension Liability	4,798,627	-	821,436	3,977,191	-
Net Other Postemployment Benefits Payable					
	783,098	5,590	-	788,688	-
Duluth Transit Authority					
Compensated Absences	567,864	578,396	567,864	578,396	578,396

(continued)

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

12. LONG-TERM DEBT (continued)

	Balance 01/01/17	Additions	Deletions	Balance 12/31/17	Due Within One Year
Duluth Airport Authority					
Notes Payable	164,969	-	61,737	103,232	67,321
Loans Payable	11,168,889	-	896,666	10,272,223	911,667
Compensated Absences	109,669	111,982	109,669	111,982	111,982
Unearned Revenue	234,600	182,628	-	417,228	-
Pension Liability	1,567,066	-	271,127	1,295,939	-
Net Other Postemployment Benefits Payable	1,270,857	168,587	-	1,439,444	-
Spirit Mountain Recreation Area Authority					
Capital Leases	1,810,153	-	282,554	1,527,599	228,785
Pension Liability	1,497,748	524,009	-	2,021,757	-
Compensated Absences	87,700	99,314	87,700	99,314	99,314
Total Component Unit Long-Term Liabilities	\$ 24,269,767	\$ 1,807,426	\$ 3,228,909	\$ 22,848,284	\$ 2,152,758

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

General obligation annual debt service requirements to maturity follow:

Year Ending December 31	General Obligation Bonds		General Obligation Certificates		General Obligation Tax Abatement	
	Interest	Principal	Interest	Principal	Interest	Principal
2018	\$ 3,381,136	\$ 4,890,000	\$ 340,543	\$ 3,260,000	\$ 329,594	\$ 830,000
2019	3,244,209	4,930,000	290,950	3,315,000	315,194	835,000
2020	3,095,961	4,805,000	204,625	2,615,000	298,294	855,000
2021	2,944,646	4,940,000	124,375	2,175,000	281,044	870,000
2022	2,784,889	4,950,000	53,900	1,525,000	263,444	890,000
2023-2027	11,246,071	26,585,000	11,700	780,000	991,041	4,750,000
2028-2032	5,297,169	27,600,000	-	-	299,969	4,405,000
2033-2035	404,979	7,915,000	-	-	-	-
Total	\$ 32,399,060	\$ 86,615,000	\$ 1,026,093	\$ 13,670,000	\$ 2,778,580	\$ 13,435,000

United States Department of Housing and Urban Development Revenue Notes

During 2005, \$7,876,000 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 tax increment financing, interest reserve account and additional funds previously paid by the developer and held by the City.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

12. LONG-TERM DEBT (continued)

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

Year Ending December 31	United States Dept. of Housing and Urban Development Revenue Notes	
	Interest	Principal
2018	\$ 151,689	\$ 10,000
2019	151,151	15,000
2020	150,333	15,000
2021	149,507	15,000
2022	148,671	20,000
2023-2025	438,669	2,571,000
Total	<u>\$ 1,190,020</u>	<u>\$ 2,646,000</u>

Special Assessment Bonds

The City has a contingent liability against its full faith and credit on \$7,320,000 of special assessment bonds. The general credit of the City is obligated only to the extent that collections from special assessments 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 and general obligation Public Facility Authority Notes are as follows:

Year Ending December 31	Special Assessment Bonds		General Obligation Public Facilities Authority Notes	
	Interest	Principal	Interest	Principal
2018	\$ 206,601	\$ 2,155,000	\$ 270	\$ 27,000
2019	142,385	2,040,000	-	-
2020	85,925	1,505,000	-	-
2021	43,525	975,000	-	-
2022	16,600	460,000	-	-
2023	3,700	185,000	-	-
Total	<u>\$ 498,736</u>	<u>\$ 7,320,000</u>	<u>\$ 270</u>	<u>\$ 27,000</u>

Other Debt

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

Business-type Activities Long-Term Debt

Revenue and General Obligation Bonds

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

General Obligation Public Facilities Authority Notes

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

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

12. LONG-TERM DEBT (continued)

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

Year Ending December 31	Revenue and General Obligation Bonds		General Obligation Public Facilities Authority Notes	
	Interest	Principal	Interest	Principal
2018	\$ 1,312,104	\$ 3,804,999	\$ 229,245	\$ 2,629,000
2019	649,337	3,778,789	193,541	2,325,000
2020	849,408	3,072,048	164,928	2,179,000
2021	772,238	2,787,413	137,823	2,206,000
2022	699,049	2,538,458	110,369	2,147,000
2023-2027	2,508,870	9,878,785	198,677	6,304,000
2028-2032	1,580,675	2,326,798	5,659	258,383
2033-2037	1,071,119	2,836,354	-	-
2038-2042	449,974	3,457,499	-	-
2043-2044	5,957	445,864	-	-
Total	<u>\$ 9,898,731</u>	<u>\$ 34,927,007</u>	<u>\$ 1,040,242</u>	<u>\$ 18,048,383</u>

Component Unit Long-Term Debt

Duluth Airport Authority Notes and Loans Payable

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 \$103,232, 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%.

The annual requirements to service the debt follow:

Year Ending December 31	Airport Facility Revenue Note	
	Interest	Principal
2018	\$ 7,679	\$ 67,321
2019	1,589	35,911
Total	<u>\$ 9,268</u>	<u>\$ 103,232</u>

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

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

The City issued \$3,400,000 General Obligation Airport Improvement Bonds, dated December 18, 2013, on behalf of the Authority. Proceeds of the bonds will be used as a local match of federal and state grants to fund a new terminal facility, parking ramp, access road and aprons. The Authority entered into a loan agreement with the City requiring the Authority to make loan payments to the City to fund debt payments on the bonds.

The City issued \$2,855,000 General Obligation Airport Improvement Bonds, dated November 5, 2015, on behalf of the Authority. Proceeds of the bonds will be used to finance hanger improvements. The Authority entered into a loan agreement with the City requiring the Authority to make loan payments to the City to fund debt payments on the bonds.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

12. LONG-TERM DEBT (continued)

DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS

	<u>Issue Date</u>	<u>Amount Outstanding</u>	<u>Total</u>
Governmental Activities:			
General Obligation Bonds Payable:			
Airpark Improvement	09/01/2004	\$ 245,000	
Duluth Entertainment and Convention Center Improvement	08/07/2008	805,000	
Aerial Lift Bridge Improvement	08/07/2008	335,000	
Capital Improvement	12/09/2008	210,000	
Capital Improvement	12/17/2009	2,540,000	
Capital Improvement - Law Enforcement Center	12/17/2009	11,905,000	
Capital Improvement	11/23/2010	940,000	
Capital Improvement	11/29/2011	1,005,000	
Airport Improvement	05/24/2012	5,850,000	
Airport Improvement	12/18/2013	3,180,000	
Capital Improvement	12/18/2013	1,305,000	
Capital Improvement - Lakewalk	12/18/2013	1,220,000	
Wade Stadium Improvement	10/30/2014	2,095,000	
Spirit Mountain Improvement	10/30/2014	1,995,000	
Capital Improvement	10/30/2014	915,000	
Capital Improvement	11/05/2015	1,475,000	
Airport Improvement	11/05/2015	2,725,000	
Capital Improvement - 1/2 & 1/2	11/05/2015	11,720,000	
Duluth Entertainment and Convention Center Improvement Refunding	03/22/2016	33,470,000	
Capital Improvement	11/09/2016	1,135,000	
Capital Improvement	11/21/2017	1,545,000	
Total General Obligation Bonds Payable		<u>\$ 86,615,000</u>	
General Obligation Tax Abatement:			
Spirit Mountain Tax Abatement Bonds	02/23/2012	5,615,000	
GO Tax Abatement (Cirrus)	03/22/2016	7,820,000	13,435,000
Special Assessment Debt with Government Commitment	6 issues	7,320,000	7,320,000
General Long-Term Debt Certificates Payable:			
General Obligation Certificates Payable	6 issues	13,670,000	13,670,000
Total Governmental Activities Debt			<u>121,040,000</u>
Business-type Activities Debt:			
Revenue and General Obligation Bonds Payable:			
Parking Fund	1 issue	7,780,000	
410 West First Street Ramp Fund	1 issue	12,522,008	
Water Fund	3 issues	788,851	
Gas Fund	1 issues	985,000	
Steam Fund	2 issues	6,995,000	
Sewer Fund	7 issues	5,064,599	
Stormwater Fund	2 issues	791,549	
Total Revenue and General Obligation Bonds Payable			<u>34,927,007</u>
Total Business-type Activities Debt			<u>34,927,007</u>
Total Bonds Payable			<u>155,967,007</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

12. LONG-TERM DEBT (continued)

	Issue Date	Amount Outstanding	Total
Deductions Allowable:			
Airpark Improvement	09/01/2004	245,000	
Duluth Entertainment and Convention Center Authority Improvement	08/07/2008	805,000	
Airport Improvement	05/24/2012	5,850,000	
Spirit Mountain Tax Abatement Bonds	02/23/2012	5,615,000	
Airport Improvement	12/18/2013	3,180,000	
Wade Stadium Improvement	10/30/2014	2,095,000	
Spirit Mountain Improvement	10/30/2014	1,995,000	
Airport Improvement	11/05/2015	2,725,000	
Capital Improvement 1/2 & 1/2 Duluth Entertainment and Convention Center Authority	11/05/2015	11,720,000	
Refunding	03/22/2016	33,470,000	
GO Tax Abatement (Cirrus)	03/22/2016	7,820,000	
Special Assessment		7,320,000	
Parking Fund		7,780,000	
410 West First Street Ramp		12,522,008	
Water Fund		788,851	
Gas Fund		985,000	
Steam Fund		6,995,000	
Sewer Fund		5,064,599	
Stormwater Fund		791,549	
Total Deductions Allowable			<u>117,767,007</u>
Net Debt			<u>\$ 38,200,000</u>
Legal Debt Margin for Duluth			
Taxable Market Value (6,124,643,600 X 2%)			<u>\$ 122,492,872</u>

Overlapping Debt to Duluth

Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$ 94,700,000	88.08%	\$ 83,409,770
Independent School District 704	27,590,000	5.87%	1,618,356
St. Louis County	109,880,000	36.79%	40,427,299
			<u>\$ 125,455,425</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. No current refunding bonds were issued in 2017.

Advance Refunding Bonds

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

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

12. LONG-TERM DEBT (continued)

The following refunded bonds are scheduled to be recalled on February 1, 2018. related to a prior year advance refunding:

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
2008A	8/7/2008	General Obligation DECC Improvement Bonds	\$ 36,810,000

All other advance refunded bonds have been paid in full.

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

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Balance</u>
Governmental Activities:			
Current Refunding Bonds:			
General Obligation Improvement	11/23/2010	\$ 1,205,000	\$ 275,425
Street Improvement	11/27/2012	6,905,000	3,265,000
General Obligation Improvement	10/30/2014	865,000	535,000
Street Improvement	11/05/2015	2,630,000	2,285,000
Advance Refunding Bonds:			
General Obligation Improvement	11/23/2010	1,135,000	259,575
Duluth Entertainment and Convention Center Improvement Refunding	03/22/2016		
		<u>33,470,000</u>	<u>33,470,000</u>
Total Governmental Activities		<u>\$ 46,210,000</u>	<u>\$ 40,090,000</u>
Business-type Activities:			
Current Refunding Bonds:			
Water Utility Revenue and General Obligation	11/23/2010	\$ 1,625,000	\$ 250,851
Sewer Utility Revenue and General Obligation	11/23/2010	2,025,000	312,599
Stormwater Utility Revenue and General Obligation	11/23/2010	755,000	116,549
Gas Utility Revenue and General Obligation	11/29/2011	3,125,000	985,000
Steam Utility Revenue and General Obligation	11/27/2012	5,475,000	2,980,000
Water Utility Revenue and General Obligation	11/05/2015	515,000	435,000
Sewer Utility Revenue and General Obligation	11/05/2015	1,110,000	970,000
Sewer Utility Revenue and General Obligation	11/05/2015	350,000	295,000
Stormwater Utility Revenue and General Obligation	11/05/2015	790,000	675,000
Advance Refunding Bonds:			
Sewer Utility Revenue and General Obligation	11/29/2011	2,265,000	1,005,000
Sewer Utility Revenue and General Obligation	11/27/2012	2,000,000	1,185,000
Parking Improvements	11/27/2012	10,270,000	7,780,000
Total Business-type Activities		<u>\$ 30,305,000</u>	<u>\$ 16,989,999</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

12. LONG-TERM DEBT (continued)

BONDS/CERTIFICATES AND NOTES PAYABLE - BY ISSUE

Bonds, certificates, and notes payable at December 31, 2017, are composed of the following individual issues:

BONDS AND CERTIFICATES BY ISSUE	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding
Governmental Activities:					
General Obligation Bonds Payable					
General Obligation					
Airpark Improvement	2.00 to 4.20%	02/01; 08/01	09-01-04 02-01-20	\$ 945,000	\$ 245,000
Duluth Entertainment and Convention Center Authority Improvement	4.00 to 5.00%	02/01; 08/01	08-07-08 02-01-34	40,635,000	805,000
Aerial Lift Bridge Improvement	3.00 to 4.30%	02/01; 08/01	08-07-08 02-01-19	1,475,000	335,000
Capital Improvement	3.00 to 4.25%	02/01; 08/01	12-09-08 02-01-18	1,600,000	210,000
Capital Improvement	2.50 to 4.00%	02/01; 08/01	12-17-09 02-01-20	7,085,000	2,540,000
Capital Improvement - Law Enforcement					
Center	5.00 to 6.00%	02/01; 08/01	12-17-09 02-01-32	11,905,000	11,905,000
Capital Improvement	2.00 to 3.00%	02/01; 08/01	11-23-10 02-01-21	2,175,000	940,000
Capital Improvement	3.00%	02/01; 08/01	11-29-11 02-01-22	1,870,000	1,005,000
Airport Improvement	2.00 to 3.25%	02/01; 08/01	05-24-12 02-01-28	7,650,000	5,850,000
Airport Improvement	1.55 to 4.38%	02/01; 08/01	12-18-13 02-01-29	3,400,000	3,180,000
Capital Improvement	2.00 to 3.00%	02/01; 08/01	12-18-13 02-01-24	1,795,000	1,305,000
Capital Improvement - Lakewalk	2.50 to 4.00%	02/01; 08/01	12-18-13 02-01-29	1,460,000	1,220,000
Wade Stadium Improvement	3.00 to 3.70%	02/01; 08/01	10-30-14 02-01-30	2,330,000	2,095,000
Spirit Mountain Improvement	2.00 to 3.40%	02/01; 08/01	10-30-14 02-01-35	2,150,000	1,995,000
Capital Improvement	2.00 to 2.50%	02/01; 08/01	10-30-14 02-01-25	1,115,000	915,000
Capital Improvement	2.00 to 3.00%	02/01; 08/01	11-05-15 02-01-26	1,615,000	1,475,000
Airport Improvement	3.00 to 3.70%	02/01; 08/01	11-05-15 02-01-31	2,855,000	2,725,000
Capital Improvement - 1/2 & 1/2 Duluth Entertainment and Convention Center Improvement Refunding	3.00 to 3.80%	02/01; 08/01	11-05-15 02-01-32	13,520,000	11,720,000
Capital Improvement	3.00 to 5.00%	02/01; 08/01	03-22-16 02-01-34	33,470,000	33,470,000
Capital Improvement	4.00%	02/01; 08/01	11-09-16 02-01-27	1,135,000	1,135,000
Capital Improvement	3.00%	02/01; 08/01	11-21-17 02-01-28	1,545,000	1,545,000
Total General Obligation				<u>141,730,000</u>	<u>86,615,000</u>
General Obligation -Tax Abatement					
Spirit Mountain Tax Abatement Bonds	2.00 to 3.00%	02/01; 08/01	02-23-12 02-01-30	7,055,000	5,615,000
GO Tax Abatement (Cirrus)	1.00 to 3.15%	02/01; 08/01	03-22-16 02-01-32	7,820,000	7,820,000
Total General Obligation - Tax Abatement				<u>14,875,000</u>	<u>13,435,000</u>
Special Assessment Debt with Government Commitment					
General Obligation Improvement	4.00%	02/01; 08/01	09-07-06 02-01-21	1,985,000	700,000
General Obligation Improvement Refunding	2.25 to 2.40%	02/01; 08/01	11-23-10 02-01-19	1,205,000	275,425
General Obligation Improvement Refunding	2.25 to 2.40%	02/01; 08/01	11-23-10 02-01-19	1,135,000	259,575
Street Improvement Refunding	2.00 to 3.00%	02/01; 08/01	11-27-12 02-01-21	6,905,000	3,265,000
General Obligation Improvement Refunding	1.50 to 2.00%	02/01; 08/01	10-30-14 02-01-20	865,000	535,000
Street Improvement Refunding	4.00%	02/01; 08/01	11-05-15 02-01-23	2,630,000	2,285,000
Total Special Assessment Debt with Government Commitment				<u>14,725,000</u>	<u>7,320,000</u>
General Obligation Certificates Payable					
Equipment	3.00%	02/01; 08/01	11-27-12 02-01-18	3,275,000	695,000
Equipment	2.00%	02/01; 08/01	12-18-13 02-01-19	3,835,000	1,585,000
Equipment	1.50 to 2.00%	02/01; 08/01	10-30-14 02-01-20	2,460,000	1,505,000
Equipment	2.00 to 3.00%	02/01; 08/01	11-05-15 02-01-21	3,325,000	2,705,000
Equipment	4.00%	02/01; 08/01	11-09-16 02-01-22	3,565,000	3,565,000
Equipment	3.00 to 4.00%	02/01; 08/01	11-21-17 02-01-23	3,615,000	3,615,000
Total General Obligation Certificates Payable				<u>20,075,000</u>	<u>13,670,000</u>
Total Governmental Activities				<u>\$191,405,000</u>	<u>\$121,040,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

12. LONG-TERM DEBT (continued)

	<u>Interest Rate and Dates</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
Business-type Activities:					
Revenue and General Obligation Bonds Payable					
Parking Fund					
Parking Improvement Tax Increment Refunding	1.00 to 2.75% 02/01; 08/01	11-27-12	02-01-26	\$ 10,270,000	\$ 7,780,000
410 West First Street Ramp					
Parking Improvement Tax Increment	4.00% 04/01; 10/01	05-15-14	04-01-44	11,500,000	12,522,008
Water Fund					
Water Utility Revenue and General Obligation	2.00 to 4.00% 02/01; 08/01	02-19-09	02-01-24	196,000	103,000
Water Utility Revenue and General Obligation Refunding	2.00 to 3.00% 02/01; 08/01	11-23-10	02-01-18	1,625,000	250,851
Water Utility Revenue and General Obligation Refunding	2.00 to 3.00% 02/01; 08/01	11-05-15	02-01-22	515,000	435,000
Total Water Fund				<u>2,336,000</u>	<u>788,851</u>
Gas Fund					
Gas Utility Revenue and General Obligation Refunding	3.00 to 4.00% 02/01; 08/01	11-29-11	02-01-19	3,125,000	985,000
Steam Fund					
Steam Utility Revenue and General Obligation Refunding	1.00 to 2.13% 02/01; 08/01	11-27-12	02-01-22	5,475,000	2,980,000
Steam Utility Revenue and General Obligation	3.00 to 3.20% 02/01; 08/01	11-05-15	02-01-27	4,015,000	4,015,000
Total Steam Fund				<u>9,490,000</u>	<u>6,995,000</u>
Sewer Fund					
Sewer Utility Revenue and General Obligation	2.00 to 4.00% 02/01; 08/01	02-19-09	02-01-24	1,444,000	757,000
Sewer Utility Revenue and General Obligation	2.00 to 4.00% 02/01; 08/01	12-17-09	02-01-25	905,000	540,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00% 02/01; 08/01	11-23-10	02-01-18	2,025,000	312,599
Sewer Utility Revenue and General Obligation Refunding	1.00 to 3.00% 02/01; 08/01	11-29-11	02-01-20	2,265,000	1,005,000
Sewer Utility Revenue and General Obligation Refunding	2.00% 02/01; 08/01	11-27-12	02-01-20	2,000,000	1,185,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00% 02/01; 08/01	11-05-15	02-01-23	1,110,000	970,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00% 02/01; 08/01	11-05-15	02-01-22	350,000	295,000
Total Sewer Fund				<u>10,099,000</u>	<u>5,064,599</u>
Stormwater Fund					
Stormwater Utility Revenue and General Obligation Refunding	2.00 to 3.00% 02/01; 08/01	11-23-10	02-01-18	755,000	116,549
Stormwater Utility Revenue and General Obligation Refunding	2.00 to 3.00% 02/01; 08/01	11-05-15	02-01-22	790,000	675,000
Total Stormwater Fund				<u>1,545,000</u>	<u>791,549</u>
Total Business-type Activities				<u>\$ 48,365,000</u>	<u>\$ 34,927,007</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

12. LONG-TERM DEBT (continued)

NOTES PAYABLE BY ISSUE	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding	
Governmental Activities:						
General Obligation						
Public Facilities Authority Note	1.00%	02/20; 08/20	07-24-02	08-20-18	\$ 364,195	\$ 27,000
Revenue Note						
U.S. Dept. of Housing and Urban Development	5.23 to 5.77%	01/22; 07/22	08-01-05	08-01-25	7,876,000	2,646,000
Total Governmental Activities				<u>\$ 8,240,195</u>	<u>\$ 2,673,000</u>	
Business-type Activities:						
General Obligation:						
Water Fund						
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03	08-20-18	\$ 870,000	\$ 70,856
Public Facilities Authority Note	2.530%	02/20; 08/20	07-23-04	08-20-18	1,971,532	158,000
Public Facilities Authority Note	1.077%	02/20; 08/20	10-28-09	08-20-19	1,668,813	346,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	1,293,200	709,000
Public Facilities Authority Note	1.076%	02/20; 08/20	12-07-10	08-20-25	3,344,131	1,902,000
Public Facilities Authority Note	1.221%	02/20; 08/20	11-18-11	08-20-26	1,221,631	731,000
Public Facilities Authority Note	1.000%	02/20; 08/20	02-25-14	08-20-29	4,778,806	3,731,000
Total Water Fund				<u>15,148,113</u>	<u>7,647,856</u>	
Sewer Fund						
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03	08-20-18	100,000	8,144
Public Facilities Authority Note	1.340%	02/20; 08/20	10-17-03	08-20-18	1,179,115	93,000
Public Facilities Authority Note	1.150%	02/20; 08/20	07-12-07	08-20-22	1,973,033	766,000
Public Facilities Authority Note	1.969%	02/20; 08/20	08-20-09	08-20-24	796,835	409,000
Public Facilities Authority Note	2.017%	02/20; 08/20	11-25-09	08-20-24	2,414,150	1,278,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	3,753,059	2,090,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	8,504,224	4,663,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-18-11	08-20-21	279,117	108,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-30-11	08-20-21	265,418	113,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-18-11	08-20-21	278,149	121,000
Public Facilities Authority Note	1.000%	02/20; 08/20	09-10-12	08-20-22	476,537	239,000
Public Facilities Authority Note (Note 1)	1.000%	02/20; 08/20	10-29-14	08-20-24	1,255,464	512,383
Total Sewer Fund				<u>21,275,101</u>	<u>10,400,527</u>	
Total Business-type Activities				<u>\$ 36,423,214</u>	<u>\$ 18,048,383</u>	
Component Units:						
Duluth Airport Authority						
Revenue Note	8.85%	06/01;12/01	11-01-05	06-01-19	497,379	103,232
Total Component Units				<u>\$ 497,379</u>	<u>\$ 103,232</u>	

Note 1: Only \$860,847 has been drawn on the Public Facilities Authority Note dated 10/29/2014.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

13. FUND EQUITY

For governmental funds, fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources. Fund balance classifications as of December 31, 2017, are as follows:

	General Fund	Community Investment Trust	General Obligation	Other Governmental Funds	Total Fund Balance
Fund Balances:					
Spendable:					
Restricted for:					
Forfeitures	\$ 99,766	\$ -	\$ -	\$ 1,060,873	\$ 1,160,639
Capital Projects	-	-	-	15,251,084	15,251,084
Community Development	-	-	-	529,986	529,986
Employment	-	-	-	260,168	260,168
Parks and Recreation	-	-	-	1,506,671	1,506,671
Public Access Television	-	-	-	459,921	459,921
Public Works	-	-	-	476,936	476,936
Economic Development	-	-	-	867,329	867,329
Library	-	-	-	597,334	597,334
Tourism	-	-	-	577,815	577,815
Debt Service	-	-	13,479,567	7,640,566	21,120,133
Committed for:					
General Government	-	-	-	362,558	362,558
Community Investment	-	23,155,370	-	-	23,155,370
Energy Program	-	-	-	312,997	312,997
Municipal Arts	-	-	-	158,322	158,322
Parks and Recreation	-	-	-	429,144	429,144
Public Safety	36,242	-	-	164,702	200,944
Assigned to:					
General Government	2,280,311	-	-	-	2,280,311
Economic Development	-	-	-	10,923	10,923
Capital Projects	-	-	-	1,198,148	1,198,148
Unassigned	13,190,484	-	-	(1,981,450)	11,209,034
Total Fund Balances	\$ 15,606,803	\$ 23,155,370	\$ 13,479,567	\$ 29,884,027	\$ 82,125,767

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

14. INTERFUND ASSETS/LIABILITIES/TRANSFERS

DUE TO/FROM OTHER FUNDS

The outstanding balances between funds results mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Balances at December 31, 2017 are:

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General	Water Enterprise	\$ 895
	Gas Enterprise	5,105
	Sewer Enterprise	3,750
	Steam Enterprise	23,691
	Nonmajor Governmental Funds	7,942
	Internal Service Funds	212,501
Water Enterprise	Nonmajor Governmental Funds	4,766
	Internal Service Funds	14,339
Gas Enterprise	Nonmajor Governmental Funds	3,832
	Internal Service Funds	15,491
Sewer Enterprise	Nonmajor Governmental Funds	5,797
	Internal Service Funds	9,373
Steam Enterprise	Internal Service Funds	156
Nonmajor Governmental Funds	General	215,565
	Water Enterprise	20,400
	Gas Enterprise	1,615
	Sewer Enterprise	11,912
	Nonmajor Governmental Funds	1,758,909
	Nonmajor Enterprise Funds	12,325
	Internal Service Funds	76
Nonmajor Enterprise Funds	Steam Enterprise	1,838
	Nonmajor Governmental Funds	5,709
	Internal Service Funds	18,784
Internal Service Funds	General	27,065
	Nonmajor Governmental Funds	9,694
Total		(1,2,3) <u>\$ 2,391,530</u>
Due from other funds, reported in	Balance Sheet - Governmental Funds	\$ 2,039,279
	Statement of Net Position - Proprietary Funds:	
	Business-type Activities - Enterprise Funds	81,531
	Governmental Activities - Internal Service Funds	270,720
Total		<u>\$ 2,391,530</u>

DUE TO/FROM PRIMARY GOVERNMENT/COMPONENT UNITS

Due to/from the primary government and component unit results from the time lag between the date that (1) goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between the primary government and component units are made; or (4) a budgetary authorized line of credit by the primary government to the component unit; or (5) a budgetary authorized lending agreement by the primary government to the component unit. Balances as shown below are reported on the Government-wide Statement of Net Position. Balances are for December 31, 2017, with the exception of the Spirit Mountain Recreation Authority, whose fiscal year ended April 30, 2017.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

14. INTERFUND ASSETS/LIABILITIES/TRANSFERS (continued)

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government:	Component Unit:	
General Fund	Duluth Transit Authority	(1,2,3) \$ 400
	Spirit Mountain Recreation Area Authority	(4) 1,200,000
	Duluth Airport Authority	(4) 3,650,258
	Duluth Economic Development Authority	(1,2,3) 305
Nonmajor Governmental Funds	Duluth Entertainment and Convention Center Authority	(1,2,3) 11,254
	Spirit Mountain Recreation Area Authority	(1,2,3) 6,902
	Duluth Economic Development Authority	(1,2,3,5) 622,000
Total Due From Component Units		<u>\$ 5,491,119</u>
Total Due To Primary Government		\$ 5,491,465
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2017		(1,207,248)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2017		1,206,902
Total Due From Component Units		<u>\$ 5,491,119</u>
Component Unit:	Primary Government:	
Duluth Transit Authority	Nonmajor Governmental Funds	\$ 6,720
Duluth Entertainment and Convention Center Authority	General	6,154
	Nonmajor Governmental Funds	687,734
Duluth Economic Development Authority	Nonmajor Governmental Funds	1,499
Spirit Mountain Recreation Area Authority	General	4,706
	Nonmajor Governmental Funds	15,557
Total Due From Primary Government		<u>\$ 722,370</u>
Total Due To Component Units		\$ 702,107
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2017		-
Add Spirit Mountain Recreation Area Authority balance at December 31, 2017		20,263
Total Due To Component Units		<u>\$ 722,370</u>

INTERFUND LOAN RECEIVABLES/PAYABLES

Interfund loan balances are a result of temporary interfund financing at year-end to cover deficit cash balances within the various funds. Balances on December 31, 2017 are:

<u>Receivable Fund</u>	<u>Amount</u>
General	\$ 3,646,345
Gas Enterprise Fund	1,495,783
Sewer Enterprise Fund	1,495,782
Total	<u>\$ 6,637,910</u>
<u>Payable Fund</u>	<u>Amount</u>
Water Enterprise Fund	\$ 376,543
Steam Enterprise Fund	2,615,022
Nonmajor Governmental Funds	811,417
Nonmajor Enterprise Funds	2,252,251
Internal Service Funds	582,677
Total	<u>\$ 6,637,910</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

14. 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: (1) debt service payments, participation in projects, and reimbursements of expenditures; and (2) payments in lieu of taxes from enterprise funds; or (3) to distribute budgetary authorized revenues to finance programs the government must account for in other funds. Interfund transfers for the year ended December 31, 2017, are as follows:

<u>Transfer to, reported in fund:</u>	<u>Transfer from, reported in fund:</u>	<u>Amount</u>
General	Community Investment Trust	(3) \$ 457,945
	Water Enterprise	(1) 127,984
	Gas Enterprise	(1,2) 2,283,466
	Sewer Enterprise	(1) 98,909
	Steam Enterprise	(2) 141,400
	Nonmajor Governmental Funds	(1) 2,229,918
	Nonmajor Enterprise Funds	(1,3) 1,896,533
General Obligation	Nonmajor Governmental Funds	(1) 5,198,664
410 West First Street Ramp		
Enterprise	Nonmajor Governmental Funds	(1) 314,441
Water Enterprise	Nonmajor Governmental Funds	(1) 135,000
	Nonmajor Enterprise Funds	(1) 9,300
Gas Enterprise	Nonmajor Enterprise Funds	(1) 14,900
Sewer Enterprise	Nonmajor Enterprise Funds	(1) 7,450
Nonmajor Governmental Funds	General	(1) 40,000
	Gas Enterprise	(1) 75,000
	Nonmajor Governmental Funds	(1) 8,819,221
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	(1) 29,139
	Nonmajor Enterprise Funds	(1) 5,600
Total		<u>\$ 21,884,870</u>
Transfers out, reported in:	Statement of Revenues, Expenditures, and Change in Fund Balances:	
	Governmental Funds	\$ 17,224,328
	Statement of Revenues, Expenditures, and Change in Fund Net Position:	
	Business-type Activities - Enterprise Funds	4,660,542
Total		<u>\$ 21,884,870</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

15. PENSION PLANS

PLAN DESCRIPTION

All full-time and certain part-time employees of the City of Duluth are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan and the Public Employees Police and Fire Plan, which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

The General Employees Retirement Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No City employees belong to the Minneapolis Employees Retirement Fund.

Police officers, firefighters, and peace officers who qualify for membership by statute are covered by the Public Employees Police and Fire Plan (accounted for in the Police and Fire Fund). For members first hired after June 30, 2010, but before July 1, 2014, benefits vest on a prorated basis starting with 50% after 5 years and increasing 10% for each year of service until fully vested after 10 years. Benefits for members first hired after June 30, 2014, vest on a prorated basis from 50% after 10 years and increasing 5% for each year of service until fully vested after 20 years.

BENEFITS PROVIDED

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Retirement Plan and Public Employees Police and Fire Plan benefit recipients receive a future annual 1.0% for the post retirement benefit increase. If the funding ratio reaches 90% for two consecutive years, the benefit increase will revert to 2.5%. If, after reverting to a 2.5% benefit increase, the funding ratio declines to less than 80% for one year or less than 85% for two consecutive years, the benefit increase will decrease to 1.0%.

The benefit provisions stated in the following paragraph 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 their public service.

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 General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive 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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each remaining year. Under 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. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.0% of average salary for each year of service.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

15. PENSION PLANS (continued)

For General Employees Retirement Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. For Public Employees Police and Fire Plan members, normal retirement age is 55, and for members who were hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90. Disability benefits are available for vested members and are based on years of service and average high-five salary.

CONTRIBUTIONS

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minnesota Statutes, Chapter 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members and Coordinated members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in 2017. Public Employees Police and Fire Plan members were required to contribute 10.8% of their annual covered salary in 2017.

In 2017, the City was required to contribute the following percentages of annual covered salary:

General Employees Retirement Plan	
Basic Plan Members	11.78%
Coordinated Plan Members	7.50%
Public Employees Police and Fire Plan	16.20%

The employee and employer contribution rates did not change from the previous year.

The City's contributions for the year ended December 31, 2017, to the pension plans were:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
General Employees Retirement Fund	\$ 2,678,076	\$ 2,446,675	\$ 2,514,167
Public Employees Police and Fire Fund	3,843,171	3,615,941	3,557,651
Total	<u>\$ 6,521,247</u>	<u>\$ 6,062,616</u>	<u>\$ 6,071,818</u>

The contributions are equal to the contractually required contributions as set by state statute.

PENSION COSTS

General Employees Retirement Fund

At December 31, 2017, the City reported a liability of \$35,388,146 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the City's proportion was 0.5543%. It was 0.5257% measured as of June 30, 2016. The City recognized pension expense of \$4,616,189 for its proportionate share of the General Employees Retirement Plan's pension expense.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

15. PENSION PLANS (continued)

The City also recognized \$12,850 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota’s contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan for the fiscal year ending June 30, 2017.

City's proportionate share of the net pension liability	\$ 35,388,146
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>444,931</u>
Total	<u>\$ 35,833,077</u>

The City reported its proportionate share of the General Employees Retirement Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,166,219	\$ 2,180,097
Changes in actuarial assumptions	5,571,740	3,547,465
Difference between projected and actual investment earnings	5,974,407	6,008,296
Changes in proportion	1,741,634	1,412,742
Contributions paid to PERA subsequent to the measurement date	1,307,740	-
Total	<u>\$ 15,761,740</u>	<u>\$ 13,148,600</u>

The \$1,307,740 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2018	\$ 858,165
2019	2,122,760
2020	(173,451)
2021	(1,502,074)

Public Employees Police and Fire Fund

At December 31, 2017, the City reported a liability of \$31,201,250 for its proportionate share of the Public Employees Police and Fire Plan’s net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2017, the City’s proportion was 2.311%. It was 2.317% measured as of June 30, 2016. The City recognized pension expense of \$7,747,491 for its proportionate share of the Public Employees Police and Fire Plan’s pension expense.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

15. PENSION PLANS (continued)

The City also recognized \$207,990 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota’s on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90% funded.

The City reported its proportionate share of the Public Employees Police and Fire Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 718,189	\$ 8,308,789
Changes in actuarial assumptions	40,939,073	44,298,034
Difference between projected and actual investment earnings	10,307,462	9,900,624
Changes in proportion	371,170	357,265
Contributions paid to PERA subsequent to the measurement date	1,844,093	-
Total	\$ 54,179,987	\$ 62,864,712

The \$1,844,093 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	\$ 567,937
2019	567,937
2020	(554,555)
2021	(2,354,037)
2022	(8,756,100)

The total pension expense for all plans recognized by the City for the year ended December 31, 2017, was \$12,363,680.

ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.50% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.0% through 2044 and 2064, respectively, and 2.5% thereafter.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

15. PENSION PLANS (continued)

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015. The experience study for the Public Employees Police and Fire Plan was dated August 30, 2016.

The long-term expected rate of return on pension plan investments is 7.50%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39%	5.10%
International stocks	19%	5.30%
Bonds	20%	0.75%
Alternative assets	20%	5.90%
Cash	2%	0.00%

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.5% in 2017, which remained consistent with 2016. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan and the Public Employees Police and Fire Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CHANGES IN ACTUARIAL ASSUMPTIONS

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members (30% for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in PERA’s calendar years 2017 and 2019 and returns to \$31 million through calendar year 2031. The state’s required contribution is \$16 million in PERA’s fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

15. PENSION PLANS (continued)

Public Employees Police and Fire Plan

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non vested, deferred members. The CSA has been changed to 33% for vested members and 2.0% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.
- The assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65% to 60%.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.0% for all years to 1.0% per year through 2064 and 2.5% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% per annum.

PENSION LIABILITY SENSITIVITY

The following presents the City’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	Proportionate Share of the			
	General Employees Retirement Plan		Public Employees Police and Fire Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1.0% Decrease	6.5%	\$ 54,886,542	6.5%	\$ 58,761,057
Current	7.5%	35,388,146	7.5%	31,201,250
1.0% Increase	8.5%	19,421,530	8.5%	8,449,108

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

15. PENSION PLANS (continued)

PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the pension plan’s fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

DEFINED CONTRIBUTION PLAN

Certain elected officials of the City are covered by the Public Employees Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The plan is established and administered in accordance with Minnesota Statutes, Chapter 353D, which may be amended by the state legislature. The plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code, and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minnesota Statutes, § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.00% of salary, which is matched by the employer. Employee and employer contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2.00% of employer contributions and 0.25% of the assets in each member account annually.

Total contributions by dollar amount and percentage of covered payroll made by the City during the year ended December 31, 2017, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,374	\$ 6,374
Percentage of covered payroll	5.0%	5.0%

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 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 2017 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 2017 annual report.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

16. OTHER POSTEMPLOYMENT BENEFITS

The City has implemented GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The requirements of GASB Statement No. 74 are applicable to the City’s Other Postemployment Benefits (OPEB) irrevocable trust as reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position.

The City’s reporting of annual OPEB within the City’s government-wide and proprietary funds financial statements is still reported under the authority of GASB Statement No. 45.

Additional notations have been made throughout this note to assist the reader in identifying those portions that are specifically related to either GASB 45 or GASB 74.

PLAN DESCRIPTION

The City provides postemployment health insurance and life insurance benefits for certain eligible retired employees and their spouses under a single-employer defined benefit plan. Eligible employees are employees with a hire date prior to January 1, 2007. Employees must retire on or after January 1, 1983, and be eligible for retirement or disability benefits from the Public Employees Retirement Association. The extent of the benefit provided depends on the union contract and the date of hire. Effective January 1, 2010, retirees are provided the same benefits as are provided to active employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

The health benefits are provided through the City’s Joint Powers Enterprise Trust. The life insurance benefits are paid directly by the fund from which the employee retires, and recorded as a deduction in the Statement of Fiduciary Net Position for the Other Postemployment Benefits Trust Fund, under GASB 74. A separate report is not issued for the plan. The authority to provide these benefits is established in Minnesota Statute § 471.617.

As of December 31, 2017, there were 1,122 retirees receiving health benefits from the City’s health plan and 800 active employees covered under the plan.

FUNDING POLICY

The City has historically funded these liabilities on a pay-as-you go basis. Union contracts govern the premiums contributed by the City and the retirees. For eligible retirees, the City pays a portion of the premium ranging from 25%-100% depending on the years of service. Retirees pay the remaining portion of the premium. Premiums are paid to the Joint Powers Enterprise Trust which accounts for the activity of the plan. Premiums are intended to cover the cost of providing benefits to retirees on a pay-as-you go basis. For the year ended December 31, 2017, the City contributed \$8,486,241 and retirees contributed \$171,542.

In July 2007, the City established an Other Postemployment Benefits (OPEB) irrevocable trust and began prefunding a portion of the OPEB liability. Contributions of \$424,351 were made to the irrevocable trust in 2017.

INVESTMENTS (GASB 74)

Investment policy – The City’s OPEB irrevocable trust fund are managed by the City of Duluth. All OPEB funds are invested with the Minnesota State Board of Investment (SBI). It is the policy of the City to pursue an investment strategy that reduces risk through the diversification of the portfolio. The City’s target asset allocation as of December 31, 2017 is:

<u>Asset Class</u>	<u>Target Allocation</u>
MN SBI Non-Retirement Bond Fund	30%
MN SBI Non-Retirement Equity Fund	70%
Total	100%

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

16. OTHER POSTEMPLOYMENT BENEFITS (continued)

Rate of return – For the year ended December 31, 2017, the annual money-weighted return on investments, net of investment expense, was 16.7%. The money-weighted return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NET OPEB LIABILITY OF THE CITY (GASB 74)

The components of the net OPEB liability of the City at December 31, 2017, were as follows:

Total OPEB liability	\$ 172,600,053
Plan fiduciary net position	(57,717,139)
City's net OPEB liability	<u>\$ 114,882,914</u>
Plan fiduciary net position as a percentage of the total OPEB liability	33.4%

ANNUAL OPEB COST AND NET OPEB OBLIGATION (GASB 45)

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for 2017, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 11,456,261
Interest on Net OPEB obligation	2,302,647
Adjustment to ARC	<u>(2,841,237)</u>
Annual OPEB Cost	10,917,671
Claims paid on behalf of retirees	(9,747,296)
Contributions to irrevocable trust	<u>(424,352)</u>
Increase in Net OPEB obligation	746,023
Net OPEB, January 1	<u>40,397,329</u>
Net OPEB, December 31	<u>\$ 41,143,352</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation 2015, 2016, and 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 9,540,547	\$ 10,602,498	111.1%	\$ 40,574,277
December 31, 2016	\$ 9,593,676	\$ 9,770,623	101.8%	\$ 40,397,329
December 31, 2017	\$ 10,917,671	\$ 10,171,647	93.2%	\$ 41,143,352

FUNDING STATUS AND FUNDING PROGRESS (GASB 45)

As of January 1, 2017, the most recent actuarial valuation date, the plan was 28.7% funded. The actuarial accrued liability for benefits was \$170,000,969, and the actuarial value of assets was \$48,829,195 resulting in an unfunded actuarial accrued liability of \$121,171,774. The covered payroll (annual payroll of active employees covered by the plan) was \$51,597,031. The ratio of the unfunded actuarially accrued liabilities to covered payroll is 234.8%.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

16. OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS (GASB 45 AND 74)

The expected long-term rate projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of the assets, consistent with the long-term perspective of the calculations.

In the January 1, 2017, actuarial valuation, the individual entry age normal as a level percentage of payroll actuarial cost method was used. Market value was the method used to determine the actuarial value of plan assets. The actuarial assumptions included a 5.7% investment rate of return which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments at a 2.2% inflation rate. The salary increases rate is based on the 3.5% salary scale. The annual healthcare cost trend rate is 10.0% initially, reduced incrementally to an ultimate rate of 5.0% after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30 year open amortization period.

Mortality rates were based on the Society of Actuaries RPH-2014 Adjust to 2006 Total Dataset Headcount-weighted Mortality project with Scale MP-2016.

Asset allocations fluctuate due to market performance, however, the targeted OPEB asset allocation is as described below. The City's objective in selecting the Expected Long-Term rate of return on Assets is to estimate the single rate of return that reflects the historical returns, future expectations for each asset class, and the asset mix of the plan assets. The estimates of arithmetic real rates of return of each major asset class included in the target asset allocation are:

<u>Asset Classes</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Fixed Income	0.9%
Domestic Equity	4.8%
	<u>5.7%</u>

The discount rate is the single rate that reflects (1) the long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return, and (2) a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another scale), to the extent that the conditions for use of the long-term expected rate of return are not met.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

16. OTHER POSTEMPLOYMENT BENEFITS (continued)

<u>Single Equivalent Interest Rate (SEIR)</u>	
Long-Term Expected Rate of Return	5.7%
Municipal Bond Index Rate*	3.7%
Fiscal Year in which Fiduciary Net Position is Projected to be Depleted	N/A
Single Equivalent Interest Rate	5.7%

* Source: S&P Municipal Bond 20 Year High Grade Rate Index

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (4.7%)	Discount Rate (5.7%)	1% Increase (6.7%)
Net OPEB liability (asset)	\$ 134,301,914	\$ 114,882,914	\$ 98,615,914

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost 79 trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (9.0% decrease to 4.0%)	Discount Rate (10.0% decrease to 5.0%)	1% Increase (11.0% increase to 6.0%)
Net OPEB liability (asset)	\$ 97,786,914	\$ 114,882,914	\$ 135,331,914

TRUST FUND

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

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

DEFINED CONTRIBUTION OPEB PLAN

In accordance with union bargaining agreements and effective January 1, 2008, the City provided a defined contribution postemployment benefit in the form of a minimum 1.0% contribution of each full-time, permanent, active employee's salary into a postemployment health care savings account known as the Minnesota Health Care Savings Plan administered by the Minnesota State Retirement System. An additional lump sum deposit of up to \$12,000 per employee will be made depending on the union contract and the date of hire.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

17. SEGMENT INFORMATION

The City has issued revenue bonds for each of the following nonmajor enterprise funds: Parking, which accounts for the municipal parking ramps, lots, and meters; and Stormwater, which operates the stormwater sewer collection system. Summary financial information for each of these funds for fiscal year ended December 31, 2017, is presented below:

CONDENSED STATEMENT OF NET POSITION

	<u>Parking</u>	<u>Stormwater</u>
Assets		
Current assets	\$ 4,532,021	\$ 1,585,933
Due from other funds	-	12,325
Noncurrent assets	-	79
Capital assets	<u>19,466,672</u>	<u>17,347,748</u>
Total Assets	<u>23,998,693</u>	<u>18,946,085</u>
Deferred Outflows of Resources	<u>565,150</u>	<u>721,318</u>
Liabilities		
Current liabilities	957,456	459,042
Due to other funds	2,044	20,602
Noncurrent liabilities	<u>7,328,058</u>	<u>2,195,805</u>
Total Liabilities	<u>8,287,558</u>	<u>2,675,449</u>
Deferred Inflows of Resources	<u>122,427</u>	<u>601,468</u>
Net Position		
Net investment in capital assets	12,094,511	16,529,499
Unrestricted	<u>4,059,347</u>	<u>(139,013)</u>
Total Net Position	<u>\$ 16,153,858</u>	<u>\$ 16,390,486</u>

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

	<u>Parking</u>	<u>Stormwater</u>
Operating revenues (expenses)		
Charges (pledged against bonds)	\$ 4,060,636	\$ 5,298,272
Depreciation expense	(550,954)	(418,799)
Other operating expenses	<u>(1,971,083)</u>	<u>(3,141,177)</u>
Operating income	1,538,599	1,738,296
Nonoperating revenues (expenses)		
Investment earnings	(5,856)	(5,212)
Other revenue	-	-
Interest expense	(226,846)	(15,061)
Capital contributions	392,432	-
Transfers in	-	5,600
Transfers out	<u>(1,376,700)</u>	<u>(519,833)</u>
Change in net position	321,629	1,203,790
Beginning net position	<u>15,832,229</u>	<u>15,186,696</u>
Ending net position	<u>\$ 16,153,858</u>	<u>\$ 16,390,486</u>

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

17. SEGMENT INFORMATION (continued)

CONDENSED STATEMENT OF CASH FLOWS

	<u>Parking</u>	<u>Stormwater</u>
Net cash provided (used) by		
Operating activities	\$ 2,064,372	\$ 2,144,391
Noncapital financing activities	(1,376,700)	(515,076)
Capital and related financing activities	(600,569)	(829,854)
Investing activities	<u>(5,856)</u>	<u>(5,212)</u>
Net increase (decrease)	81,247	794,249
Beginning cash and cash equivalents	<u>4,288,350</u>	<u>94,781</u>
Ending cash and cash equivalents	<u>\$ 4,369,597</u>	<u>\$ 889,030</u>

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

LAKE SUPERIOR CENTER

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

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

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 generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material effect on the City's financial position at December 31, 2017.

RELATED ORGANIZATION

The Duluth Housing and Redevelopment Authority is a legally separate organization from the City with its own rights and powers. Although the Mayor of the City appoints all Authority Board members, there is no financial accountability necessary for including this organization as a component unit of the City. Related party transactions are limited to payments by the City on various contracts for services entered into with the Authority. The City made payments on various contracts totaling \$1,103,647 to the Duluth Housing and Redevelopment Authority in 2017.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE

The City, along with several other governmental entities, formed the Minneapolis-Duluth/Superior Passenger Rail Alliance on February 1, 2008, under a Joint Powers Agreement in accordance with Minnesota Statutes § 471.59, 398A.04, and 398A.06. The Alliance is governed by a nine-member Board composed of one elected official selected by each party represented in the Alliance, as well as an additional member from the Mille Lacs Band of Ojibwe. Each party contributes funds consistent with the annual budget and cost sharing formula. The Board is organized with a chair and a vice chair elected each year. The St. Louis and Lake County Regional Railroad Authority serves as the fiscal agent. Its purpose is to collaboratively discuss, study, plan for, promote, and facilitate the development of intercity passenger rail transportation between the Twin Cities Metropolitan and Twin Ports areas. The passenger rail line has been given the title of the Northern Lights Express (NLX).

A summary of the financial information of the Minneapolis-Duluth/Superior Passenger Rail Alliance for the Government-wide financial statement for December 31, 2017 was:

Total Assets	\$	13,898
Total Liabilities		5,413
Total Net Position		8,485
Total Revenues		71,415
Total Expenditures		68,153
Change in Net Position		3,262

Separate financial information can be obtained from the St. Louis and Lake County Regional Railroad Authority.

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, 2017, follows:

	<u>Maximum Assistance</u>	<u>2017 Tax Rebate</u>
A & L Renaissance	\$ 316,991	\$ 133,013
Augusta Building	\$ 268,321	\$ 41,763
Bluestone Commons	\$ 9,896,864	\$ 204,028
Central Hillside Development, LLP	\$ 245,214	\$ 16,348
Garfield Business Park, LLC	\$ 611,069	\$ 25,193
NorShore Theatre, LLC	\$ 1,694,912	\$ 105,089
NorShore Theatre, LLC	\$ 540,578	\$ 24,422
Sherman Associates Hotel/Condominium	\$ 5,000,000	\$ 131,360
Pier B, LLC	\$ 3,460,605	\$ 71,472
Kenwood Village, LLC	\$ 2,862,500	\$ -

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017**

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

CONDUIT DEBT OBLIGATIONS

The City and Duluth Economic Development Authority (DEDA) 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, DEDA 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, 2017, are as follows:

<u>Entity</u>	<u>Series</u>	<u>Issued</u>	<u>Principal</u>
Aftenro Home	2006	\$ 2,620,000	\$ 2,087,102
Benedictine Health Center	2013	\$ 5,750,000	\$ 4,681,443
Benedictine Health Center	2014	\$ 4,000,000	\$ 3,860,431
Duluth Regional Care	2012A	\$ 1,040,800	\$ 268,435
Health Sciences Education Facility Corp	2015A	\$ 10,000,000	\$ 9,156,646
Health Sciences Education Facility Corp	2015B	\$ 6,600,000	\$ 3,860,431
Ikonics	2016	\$ 3,415,000	\$ 3,195,828
St. Luke's Hospital	2012	\$ 81,595,000	\$ 73,615,000

19. TAX ABATEMENT

The City has entered into a property tax agreement with a commercial aviation services business for operating a heavy aircraft maintenance, repair, and overhaul facility, pursuant to Minnesota Statutes § 469.1812 through 469.1815, which allows local governments to grant property tax abatements not to exceed the larger of 10% of net tax capacity or \$200,000. The tax abatement is effective for taxes payable in 2017 and continues for seven years. 100% of the city property taxes collected are eligible for abatement if employment covenants are met.

The City has entered into a property tax agreement with a real estate developer for constructing residential rental units, pursuant to Minnesota Statutes § 469.1812 through 469.1815, which allows local governments to grant property tax abatements not to exceed the larger of 10% of net tax capacity or \$200,000. The tax abatement is effective for taxes payable in 2018 and continues for fifteen years. The City's abatement will not exceed \$9,179 per year and a total aggregate amount of \$250,000.

The City has entered into a property tax agreement with a real estate developer for constructing residential rental units, pursuant to Minnesota Statutes § 469.1812 through 469.1815, which allows local governments to grant property tax abatements not to exceed the larger of 10% of net tax capacity or \$200,000. The tax abatement is effective for taxes payable in 2019 and continues for twenty years. The City's abatement will not exceed a total aggregate amount of \$278,000.

20. SUBSEQUENT EVENTS

Pursuant to Minnesota Statute 475, the City sold \$4,450,000 in General Obligation DECC Improvement bonds in February of 2018. The proceeds of the bonds will be used for dock wall repairs. The bonds are payable from revenues generated from food and beverage taxes.

**Required Supplementary
Information**

**CITY OF DULUTH, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2017**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2008	\$ 13,171,329	\$ 23,742,663	55.5%
2009	\$ 13,488,168	\$ 17,615,054	76.6%
2010	\$ 10,043,975	\$ 17,615,054	57.0%
2011	\$ 11,830,474	\$ 15,345,228	77.1%
2012	\$ 9,699,313	\$ 15,345,228	63.2%
2013	\$ 8,772,788	\$ 14,249,437	61.6%
2014	\$ 9,277,052	\$ 14,249,437	65.1%
2015	\$ 10,602,498	\$ 10,095,898	105.0%
2016	\$ 9,770,623	\$ 10,095,898	96.8%
2017	\$ 10,171,647	\$ 11,456,261	88.8%

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 1, 2007	\$ 13,700,000	\$ 267,381,748	\$ 253,681,748	5.1%	\$ 44,748,212	566.9%
June 1, 2009	\$ 16,740,064	\$ 224,338,111	\$ 207,598,047	7.5%	\$ 41,970,420	494.6%
June 1, 2011	\$ 27,753,929	\$ 219,748,555	\$ 191,994,626	12.6%	\$ 39,716,268	483.4%
January 1, 2013	\$ 31,743,134	\$ 214,255,582	\$ 182,512,448	14.8%	\$ 35,546,938	513.4%
January 1, 2015	\$ 43,257,834	\$ 172,507,535	\$ 129,249,701	25.1%	\$ 30,154,437	428.6%
January 1, 2017	\$ 48,829,195	\$ 170,000,969	\$ 121,171,774	28.7%	\$ 51,597,031	234.8%

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

These schedules are associated with GASB 45.

**CITY OF DULUTH, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) TRUST
SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS
AND SCHEDULE OF INVESTMENT RETURNS
DECEMBER 31, 2017**

SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 2,933,971
Interest	9,412,409
Benefit payments	<u>(9,747,296)</u>
Net change in total OPEB liability	2,599,084
Total OPEB liability - beginning	170,000,969
Total OPEB liability - ending (a)	<u>\$ 172,600,053</u>
Plan fiduciary net position	
Contributions - employer	\$ 10,222,267
Net investment income	8,178,671
Benefit payments	<u>(9,747,296)</u>
Net change in plan fiduciary net position	8,653,642
Plan fiduciary net position - beginning	49,063,497
Plan fiduciary net position - ending (b)	<u>\$ 57,717,139</u>
City's net OPEB liability - ending (a-b)	\$ 114,882,914
Plan fiduciary net position as a percentage of the total OPEB liability	33.4%
Covered-employee payroll	\$ 51,597,031
City's net OPEB liability as a percentage of covered-employee payroll	222.7%

SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	16.7%

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

These schedules are associated with GASB 74.

**CITY OF DULUTH, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) TRUST
SCHEDULE OF CITY CONTRIBUTIONS
DECEMBER 31, 2017**

	2017
Actuarially determined contribution	\$ 11,456,261
Contributions in relation to the actuarially determined contribution	10,222,267
Contribution deficiency (excess)	<u>\$ (1,233,994)</u>
Covered-employee payroll	\$ 51,597,031
Contributions as a percentage of covered- employee payroll	19.8%

Notes to Schedule:

Valuation date 1/1/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Individual Entry Age Normal as a level percentage of payroll
Amortization method	Level dollar amount
Amortization period	Open 30 year period
Asset valuation method	Market value
Inflation	2.2%
Healthcare cost trend rates	10.0% initially, reduced incrementally to an ultimate rate of 5.0% after ten years
Salary increases	3.5%
Investment rate of return	5.7%
Retirement age	

Mortality
Morbidity

Based on actuary's experience with plans of a similar size, plan design, workforce composition, and discussions with the City SOA RPH-2014 Adjust to 2006 Total Dataset Headcount-weighted Mortality project with Scale MP-2016
Pre-65: 2.5% per year; Post 65: 1.0% per year

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

This schedule is associated with GASB 74.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017**

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a+b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.5499%	\$ 28,498,672	\$ -	\$ 28,498,672	\$ 32,321,183	88.17%	78.19%
2016	0.5257%	\$ 42,684,233	\$ 557,508	\$ 43,241,741	\$ 32,622,333	132.55%	68.91%
2017	0.5543%	\$ 35,388,146	\$ 444,931	\$ 35,833,077	\$ 35,707,680	100.35%	75.90%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined as of June 30.

SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 2,514,167	\$ 2,514,167	\$ -	\$ 33,522,227	7.50%
2016	\$ 2,446,675	\$ 2,446,675	\$ -	\$ 33,753,187	7.25%
2017	\$ 2,678,076	\$ 2,678,076	\$ -	\$ 34,694,027	7.72%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The City's year-end is December 31.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER, 31, 2017**

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2.268%	\$ 25,769,787	\$ 20,780,650	124.01%	86.61%
2016	2.317%	\$ 92,985,242	\$ 22,320,623	416.59%	63.88%
2017	2.311%	\$ 31,201,250	\$ 23,723,278	131.52%	85.40%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The amounts presented for each fiscal year were determined as of June 30.

SCHEDULE OF CONTRIBUTIONS

Fiscal Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (b-a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2015	\$ 3,557,651	\$ 3,557,651	\$ -	\$ 21,960,809	16.20%
2016	\$ 3,615,941	\$ 3,615,941	\$ -	\$ 22,874,383	15.81%
2017	\$ 3,843,171	\$ 3,843,171	\$ -	\$ 22,831,389	16.83%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The City's year-end is December 31.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

DEFINED BENEFIT PENSION PLANS - CHANGES IN SIGNIFICANT PLAN PROVISION, ACTUARIAL METHODS AND ASSUMPTIONS

The following changes in actuarial assumptions occurred in 2017:

General Employees Retirement Plan

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in PERA's calendar years 2017 and 2019 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter, to 1.0% for all future years.
- The assumed investment rate was changed from 7.9% to 7.5%. The single discount rate was also changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25%. Payroll growth was reduced from 3.5% to 3.25%. Inflation was reduced from 2.75% to 2.5%.

Public Employees Police and Fire Plan

2017

- The assumed salary increases were changed as recommended in the June 30, 2016, experience study. The net effect is proposed rates that average 0.34% lower than the previous rates.
- The assumed rates of retirement were changed, resulting in fewer retirements.
- The CSA load was 30% for vested and non vested, deferred members. The CSA has been changed to 33% for vested members and 2.0% for non-vested members.
- The base mortality table for healthy annuitants was changed from the RP-2000 fully generational table to the RP-2014 fully generational table (with a base year of 2006), with male rates adjusted by a factor of 0.96. The mortality improvement scale was changed from Scale AA to Scale MP-2016. The base mortality table for disabled annuitants was changed from the RP-2000 disabled mortality table to the mortality table assumed for healthy retirees.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017**

Public Employees Police and Fire Plan

2017 (continued)

- The assumed termination rates were decreased to 3.0% for the first three years of service. Rates beyond the select period of three years were adjusted, resulting in more expected terminations overall.
- The assumed percentage of married female members was decreased from 65% to 60%.
- The assumed age difference was changed from separate assumptions for male members (wives assumed to be three years younger) and female members (husbands assumed to be four years older) to the assumption that males are two years older than females.
- The assumed percentage of female members electing joint and survivor annuities was increased.
- The assumed post-retirement benefit increase rate was changed from 1.0% for all years to 1.0% per year through 2064 and 2.5% thereafter.
- The single discount rate was changed from 5.6% per annum to 7.5% per annum.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2037 and 2.5% per year thereafter, to 1.0% for all future years.
- The assumed investment rate was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 5.6%.
- The assumed payroll growth and inflation were decreased by 0.25%. Payroll growth was reduced from 3.5% to 3.25%. Inflation was reduced from 2.75% to 2.5%.

**Combining and Individual
Fund Statements and
Schedules**

Governmental Funds

**CITY OF DULUTH, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

SPECIAL REVENUE FUNDS

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

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

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

Special Projects – to account for monies received as fees, donations, or 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.

Disaster Recovery – to account for grant and aid monies associated with the 500-year flood event, which occurred in June, 2012.

Recovery Loan Program – to account for grant monies received from the Minnesota Department of Employment and Economic Development for the establishment of an economic development loan program.

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

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

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

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

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 Program – 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.

Home Investment Partnerships 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 Employment and Economic Development and St. Louis County to provide job training and employment opportunities for economically disadvantaged, unemployed and underemployed persons.

**CITY OF DULUTH, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

SPECIAL REVENUE FUNDS (continued)

Senior Employment – to account for monies received from the Minnesota Department of Employment and Economic Development 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.

Street System Maintenance Utility – to account for monies received for street system maintenance utility fees from residential, commercial, and industrial properties, used to fund existing street improvement debt, enhanced maintenance, and street reconstruction.

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.

DEBT SERVICE FUNDS

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

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

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

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

Tax Increment – to account for the collection and distribution of tax increment proceeds associated with City Tax Increment Financing (TIF) districts.

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.

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

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

Permanent Improvement – to account for capital improvements financed by sources other than assessments.

Cirrus Building – Capital project fund established to account for bond proceeds issued to finance the construction of a manufacturing and assembly facility for the Cirrus Vision SF50 personal jet.

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

Capital Improvement – to account for capital improvements that are financed by issuance of debt.

Tourism and Recreational Projects – Capital project fund established to account for bond proceeds for tourism and recreational projects along the St. Louis River Corridor.

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

Special Revenue Funds

	Lake Superior Zoo	Parks	Special Projects	Police Grant Programs	Disaster Recovery
Assets					
Cash and cash equivalents	\$ -	\$ 1,851,815	\$ 1,430,773	\$ 931,272	\$ 871,603
Receivables, net					
Taxes	-	104,969	-	-	-
Accounts	-	9,287	58,568	-	-
Assessments	-	-	52,133	-	-
Loans	300,000	-	-	-	-
Due from other funds	-	2,781	7,898	44	-
Due from component units	-	-	18,156	-	-
Due from other governments	80,000	170,609	99,773	370,461	3,002,811
Total Assets	\$ 380,000	\$ 2,139,461	\$ 1,667,301	\$ 1,301,777	\$ 3,874,414
Liabilities					
Accounts payable	140	17,384	11,798	96,332	-
Contracts payable	6,838	261,845	3,865	116,375	117,417
Due to other funds	-	134,186	28,418	17,442	1,072,197
Due to component units	-	-	-	-	-
Interfund loan payable	466,749	-	-	-	-
Due to other governments	245	16,141	31	6,005	-
Accrued salaries payable	-	13,582	-	-	-
Unearned revenue	-	-	244,725	39,173	1,075,297
Total Liabilities	473,972	443,138	288,837	275,327	2,264,911
Deferred Inflows of Resources					
Unavailable revenue	300,000	239,415	130,162	-	2,830,070
Fund Balances					
Restricted	-	1,456,908	494,344	1,026,450	-
Committed	-	-	753,958	-	-
Assigned	-	-	-	-	-
Unassigned	(393,972)	-	-	-	(1,220,567)
Total Fund Balances	(393,972)	1,456,908	1,248,302	1,026,450	(1,220,567)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 380,000	\$ 2,139,461	\$ 1,667,301	\$ 1,301,777	\$ 3,874,414

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

Special Revenue Funds

	<u>Recovery Loan Program</u>	<u>Bayfront Festival Park</u>	<u>Library Special Accounts</u>	<u>Economic Development</u>	<u>Energy Management</u>
Assets					
Cash and cash equivalents	\$ 243,611	\$ 204,446	\$ 609,335	\$ 24,888	\$ 331,547
Receivables, net					
Taxes	-	-	-	-	-
Accounts	-	-	2,863	-	-
Assessments	-	-	-	-	-
Loans	868,446	-	-	-	-
Due from other funds	-	-	-	-	350
Due from component units	622,000	-	-	-	-
Due from other governments	4,784	-	-	73,443	-
Total Assets	\$ 1,738,841	\$ 204,446	\$ 612,198	\$ 98,331	\$ 331,897
Liabilities					
Accounts payable	-	2,000	13,920	-	6,983
Contracts payable	-	-	-	87,306	10,504
Due to other funds	-	-	-	102	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	-
Due to other governments	296,524	-	944	-	-
Accrued salaries payable	-	-	-	-	1,413
Unearned revenue	-	-	-	-	-
Total Liabilities	296,524	2,000	14,864	87,408	18,900
Deferred Inflows of Resources					
Unavailable revenue	574,988	-	-	-	-
Fund Balances					
Restricted	867,329	-	597,334	-	-
Committed	-	202,446	-	-	312,997
Assigned	-	-	-	10,923	-
Unassigned	-	-	-	-	-
Total Fund Balances	867,329	202,446	597,334	10,923	312,997
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,738,841	\$ 204,446	\$ 612,198	\$ 98,331	\$ 331,897

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

Special Revenue Funds

	Tourism Tax	Public Facility and Program	Home Investment Partnerships Program	Community Development	Workforce Development
Assets					
Cash and cash equivalents	\$ 349,970	\$ 48,955	\$ 28,924	\$ 973,426	\$ 186,253
Receivables, net					
Taxes	835,787	808	-	-	-
Accounts	-	-	-	129,916	5,999
Assessments	-	-	-	-	-
Loans	-	-	318,893	2,614,793	-
Due from other funds	-	-	1,945	12,060	1,872
Due from component units	-	-	-	-	-
Due from other governments	111,476	-	95,083	652,966	126,909
Total Assets	\$ 1,297,233	\$ 49,763	\$ 444,845	\$ 4,383,161	\$ 321,033
Liabilities					
Accounts payable	-	-	58,000	4,896	9,727
Contracts payable	171,656	-	14,146	658,462	7,606
Due to other funds	532,205	-	11,263	17,013	15,045
Due to component units	15,557	-	-	-	6,720
Interfund loan payable	-	-	-	-	-
Due to other governments	-	-	-	72	2,564
Accrued salaries payable	-	-	-	-	7,577
Unearned revenue	-	-	62,690	153,044	4,029
Total Liabilities	719,418	-	146,099	833,487	53,268
Deferred Inflows of Resources					
Unavailable revenue	-	-	387,594	3,019,688	7,610
Fund Balances					
Restricted	577,815	49,763	-	529,986	260,155
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	(88,848)	-	-
Total Fund Balances	577,815	49,763	(88,848)	529,986	260,155
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,297,233	\$ 49,763	\$ 444,845	\$ 4,383,161	\$ 321,033

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>	
	<u>Senior Employment</u>	<u>Street System Maintenance Utility</u>	<u>Public Arts</u>	<u>DECC Revenue</u>	<u>Special Assessment Debt Service</u>
Assets					
Cash and cash equivalents	\$ -	\$ 456,950	\$ 164,182	\$ 3,701,774	\$ 908,550
Receivables, net					
Taxes	-	70,178	-	-	-
Accounts	20,005	-	-	-	-
Assessments	-	-	-	-	1,046,997
Loans	-	-	-	-	-
Due from other funds	5,731	-	1,800	517,664	-
Due from component units	-	-	-	-	-
Due from other governments	50,413	-	-	-	32,792
Total Assets	<u>\$ 76,149</u>	<u>\$ 527,128</u>	<u>\$ 165,982</u>	<u>\$ 4,219,438</u>	<u>\$ 1,988,339</u>
Liabilities					
Accounts payable	15	2,278	7,660	-	16,104
Contracts payable	-	-	-	-	-
Due to other funds	-	-	-	-	25,263
Due to component units	-	-	-	687,734	-
Interfund loan payable	76,121	-	-	-	-
Due to other governments	-	6,790	-	-	-
Accrued salaries payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total Liabilities	<u>76,136</u>	<u>9,068</u>	<u>7,660</u>	<u>687,734</u>	<u>41,367</u>
Deferred Inflows of Resources					
Unavailable revenue	-	41,124	-	-	1,046,997
Fund Balances					
Restricted	13	476,936	-	3,531,704	899,975
Committed	-	-	158,322	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	<u>13</u>	<u>476,936</u>	<u>158,322</u>	<u>3,531,704</u>	<u>899,975</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 76,149</u>	<u>\$ 527,128</u>	<u>\$ 165,982</u>	<u>\$ 4,219,438</u>	<u>\$ 1,988,339</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

	<u>Debt Service Funds</u>		<u>Capital Projects Funds</u>		
	<u>Street Improvement Debt Service</u>	<u>Tax Increment</u>	<u>Capital Equipment</u>	<u>Special Assessment</u>	<u>Permanent Improvement</u>
Assets					
Cash and cash equivalents	\$ 3,207,065	\$ -	\$ 2,558,885	\$ -	\$ 6,981
Receivables, net					
Taxes	-	-	-	-	12,335
Accounts	-	-	-	-	-
Assessments	517,450	-	-	271,982	-
Loans	-	-	-	-	-
Due from other funds	1,822	-	10,817	100	1,092,301
Due from component units	-	-	-	-	-
Due from other governments	-	-	-	-	4,303,987
Total Assets	<u>\$ 3,726,337</u>	<u>\$ -</u>	<u>\$ 2,569,702</u>	<u>\$ 272,082</u>	<u>\$ 5,415,604</u>
Liabilities					
Accounts payable	-	-	263,731	-	-
Contracts payable	-	-	-	5,628	276,805
Due to other funds	-	-	-	2,489	161,204
Due to component units	-	1,499	-	-	-
Interfund loan payable	-	-	-	268,547	-
Due to other governments	-	-	-	-	114
Accrued salaries payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>1,499</u>	<u>263,731</u>	<u>276,664</u>	<u>438,123</u>
Deferred Inflows of Resources					
Unavailable revenue	517,450	-	-	271,982	4,091,912
Fund Balances					
Restricted	3,208,887	-	2,305,971	-	885,569
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	(1,499)	-	(276,564)	-
Total Fund Balances	<u>3,208,887</u>	<u>(1,499)</u>	<u>2,305,971</u>	<u>(276,564)</u>	<u>885,569</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,726,337</u>	<u>\$ -</u>	<u>\$ 2,569,702</u>	<u>\$ 272,082</u>	<u>\$ 5,415,604</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2017**

	<u>Capital Projects Funds</u>			
	<u>Street Improvement Program</u>	<u>Capital Improvement</u>	<u>Tourism and Recreational Projects</u>	<u>Total Nonmajor Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 1,212,900	\$ 2,549,528	\$ 10,237,755	\$ 33,091,388
Receivables, net				
Taxes	-	-	-	1,024,077
Accounts	-	-	-	226,638
Assessments	1,620,033	-	-	3,508,595
Loans	-	-	-	4,102,132
Due from other funds	5,278	134,186	-	1,796,649
Due from component units	-	-	-	640,156
Due from other governments	-	85,757	163,589	9,424,853
Total Assets	<u>\$ 2,838,211</u>	<u>\$ 2,769,471</u>	<u>\$ 10,401,344</u>	<u>\$ 53,814,488</u>
Liabilities				
Accounts payable	-	57,496	19,840	588,304
Contracts payable	19,930	365,490	365,035	2,488,908
Due to other funds	100	3,875	-	2,020,802
Due to component units	-	-	-	711,510
Interfund loan payable	-	-	-	811,417
Due to other governments	-	188	-	329,618
Accrued salaries payable	-	-	-	22,572
Unearned revenue	-	-	50,000	1,628,958
Total Liabilities	<u>20,030</u>	<u>427,049</u>	<u>434,875</u>	<u>8,602,089</u>
Deferred Inflows of Resources				
Unavailable revenue	<u>1,620,033</u>	<u>85,757</u>	<u>163,590</u>	<u>15,328,372</u>
Fund Balances				
Restricted	-	2,256,665	9,802,879	29,228,683
Committed	-	-	-	1,427,723
Assigned	1,198,148	-	-	1,209,071
Unassigned	-	-	-	(1,981,450)
Total Fund Balances	<u>1,198,148</u>	<u>2,256,665</u>	<u>9,802,879</u>	<u>29,884,027</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,838,211</u>	<u>\$ 2,769,471</u>	<u>\$ 10,401,344</u>	<u>\$ 53,814,488</u>

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Special Revenue Funds				
	Lake Superior Zoo	Parks	Special Projects	Police Grant Programs	Disaster Recovery
Revenues					
Taxes					
Property taxes	\$ -	\$ 2,606,841	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	67,673	48,516	-	-
Intergovernmental revenues	160,000	836,395	412,092	1,486,776	2,350,970
Charges for services	833,007	75,468	53,831	-	-
Fines and forfeits	-	-	23,059	1,309,567	-
Special assessments	-	-	-	-	-
Investment income	-	(4,542)	(3,096)	(5,900)	(1,606)
Miscellaneous revenues	90,908	76,396	846,304	5,389	-
Total Revenues	1,083,915	3,658,231	1,380,706	2,795,832	2,349,364
Expenditures					
Current					
General government	-	-	19,018	-	-
Public safety	-	-	590,048	853,739	-
Public works	-	-	-	-	1,404
Culture and recreation	1,722,476	1,995,641	60,070	-	1,445,770
Urban and economic development	-	-	-	-	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	18,783	1,207,275	27,724	94,905	4,310
Total Expenditures	1,741,259	3,202,916	696,860	948,644	1,451,484
Excess (Deficiency) of Revenues Over (Under) Expenditures	(657,344)	455,315	683,846	1,847,188	897,880
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	710,000	33,857	-	-	-
Transfers out	-	(286,430)	(369,709)	(855,380)	(1,072,197)
Total Other Financing Sources (Uses)	710,000	(252,573)	(369,709)	(855,380)	(1,072,197)
Net Change in Fund Balances	52,656	202,742	314,137	991,808	(174,317)
Fund Balances - January 1, 2017	(446,628)	1,254,166	934,165	34,642	(1,046,250)
Fund Balances - December 31, 2017	\$ (393,972)	\$ 1,456,908	\$ 1,248,302	\$ 1,026,450	\$ (1,220,567)

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Special Revenue Funds				
	Recovery Loan Program	Bayfront Festival Park	Library Special Accounts	Economic Development	Energy Management
Revenues					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	-	-	593,734	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	(193)	6	(466)	(159)	868
Miscellaneous revenues	-	37,290	85,914	21,108	45,000
Total Revenues	(193)	37,296	85,448	614,683	45,868
Expenditures					
Current					
General government	-	-	-	-	319,814
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	124,676	-	-
Urban and economic development	-	-	-	612,556	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	-	87,985	-	-	-
Total Expenditures	-	87,985	124,676	612,556	319,814
Excess (Deficiency) of Revenues Over (Under) Expenditures	(193)	(50,689)	(39,228)	2,127	(273,946)
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	-	-	-	-	75,000
Transfers out	-	-	-	-	(59,139)
Total Other Financing Sources (Uses)	-	-	-	-	15,861
Net Change in Fund Balances	(193)	(50,689)	(39,228)	2,127	(258,085)
Fund Balances - January 1, 2017	867,522	253,135	636,562	8,796	571,082
Fund Balances - December 31, 2017	\$ 867,329	\$ 202,446	\$ 597,334	\$ 10,923	\$ 312,997

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Special Revenue Funds				
	Tourism Tax	Public Facility and Program	Investment Partnerships Program	Community Development	Workforce Development
Revenues					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	11,623,885	-	-	-	-
Other taxes	-	8,298	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	-	287,013	4,223,118	1,984,999
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	2,263	(103)	(185)	(1,574)	(532)
Miscellaneous revenues	353	-	-	534,786	257,328
Total Revenues	11,626,501	8,195	286,828	4,756,330	2,241,795
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	3,484,229	-	345,198	4,163,135	2,199,940
Debt service					
Principal retirement	-	-	-	5,000	-
Interest and fiscal fees	-	-	-	151,954	-
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	-	-	-	-	-
Total Expenditures	3,484,229	-	345,198	4,320,089	2,199,940
Excess (Deficiency) of Revenues Over (Under) Expenditures	8,142,272	8,195	(58,370)	436,241	41,855
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	(8,741,586)	-	-	-	-
Total Other Financing Sources (Uses)	(8,741,586)	-	-	-	-
Net Change in Fund Balances	(599,314)	8,195	(58,370)	436,241	41,855
Fund Balances - January 1, 2017	1,177,129	41,568	(30,478)	93,745	218,300
Fund Balances - December 31, 2017	\$ 577,815	\$ 49,763	\$ (88,848)	\$ 529,986	\$ 260,155

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Special Revenue Funds			Debt Service Funds	
	Senior Employment	Street System Maintenance Utility	Public Arts	DECC Revenue	Special Assessment Debt Service
Revenues					
Taxes					
Property taxes	\$ -	\$ 2,754,652	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	352,581	1,718	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	-	-	-	531,009
Investment income	-	(1,644)	(367)	(8,155)	49
Miscellaneous revenues	-	10,242	-	-	-
Total Revenues	352,581	2,764,968	(367)	(8,155)	531,058
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	850,344	-	-	-
Culture and recreation	-	-	13,846	-	-
Urban and economic development	350,560	-	-	687,734	-
Debt service					
Principal retirement	-	-	-	-	701,000
Interest and fiscal fees	-	-	-	-	59,950
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	-	-	-	-	-
Total Expenditures	350,560	850,344	13,846	687,734	760,950
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,021	1,914,624	(14,213)	(695,889)	(229,892)
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	-	-	39,800	3,634,668	-
Transfers out	-	(1,841,827)	-	(2,253,850)	-
Total Other Financing Sources (Uses)	-	(1,841,827)	39,800	1,380,818	-
Net Change in Fund Balances	2,021	72,797	25,587	684,929	(229,892)
Fund Balances - January 1, 2017	(2,008)	404,139	132,735	2,846,775	1,129,867
Fund Balances - December 31, 2017	\$ 13	\$ 476,936	\$ 158,322	\$ 3,531,704	\$ 899,975

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Debt Service Funds</u>		<u>Capital Projects Funds</u>		
	<u>Street Improvement Debt Service</u>	<u>Tax Increment</u>	<u>Capital Equipment</u>	<u>Special Assessment</u>	<u>Permanent Improvement</u>
Revenues					
Taxes					
Property taxes	\$ -	\$ 349,379	\$ -	\$ -	\$ 279,031
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	4,036,947
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	240,258	-	-	34,987	-
Investment income	3,600	-	3,410	-	(45)
Miscellaneous revenues	-	-	-	-	(41,127)
Total Revenues	243,858	349,379	3,410	34,987	4,274,806
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	171,577
Culture and recreation	-	-	-	-	-
Urban and economic development	-	1,499	-	-	-
Debt service					
Principal retirement	2,770,000	-	-	-	-
Interest and fiscal fees	243,654	-	-	-	-
Bond issuance costs	-	-	48,752	-	-
Capital outlay					
Capital outlay	-	-	4,211,325	115,107	4,035,406
Total Expenditures	3,013,654	1,499	4,260,077	115,107	4,206,983
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,769,796)	347,880	(4,256,667)	(80,120)	67,823
Other Financing Sources (Uses)					
Issuance of bonds	-	-	3,615,000	-	-
Premium on issuance of bonds	-	-	230,855	-	-
Transfers in	1,298,181	-	-	-	1,197,519
Transfers out	-	(349,379)	(449)	-	-
Total Other Financing Sources (Uses)	1,298,181	(349,379)	3,845,406	-	1,197,519
Net Change in Fund Balances	(1,471,615)	(1,499)	(411,261)	(80,120)	1,265,342
Fund Balances - January 1, 2017	4,680,502	-	2,717,232	(196,444)	(379,773)
Fund Balances - December 31, 2017	\$ 3,208,887	\$ (1,499)	\$ 2,305,971	\$ (276,564)	\$ 885,569

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Capital Projects Funds				Total Nonmajor Governmental Funds
	Cirrus Building	Street Improvement Program	Capital Improvement	Tourism and Recreational Projects	
Revenues					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 5,989,903
Sales taxes	-	-	-	-	11,623,885
Other taxes	-	-	-	-	8,298
Licenses and permits	-	-	-	-	116,189
Intergovernmental revenues	200,102	-	251,663	185,720	17,363,828
Charges for services	-	-	-	-	962,306
Fines and forfeits	-	-	-	-	1,332,626
Special assessments	-	459,267	-	-	1,265,521
Investment income	8,294	(3,160)	32,818	114,597	134,178
Miscellaneous revenues	-	-	-	128,000	2,097,891
Total Revenues	208,396	456,107	284,481	428,317	40,894,625
Expenditures					
Current					
General government	-	-	530,220	-	869,052
Public safety	-	-	231,202	-	1,674,989
Public works	-	-	410,043	-	1,433,368
Culture and recreation	-	-	17,155	114,586	5,494,220
Urban and economic development	135,537	-	-	-	11,980,388
Debt service					
Principal retirement	-	-	-	-	3,476,000
Interest and fiscal fees	-	-	-	-	455,558
Bond issuance costs	-	-	42,770	-	91,522
Capital outlay					
Capital outlay	-	491,954	3,462,337	996,395	14,753,506
Total Expenditures	135,537	491,954	4,693,727	1,110,981	40,228,603
Excess (Deficiency) of Revenues Over (Under) Expenditures	72,859	(35,847)	(4,409,246)	(682,664)	666,022
Other Financing Sources (Uses)					
Issuance of bonds	-	-	1,545,000	-	5,160,000
Premium on issuance of bonds	-	-	95,392	-	326,247
Transfers in	-	543,646	1,206,456	195,094	8,934,221
Transfers out	(732,836)	(125,322)	(5,279)	(33,000)	(16,726,383)
Total Other Financing Sources (Uses)	(732,836)	418,324	2,841,569	162,094	(2,305,915)
Net Change in Fund Balances	(659,977)	382,477	(1,567,677)	(520,570)	(1,639,893)
Fund Balances - January 1, 2017	659,977	815,671	3,824,342	10,323,449	31,523,920
Fund Balances - December 31, 2017	\$ -	\$ 1,198,148	\$ 2,256,665	\$ 9,802,879	\$ 29,884,027

CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
Taxes:				
General property				
Current	\$ 14,628,200	\$ 14,628,200	\$ 14,538,857	\$ (89,343)
Delinquent	150,000	150,000	216,119	66,119
Mobile home	58,700	58,700	56,631	(2,069)
Forfeited tax sale apportionment	19,400	19,400	15,898	(3,502)
Franchise	3,955,800	3,955,800	3,883,317	(72,483)
Sales taxes	14,102,800	14,102,800	13,564,369	(538,431)
Charitable gambling	60,000	60,000	61,934	1,934
Other	50,000	50,000	118,456	68,456
Total Taxes	33,024,900	33,024,900	32,455,581	(569,319)
Licenses and Permits:				
Liquor and non-intoxicating liquor	469,000	469,000	534,770	65,770
Health	25,000	25,000	29,181	4,181
Police protective	32,500	32,500	41,560	9,060
Amusement	1,000	1,000	1,202	202
Manufacturing and merchandising	39,200	39,200	40,016	816
Other	775,000	856,000	996,589	140,589
Total Licenses and Permits	1,341,700	1,422,700	1,643,318	220,618
Intergovernmental revenues:				
Shared revenues				
Local government aid	29,299,700	29,299,700	29,299,670	(30)
PERA aid	124,400	124,400	124,428	28
MSA street maintenance allotment	1,533,400	1,533,400	1,533,400	-
Insurance premium	1,775,000	1,775,000	1,980,438	205,438
State grants				
Minnesota Library Information Network	5,000	5,000	5,054	54
Cross country ski trail	11,000	11,000	11,000	-
Snowmobile trail	13,900	13,900	11,527	(2,373)
Post training reimbursement	50,000	50,000	47,689	(2,311)
Bulletproof vests	-	15,591	14,131	(1,460)
Disaster Aid	-	-	150,830	150,830
Market value credit	-	-	9,839	9,839
Federal grants				
Building Capacity of the Public Health System	-	-	959	959
Fair Housing Assistance Program	-	20,700	17,000	(3,700)
Historic Preservation Fund Grants-In-Aid	-	17,714	2,741	(14,973)
Alcohol, Tobacco, and Firearms - Training Assistance	-	81,279	81,279	-
Local Law Enforcement Block Grant Program	-	-	(7,499)	(7,499)
Bulletproof Vest Partnership Program	-	21,822	15,598	(6,224)
Other grants				
St. Louis County	143,500	143,500	143,500	-
Payments in lieu of taxes -				
Housing and Redevelopment Authority	56,000	56,000	66,305	10,305
Independent School District #709	243,400	243,400	255,662	12,262
Total Intergovernmental Revenues	33,255,300	33,412,406	33,763,551	351,145

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Charges for Services:				
Departmental fees and services				
Fire	4,200	4,200	7,518	3,318
Police	105,100	105,100	72,938	(32,162)
Engineering	75,000	75,000	264,862	189,862
Building inspection services	2,301,000	2,301,000	1,789,433	(511,567)
Attorney services	4,000	4,000	2,825	(1,175)
MIS services	4,600	4,600	4,596	(4)
Grant administration services	69,000	69,000	73,216	4,216
Hydrant maintenance services	30,000	30,000	30,000	-
Assessment fees	25,000	25,000	110,031	85,031
Other services	-	-	240	240
Departmental sales				
Copier and microfilm prints	23,100	23,100	20,636	(2,464)
Print and plan sales	500	500	203	(297)
Book sales	200	200	101	(99)
Share of general expenses				
Duluth Airport Authority	45,200	45,200	45,200	-
Water and Gas	771,300	771,300	771,300	-
Sewer	232,800	232,800	232,800	-
Stormwater	154,500	154,500	154,500	-
Steam	44,100	44,100	44,100	-
Duluth Entertainment and Convention Center Authority	25,000	25,000	15,400	(9,600)
Duluth Transit Authority	10,300	10,300	10,300	-
Golf	34,000	34,000	34,000	-
Duluth Economic Development Authority	365,000	365,000	365,000	-
Fleet Services	136,800	136,800	136,800	-
Group Health	255,000	255,000	350,000	95,000
Self-Insurance	426,000	426,000	426,000	-
Spirit Mountain Recreation Area Authority	37,700	37,700	37,700	-
Parking	127,400	127,400	127,400	-
410 West First Street Ramp	-	-	25,500	25,500
Street Lighting	56,100	56,100	56,100	-
Total Charges for Services	<u>5,362,900</u>	<u>5,362,900</u>	<u>5,208,699</u>	<u>(154,201)</u>
Fines and Forfeits:				
Library fines	75,000	75,000	69,069	(5,931)
Parking fines	74,000	74,000	42,279	(31,721)
Court fees	430,000	430,000	391,404	(38,596)
License penalties	2,000	2,000	5,498	3,498
Felony forfeitures	-	-	65,528	65,528
Total Fines and Forfeits	<u>581,000</u>	<u>581,000</u>	<u>573,778</u>	<u>(7,222)</u>
Special Assessments	<u>426,400</u>	<u>501,520</u>	<u>487,412</u>	<u>(14,108)</u>

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Investment Income:				
Fair value adjustment	-	-	11,589	11,589
Total Investment Income	-	-	11,589	11,589
Miscellaneous Revenues:				
Commission and concessions	10,000	10,000	9,706	(294)
Payments in lieu of taxes	16,000	16,000	16,086	86
Fond du Luth proceeds	150,000	150,000	150,000	-
Police auction proceeds	-	-	8,933	8,933
Rent and lease	122,800	522,800	544,192	21,392
Sale of equipment	40,000	40,000	56,480	16,480
Sale of land	65,700	180,700	133,189	(47,511)
Sale of scrap	6,000	6,000	3,232	(2,768)
Surcharge retainage	1,500	1,500	1,012	(488)
Refunds and reimbursements	537,500	180,310	272,114	91,804
Gifts and donations	-	10,975	25,051	14,076
Interest temporary loans	33,000	33,000	-	(33,000)
Miscellaneous sales and services	100,100	100,100	171,561	71,461
Total Miscellaneous Revenues	1,082,600	1,251,385	1,391,556	140,171
Total Revenues	75,074,800	75,556,811	75,535,484	(21,327)
Other Financing Sources:				
Transfers in:				
Special Projects	187,200	248,436	231,859	(16,577)
Duluth Police Grant Programs	774,400	856,300	855,380	(920)
Community Investment Trust	400,000	400,000	457,945	57,945
Tourism Taxes	1,085,000	1,085,000	1,107,741	22,741
Tax Increment	-	-	34,938	34,938
Parking	1,376,700	1,376,700	1,376,700	-
Water	157,500	128,750	127,984	(766)
Gas	2,627,500	2,598,750	2,283,466	(315,284)
Sewer	157,500	128,750	98,909	(29,841)
Stormwater	595,300	566,550	519,833	(46,717)
Steam	141,400	141,400	141,400	-
Total Other Financing Sources	7,502,500	7,530,636	7,236,155	(294,481)
Total Revenues and Other Financing Sources	\$ 82,577,300	\$ 83,087,447	\$ 82,771,639	\$ (315,808)
Reconciliation:				
Original budget as approved by Duluth City Council		\$ 82,577,300		
Adjustments made in accordance with budget ordinance provisions:				
Grants, gifts, and donations		296,215		
Ordinance allowable		213,932		
Total adjustments		510,147		
Modified budget as reported above		<u>\$ 83,087,447</u>		

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
Legislative and Executive							
City Council							
Personal services - salaries	\$ 90,000	\$ 90,000		\$ 89,131	\$ -	\$ 89,131	\$ 869
Personal services - benefits	6,900	6,900		6,768	-	6,768	132
Other expenditures	82,200	82,200		52,327	-	52,327	29,873
Total City Council	179,100	179,100		148,226	-	148,226	30,874
Mayor's Office							
Personal services - salaries	303,500	303,500		296,214	-	296,214	7,286
Personal services - benefits	120,800	120,800		114,033	-	114,033	6,767
Other expenditures	14,600	36,782	3,4	19,984	-	19,984	16,798
Total Mayor's Office	438,900	461,082		430,231	-	430,231	30,851
Chief Administrative Officer							
Personal services - salaries	221,500	221,500		215,715	-	215,715	5,785
Personal services - benefits	95,200	95,200		97,586	-	97,586	(2,386)
Other expenditures	10,600	10,600		3,198	-	3,198	7,402
Total Chief Administrative Officer	327,300	327,300		316,499	-	316,499	10,801
Attorney and Human Rights							
Personal services - salaries	1,567,100	1,582,100	1	1,644,307	-	1,644,307	(62,207)
Personal services - benefits	514,000	514,000		537,335	-	537,335	(23,335)
Other expenditures	41,100	41,100		27,163	-	27,163	13,937
Total Attorney and Human Rights	2,122,200	2,137,200		2,208,805	-	2,208,805	(71,605)
Total Legislative and Executive	3,067,500	3,104,682		3,103,761	-	3,103,761	921
Public Administration							
Human Resources							
Personal services - salaries	760,000	760,000		743,376	-	743,376	16,624
Personal services - benefits	300,200	300,200		295,265	-	295,265	4,935
Other expenditures	81,500	81,500		49,945	-	49,945	31,555
Total Human Resources	1,141,700	1,141,700		1,088,586	-	1,088,586	53,114
Management Information Services							
Personal services - salaries	1,556,200	1,556,200		1,500,386	-	1,500,386	55,814
Personal services - benefits	584,500	584,500		556,627	-	556,627	27,873
Other expenditures	896,200	896,200		784,971	-	784,971	111,229
Total Management Information Services	3,036,900	3,036,900		2,841,984	-	2,841,984	194,916
Clerk							
Personal services - salaries	571,900	571,900		532,625	-	532,625	39,275
Personal services - benefits	244,600	244,600		220,408	-	220,408	24,192
Other expenditures	84,500	123,097	2	81,663	-	81,663	41,434
Total Clerk	901,000	939,597		834,696	-	834,696	104,901
Maintenance Operations							
Personal services - salaries	1,603,100	1,625,100	1	1,463,051	-	1,463,051	162,049
Personal services - benefits	623,500	623,500		570,355	-	570,355	53,145
Other expenditures	947,500	922,000	1,4	873,670	22,189	895,859	26,141
Capital outlay	-	5,000	1	4,800	-	4,800	200
Total Maintenance Operations	3,174,100	3,175,600		2,911,876	22,189	2,934,065	241,535

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
Public Administration (continued)							
Library Services							
Personal services - salaries	2,698,200	2,698,200		2,597,163	-	2,597,163	101,037
Personal services - benefits	1,079,900	1,079,900		1,018,338	-	1,018,338	61,562
Other expenditures	675,500	675,500		670,145	-	670,145	5,355
Total Library Services	4,453,600	4,453,600		4,285,646	-	4,285,646	167,954
Facilities Management							
Personal services - salaries	1,529,700	1,362,700	1	1,357,650	-	1,357,650	5,050
Personal services - benefits	726,000	664,700	1	587,699	-	587,699	77,001
Other expenditures	2,153,200	2,167,482	1,2	2,099,738	9,995	2,109,733	57,749
Total Facilities Management	4,408,900	4,194,882		4,045,087	9,995	4,055,082	139,800
Total Public Administration	17,116,200	16,942,279		16,007,875	32,184	16,040,059	902,220
Finance							
Budget							
Personal services - salaries	279,600	279,600		281,016	-	281,016	(1,416)
Personal services - benefits	96,700	96,700		98,909	-	98,909	(2,209)
Other expenditures	7,100	7,100		4,260	-	4,260	2,840
Total Budget	383,400	383,400		384,185	-	384,185	(785)
Auditor							
Personal services - salaries	688,800	688,800		702,785	-	702,785	(13,985)
Personal services - benefits	287,200	287,200		298,175	-	298,175	(10,975)
Other expenditures	333,300	333,300		293,634	-	293,634	39,666
Total Auditor	1,309,300	1,309,300		1,294,594	-	1,294,594	14,706
Purchasing							
Personal services - salaries	131,100	131,100		133,397	-	133,397	(2,297)
Personal services - benefits	63,500	63,500		62,687	-	62,687	813
Other expenditures	5,700	5,700		1,666	-	1,666	4,034
Total Purchasing	200,300	200,300		197,750	-	197,750	2,550
Treasurer							
Personal services - salaries	530,500	530,500		418,673	-	418,673	111,827
Personal services - benefits	230,300	230,300		191,320	-	191,320	38,980
Other expenditures	14,000	14,000		8,740	-	8,740	5,260
Total Treasurer	774,800	774,800		618,733	-	618,733	156,067
Total Finance	2,667,800	2,667,800		2,495,262	-	2,495,262	172,538
Planning and Construction Services							
Planning and Development							
Personal services - salaries	501,100	501,100		492,825	-	492,825	8,275
Personal services - benefits	187,400	187,400		193,086	-	193,086	(5,686)
Other expenditures	58,400	94,714	3,4	78,168	3,600	81,768	12,946
Total Planning and Development	746,900	783,214		764,079	3,600	767,679	15,535

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
Planning and Construction Services (continued)							
Construction Services and Inspection							
Personal services - salaries	1,087,500	1,087,500		1,083,946	-	1,083,946	3,554
Personal services - benefits	469,300	469,300		437,963	-	437,963	31,337
Other expenditures	150,800	166,280	2	129,254	12,210	141,464	24,816
Total Construction Services and Inspection	1,707,600	1,723,080		1,651,163	12,210	1,663,373	59,707
Total Planning and Construction Services	2,454,500	2,506,294		2,415,242	15,810	2,431,052	75,242
Business and Community Development							
Business and Community Development							
Personal services - salaries	428,300	444,300	1	445,767	-	445,767	(1,467)
Personal services - benefits	157,600	157,600		155,802	-	155,802	1,798
Other expenditures	23,300	25,820	4	25,742	-	25,742	78
Total Business and Community Development	609,200	627,720		627,311	-	627,311	409
Fire							
Administration							
Personal services - salaries	316,200	316,200		325,651	-	325,651	(9,451)
Personal services - benefits	118,800	118,800		115,788	-	115,788	3,012
Other expenditures	59,000	58,200	1	57,253	-	57,253	947
Total Administration	494,000	493,200		498,692	-	498,692	(5,492)
Operations							
Personal services - salaries	9,982,000	10,409,051	2,3,4	10,328,902	-	10,328,902	80,149
Personal services - benefits	3,951,500	4,040,685	1,3,4	4,154,784	-	4,154,784	(114,099)
Other expenditures	601,900	599,400	1	554,692	-	554,692	44,708
Total Operations	14,535,400	15,049,136		15,038,378	-	15,038,378	10,758
Life Safety							
Personal services - salaries	700,300	751,660	4	749,026	-	749,026	2,634
Personal services - benefits	293,900	323,540	4	329,708	-	329,708	(6,168)
Other expenditures	54,700	66,975	1,3,4	67,261	-	67,261	(286)
Total Life Safety	1,048,900	1,142,175		1,145,995	-	1,145,995	(3,820)
Total Fire	16,078,300	16,684,511		16,683,065	-	16,683,065	1,446
Police							
Administration and Investigation							
Personal services - salaries	13,933,900	14,095,575	1,3	13,784,864	-	13,784,864	310,711
Personal services - benefits	5,597,300	5,618,423	3	5,628,115	-	5,628,115	(9,692)
Other expenditures	1,459,700	1,519,702	1,2,3,4	1,419,599	-	1,419,599	100,103
Total Administration and Investigation	20,990,900	21,233,700		20,832,578	-	20,832,578	401,122
Police Special Accounts							
Other expenditures	-	72,659	2	72,656	-	72,656	3
Total Police	20,990,900	21,306,359		20,905,234	-	20,905,234	401,125

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
Public Works and Utilities (continued)							
Public Works Director's Office							
Personal services - salaries	42,700	42,700		43,813	-	43,813	(1,113)
Personal services - benefits	10,700	10,700		9,757	-	9,757	943
Other expenditures	800	822	1	822	-	822	-
Total Public Works Director's Office	54,200	54,222		54,392	-	54,392	(170)
Street Maintenance							
Personal services - salaries	2,763,900	2,763,900		2,669,887	-	2,669,887	94,013
Personal services - benefits	1,163,000	1,163,000		1,124,529	-	1,124,529	38,471
Other expenditures	3,682,300	3,682,300		3,275,676	14,126	3,289,802	392,498
Total Street Maintenance	7,609,200	7,609,200		7,070,092	14,126	7,084,218	524,982
Engineering							
Personal services - salaries	1,225,600	1,225,600		1,222,162	-	1,222,162	3,438
Personal services - benefits	452,100	452,100		419,387	-	419,387	32,713
Other expenditures	150,000	157,415	1,2	123,641	-	123,641	33,774
Total Engineering	1,827,700	1,835,115		1,765,190	-	1,765,190	69,925
Total Public Works and Utilities	9,491,100	9,498,537		8,889,674	14,126	8,903,800	594,737
Transfers and Other Functions:							
Business improvement district	300,000	375,120	1	375,037	-	375,037	83
Public access television	182,000	182,000		182,000	-	182,000	-
State sales tax administration	120,000	120,000		99,675	-	99,675	20,325
Capital maintenance/lease purchase	-	2,000	1	525	-	525	1,475
Flexible benefits	100,000	106,300	1	84,872	-	84,872	21,428
Retiree insurance	7,399,100	7,399,100		7,197,012	-	7,197,012	202,088
Self-insurance	1,000,000	1,000,000		1,000,000	-	1,000,000	-
Transfers and accruals	411,500	526,500	1	-	-	-	526,500
Other functions	589,200	641,968	1,2,4	466,281	18,191	484,472	157,496
Total Transfers and Other Functions	10,101,800	10,352,988		9,405,402	18,191	9,423,593	929,395
Total Expenditures and encumbrances	\$ 82,577,300	\$ 83,691,170		\$ 80,532,826	\$ 80,311	\$ 80,613,137	\$ 3,078,033
Reconciliation:							
Original budget as approved by Duluth City Council	\$ 82,577,300						
Adjustments made in accordance with Budget Ordinance							
Note 1	- Departmental transfers made in accordance with budget ordinance.						
Note 2	603,723	Encumbrance, contract, reserve, or designation carryovers from prior year.					
Note 3	296,215	Grants, gifts, and donations in accordance with budget ordinance.					
Note 4	213,932	Other allowable additions made in accordance with budget ordinance.					
Total adjustments	1,113,870						
Modified budget as reported above	\$ 83,691,170						

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
General Government:						
Legislative and Executive						
City Council	\$ 89,131	\$ 6,768	\$ 52,327	\$ -	\$ -	\$ 148,226
Mayor's Office	296,214	114,033	19,984	-	-	430,231
Chief Administrative Officer	215,715	97,586	3,198	-	-	316,499
City Attorney and Human Rights	1,644,307	537,335	27,163	-	-	2,208,805
Total Legislative and Executive	2,245,367	755,722	102,672	-	-	3,103,761
Public Administration						
Human Resources	743,376	295,265	49,945	-	-	1,088,586
Management Information Services	1,500,386	556,627	784,971	-	-	2,841,984
Clerk	532,625	220,408	81,663	-	-	834,696
Facilities Management	1,357,650	587,699	2,099,738	-	-	4,045,087
Other functions	-	607,742	1,515,776	-	-	2,123,518
Total Public Administration	4,134,037	2,267,741	4,532,093	-	-	10,933,871
Finance						
Budget	281,016	98,909	4,260	-	-	384,185
Auditor	702,785	298,175	293,634	-	-	1,294,594
Purchasing	133,397	62,687	1,666	-	-	197,750
Treasurer	418,673	191,320	8,740	-	-	618,733
Total Finance	1,535,871	651,091	308,300	-	-	2,495,262
Benefits						
Flexible Benefits	-	84,872	-	-	-	84,872
Retiree Insurance	-	7,197,012	-	-	-	7,197,012
Total Benefits	-	7,281,884	-	-	-	7,281,884
Total General Government	7,915,275	10,956,438	4,943,065	-	-	23,814,778
Public Safety:						
Fire						
Administration	325,651	115,788	57,253	-	-	498,692
Operations	10,328,902	4,154,784	554,692	-	-	15,038,378
Life Safety	749,026	329,708	67,261	-	-	1,145,995
Total Fire	11,403,579	4,600,280	679,206	-	-	16,683,065
Police						
Administration and Investigation	13,784,864	5,628,115	1,419,599	-	-	20,832,578
Police Special Accounts	-	-	72,656	-	-	72,656
Total Police	13,784,864	5,628,115	1,492,255	-	-	20,905,234
Total Public Safety	25,188,443	10,228,395	2,171,461	-	-	37,588,299

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
Public Works:						
Public Administration						
Maintenance Operations	1,463,051	570,355	833,670	4,800	40,000	2,911,876
Total Public Administration	1,463,051	570,355	833,670	4,800	40,000	2,911,876
Public Works						
Public Works Director's Office	43,813	9,757	822	-	-	54,392
Street Maintenance	2,669,887	1,124,529	3,275,676	-	-	7,070,092
Engineering	1,222,162	419,387	123,641	-	-	1,765,190
Total Public Works	3,935,862	1,553,673	3,400,139	-	-	8,889,674
Total Public Works	5,398,913	2,124,028	4,233,809	4,800	40,000	11,801,550
Culture and Recreation:						
Public Administration						
Library Services	2,597,163	1,018,338	670,145	-	-	4,285,646
Total Public Administration	2,597,163	1,018,338	670,145	-	-	4,285,646
Total Culture and Recreation	2,597,163	1,018,338	670,145	-	-	4,285,646
Urban and Economic Development:						
Planning and Construction Services						
Planning and Development	492,825	193,086	78,168	-	-	764,079
Construction Services and Inspection	1,083,946	437,963	129,254	-	-	1,651,163
Total Planning and Construction Services	1,576,771	631,049	207,422	-	-	2,415,242
Business and Community Development						
Business and Community Development	445,767	155,802	25,742	-	-	627,311
Total Business and Community Development	445,767	155,802	25,742	-	-	627,311
Total Urban and Economic Development	2,022,538	786,851	233,164	-	-	3,042,553
Total Expenditures/Transfers Out	\$ 43,122,332	\$ 25,114,050	\$ 12,251,644	\$ 4,800	\$ 40,000	\$ 80,532,826

Proprietary Funds

**CITY OF DULUTH, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2017**

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.

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

Parking – to account for the operation and maintenance of municipal parking ramps, municipal lots, and parking meters.

Stormwater – to account for the operation and maintenance of the storm water sewer collection system.

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

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.

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

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.

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2017

	<u>Golf</u>	<u>Parking</u>	<u>Stormwater</u>	<u>Street Lighting</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets					
Current assets					
Cash and cash equivalents	\$ -	\$ 4,369,597	\$ 889,030	\$ 2,376,080	\$ 7,634,707
Receivables, net					
Accounts	70	162,424	539,700	184,951	887,145
Assessments	-	-	27,987	-	27,987
Due from other funds	-	-	12,325	-	12,325
Due from other governments	-	-	-	17,326	17,326
Inventories	32,759	-	87,563	-	120,322
Prepays	2,833	-	41,653	-	44,486
Total current assets	<u>35,662</u>	<u>4,532,021</u>	<u>1,598,258</u>	<u>2,578,357</u>	<u>8,744,298</u>
Noncurrent assets					
Assessments receivable	-	-	79	-	79
Capital assets, net	<u>1,543,705</u>	<u>19,466,672</u>	<u>17,347,748</u>	<u>1,964,149</u>	<u>40,322,274</u>
Total noncurrent assets	<u>1,543,705</u>	<u>19,466,672</u>	<u>17,347,827</u>	<u>1,964,149</u>	<u>40,322,353</u>
Total Assets	<u>1,579,367</u>	<u>23,998,693</u>	<u>18,946,085</u>	<u>4,542,506</u>	<u>49,066,651</u>
Deferred Outflows of Resources					
Deferred loss from debt refunding	-	418,391	315	-	418,706
Deferred pension obligation outflows	-	146,759	721,003	166,273	1,034,035
Total Deferred Outflows of Resources	<u>-</u>	<u>565,150</u>	<u>721,318</u>	<u>166,273</u>	<u>1,452,741</u>
Liabilities					
Current liabilities					
Accounts payable	29,166	21,620	49,584	82,616	182,986
Contracts payable	-	45,239	10,151	71,566	126,956
Due to other funds	-	2,044	20,602	3,685	26,331
Interfund loan payable	702,251	-	-	-	702,251
Due to other governments	84	-	1,787	14	1,885
Accrued interest payable	-	72,311	8,743	-	81,054
Accrued salaries payable	-	6,788	30,245	7,717	44,750
Compensated absences	-	16,498	104,622	15,782	136,902
Unearned revenue	68,042	-	12,361	2,652	83,055
Deposits	7,450	-	-	-	7,450
Revenue bonds payable	-	795,000	241,549	-	1,036,549
Total current liabilities	<u>806,993</u>	<u>959,500</u>	<u>479,644</u>	<u>184,032</u>	<u>2,430,169</u>
Noncurrent liabilities					
Loans payable	112,489	-	-	-	112,489
Interfund loan payable	1,550,000	-	-	-	1,550,000
Compensated absences	-	3,007	-	-	3,007
Pension liability	-	329,499	1,618,790	373,314	2,321,603
Revenue bonds payable	-	6,995,552	577,015	-	7,572,567
Total noncurrent liabilities	<u>1,662,489</u>	<u>7,328,058</u>	<u>2,195,805</u>	<u>373,314</u>	<u>11,559,666</u>
Total Liabilities	<u>2,469,482</u>	<u>8,287,558</u>	<u>2,675,449</u>	<u>557,346</u>	<u>13,989,835</u>
Deferred Inflows of Resources					
Deferred pension obligation inflows	-	122,427	601,468	138,706	862,601
Net Position					
Net investment in capital assets	1,431,216	12,094,511	16,529,499	1,964,149	32,019,375
Unrestricted	<u>(2,321,331)</u>	<u>4,059,347</u>	<u>(139,013)</u>	<u>2,048,578</u>	<u>3,647,581</u>
Total Net Position	<u>\$ (890,115)</u>	<u>\$ 16,153,858</u>	<u>\$ 16,390,486</u>	<u>\$ 4,012,727</u>	<u>\$ 35,666,956</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Golf	Parking	Stormwater	Street Lighting	Total Nonmajor Enterprise Funds
Operating Revenues					
Sales	\$ 515,840	\$ -	\$ -	\$ -	\$ 515,840
Charges for services	1,213,456	2,962,249	5,254,972	1,393,852	10,824,529
Fines and forfeits	-	928,111	-	-	928,111
Miscellaneous revenues	1,151	170,276	43,300	95,911	310,638
Total Operating Revenues	1,730,447	4,060,636	5,298,272	1,489,763	12,579,118
Operating Expenses					
Cost of sales and services	251,987	-	-	-	251,987
Personal services	-	439,296	2,234,377	562,819	3,236,492
Supplies	-	27,510	249,111	266,583	543,204
Utilities	-	161,473	21,600	673,041	856,114
Other services and charges	1,584,085	1,342,804	636,089	412,428	3,975,406
Depreciation	104,405	550,954	418,799	205,728	1,279,886
Total Operating Expenses	1,940,477	2,522,037	3,559,976	2,120,599	10,143,089
Operating Income (Loss)	(210,030)	1,538,599	1,738,296	(630,836)	2,436,029
Nonoperating Revenues (Expenses)					
Property taxes	-	-	-	756,037	756,037
Investment income	-	(5,856)	(5,212)	(5,347)	(16,415)
Intergovernmental revenue	-	-	-	465	465
Interest and fiscal fees	-	(226,846)	(15,061)	-	(241,907)
Total Nonoperating Revenues (Expenses)	-	(232,702)	(20,273)	751,155	498,180
Income (Loss) Before Contributions and Transfers	(210,030)	1,305,897	1,718,023	120,319	2,934,209
Capital contributions	-	392,432	-	-	392,432
Transfers in	-	-	5,600	29,139	34,739
Transfers out	-	(1,376,700)	(519,833)	(37,250)	(1,933,783)
Change in Net Position	(210,030)	321,629	1,203,790	112,208	1,427,597
Total Net Position - January 1, 2017	(680,085)	15,832,229	15,186,696	3,900,519	34,239,359
Total Net Position - December 31, 2017	\$ (890,115)	\$ 16,153,858	\$ 16,390,486	\$ 4,012,727	\$ 35,666,956

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Golf	Parking	Stormwater	Street Lighting	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities					
Cash received from customers	\$1,671,275	\$3,836,670	\$5,225,488	\$1,392,500	\$12,125,933
Cash paid to suppliers	(1,853,938)	(1,504,079)	(905,824)	(1,265,650)	(5,529,491)
Cash paid to employees	-	(438,495)	(2,204,829)	(517,876)	(3,161,200)
Other operating revenues	-	170,276	29,556	120,189	320,021
Net cash provided (used) by operating activities	<u>(182,663)</u>	<u>2,064,372</u>	<u>2,144,391</u>	<u>(270,837)</u>	<u>3,755,263</u>
Cash Flows from Noncapital Financing Activities					
Transfers from other funds	-	-	5,600	29,139	34,739
Transfers to other funds	-	(1,376,700)	(522,077)	(37,250)	(1,936,027)
Property taxes	-	-	-	750,136	750,136
Operating grants	-	-	1,401	465	1,866
Interfund financing	232,667	-	-	-	232,667
Net cash provided (used) by noncapital financing activities	<u>232,667</u>	<u>(1,376,700)</u>	<u>(515,076)</u>	<u>742,490</u>	<u>(916,619)</u>
Cash Flows from Capital and Related Financing Activities					
Capital grants and contributions	-	392,432	-	-	392,432
Principal paid on bonds, notes and capitalized leases	(50,004)	(785,000)	(228,121)	-	(1,063,125)
Interest paid on bonds, notes and capitalized leases	-	(179,707)	(24,221)	-	(203,928)
Acquisition or construction of capital assets	-	(28,294)	(577,512)	-	(605,806)
Net cash provided (used) by capital and related financing activities	<u>(50,004)</u>	<u>(600,569)</u>	<u>(829,854)</u>	<u>-</u>	<u>(1,480,427)</u>
Cash Flows from Investing Activities					
Investment earnings	-	(5,856)	(5,212)	(5,347)	(16,415)
Net increase (decrease) in cash and cash equivalents	-	81,247	794,249	466,306	1,341,802
Cash and cash equivalents - January 1, 2017	-	4,288,350	94,781	1,909,774	6,292,905
Cash and cash equivalents - December 31, 2017	<u>\$ -</u>	<u>\$4,369,597</u>	<u>\$ 889,030</u>	<u>\$2,376,080</u>	<u>\$ 7,634,707</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	<u>\$ (210,030)</u>	<u>\$1,538,599</u>	<u>\$1,738,296</u>	<u>\$ (630,836)</u>	<u>\$ 2,436,029</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation	104,405	550,954	418,799	205,728	1,279,886
Change in assets and liabilities:					
Decrease (increase) in receivables	6,621	(53,690)	(51,402)	26,291	(72,180)
Decrease (increase) in inventories	14,231	-	(16,231)	-	(2,000)
Decrease (increase) in prepaids	(433)	-	32,684	-	32,251
Decrease (increase) in deferred pension obligation outflows	-	34,398	143,194	10,399	187,991
Increase (decrease) in payables	(31,664)	34,230	7,516	87,392	97,474
Increase (decrease) in unearned revenues	(65,793)	-	(1,455)	(1,967)	(69,215)
Increase (decrease) in deferred pension obligation inflows	-	61,595	311,272	79,380	452,247
Increase (decrease) in pension liability	-	(101,714)	(438,282)	(47,224)	(587,220)
Total adjustments	<u>27,367</u>	<u>525,773</u>	<u>406,095</u>	<u>359,999</u>	<u>1,319,234</u>
Net cash provided (used) by operating activities	<u><u>\$ (182,663)</u></u>	<u><u>\$2,064,372</u></u>	<u><u>\$2,144,391</u></u>	<u><u>\$ (270,837)</u></u>	<u><u>\$ 3,755,263</u></u>

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF NET POSITION
 GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
 DECEMBER 31, 2017**

	<u>Self-Insurance</u>	<u>Group Health</u>	<u>Employee Vacation Compensation</u>	<u>Fleet Services</u>	<u>Total Governmental Activities - Internal Service Funds</u>
Assets					
Current assets					
Cash and cash equivalents	\$ 2,353,332	\$ -	\$ 3,000,560	\$ -	\$ 5,353,892
Restricted assets held by trustee	-	6,950,379	-	-	6,950,379
Receivables, net					
Accounts	-	83,796	-	1,041	84,837
Due from other funds	-	6,824	-	263,896	270,720
Inventories	-	-	-	270,597	270,597
Prepays	50,000	-	-	-	50,000
Total current assets	<u>2,403,332</u>	<u>7,040,999</u>	<u>3,000,560</u>	<u>535,534</u>	<u>12,980,425</u>
Noncurrent assets					
Capital assets, net	-	-	-	310,660	310,660
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,660</u>	<u>310,660</u>
Total Assets	<u>2,403,332</u>	<u>7,040,999</u>	<u>3,000,560</u>	<u>846,194</u>	<u>13,291,085</u>
Deferred Outflows of Resources					
Deferred pension obligation outflows	<u>38,244</u>	<u>-</u>	<u>-</u>	<u>463,847</u>	<u>502,091</u>
Liabilities					
Current liabilities					
Accounts payable	4,848	39,213	-	137,481	181,542
Contracts payable	-	-	-	76	76
Claims payable	211,417	1,428,823	-	-	1,640,240
Due to other funds	-	-	36,759	-	36,759
Interfund loan payable	-	15,980	-	566,697	582,677
Due to other governments	33,894	-	-	6,084	39,978
Accrued salaries payable	1,952	-	-	21,561	23,513
Compensated absences	4,433	-	2,983,017	86,304	3,073,754
Total current liabilities	<u>256,544</u>	<u>1,484,016</u>	<u>3,019,776</u>	<u>818,203</u>	<u>5,578,539</u>
Noncurrent liabilities					
Claims payable	890,305	-	-	-	890,305
Pension liability	85,865	-	-	1,041,428	1,127,293
Total noncurrent liabilities	<u>976,170</u>	<u>-</u>	<u>-</u>	<u>1,041,428</u>	<u>2,017,598</u>
Total Liabilities	<u>1,232,714</u>	<u>1,484,016</u>	<u>3,019,776</u>	<u>1,859,631</u>	<u>7,596,137</u>
Deferred Inflows of Resources					
Deferred pension obligation inflows	<u>31,903</u>	<u>-</u>	<u>-</u>	<u>386,947</u>	<u>418,850</u>
Net Position					
Net investment in capital assets	-	-	-	310,660	310,660
Restricted for health insurance trust	-	5,556,983	-	-	5,556,983
Unrestricted	1,176,959	-	(19,216)	(1,247,197)	(89,454)
Total Net Position	<u>\$ 1,176,959</u>	<u>\$ 5,556,983</u>	<u>\$ (19,216)</u>	<u>\$ (936,537)</u>	<u>\$ 5,778,189</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Self-Insurance</u>	<u>Group Health</u>	<u>Employee Vacation Compensation</u>	<u>Fleet Services</u>	<u>Total Governmental Activities - Internal Service Funds</u>
Operating Revenues					
Sales	\$ -	\$ -	\$ -	\$ 1,880,989	\$ 1,880,989
Charges for services	1,370,402	14,956,813	3,187,734	1,427,550	20,942,499
Miscellaneous revenues	96,728	639,161	-	3,057	738,946
Total Operating Revenues	<u>1,467,130</u>	<u>15,595,974</u>	<u>3,187,734</u>	<u>3,311,596</u>	<u>23,562,434</u>
Operating Expenses					
Cost of sales and services	-	-	-	1,619,700	1,619,700
Personal services	769,342	-	3,187,734	1,525,980	5,483,056
Supplies	4,444	-	-	38,983	43,427
Utilities	-	-	-	28,480	28,480
Other services and charges	934,368	1,616,397	-	346,251	2,897,016
Depreciation	-	-	-	64,630	64,630
Medical and insurance	1,107,690	13,885,946	-	-	14,993,636
Total Operating Expenses	<u>2,815,844</u>	<u>15,502,343</u>	<u>3,187,734</u>	<u>3,624,024</u>	<u>25,129,945</u>
Operating Income (Loss)	<u>(1,348,714)</u>	<u>93,631</u>	<u>-</u>	<u>(312,428)</u>	<u>(1,567,511)</u>
Nonoperating Revenues (Expenses)					
Investment income	2,678	45,732	(4,337)	-	44,073
Intergovernmental revenue	-	-	-	5,836	5,836
Total Nonoperating Revenues (Expenses)	<u>2,678</u>	<u>45,732</u>	<u>(4,337)</u>	<u>5,836</u>	<u>49,909</u>
Change in Net Position	<u>(1,346,036)</u>	<u>139,363</u>	<u>(4,337)</u>	<u>(306,592)</u>	<u>(1,517,602)</u>
Total Net Position - January 1, 2017	<u>2,522,995</u>	<u>5,417,620</u>	<u>(14,879)</u>	<u>(629,945)</u>	<u>7,295,791</u>
Total Net Position - December 31, 2017	<u>\$ 1,176,959</u>	<u>\$ 5,556,983</u>	<u>\$ (19,216)</u>	<u>\$ (936,537)</u>	<u>\$ 5,778,189</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Self- Insurance	Group Health	Employee Vacation Compensation	Fleet Services	Total Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities					
Cash received from customers	\$ 1,467,130	\$ 15,561,547	\$ 3,345,653	\$3,309,521	\$ 23,683,851
Cash paid to suppliers	(1,795,555)	(15,340,639)	-	(2,117,293)	(19,253,487)
Cash paid to employees	(760,960)	-	(3,224,493)	(1,450,126)	(5,435,579)
Other operating revenues	-	-	-	3,057	3,057
Net cash provided (used) by operating activities	<u>(1,089,385)</u>	<u>220,908</u>	<u>121,160</u>	<u>(254,841)</u>	<u>(1,002,158)</u>
Cash Flows from Noncapital Financing Activities					
Operating grants	-	-	-	5,836	5,836
Interfund financing	-	-	-	249,005	249,005
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,841</u>	<u>254,841</u>
Cash Flows from Investing Activities					
Investment earnings	2,678	45,732	(4,337)	-	44,073
Net increase (decrease) in cash and cash equivalents	(1,086,707)	266,640	116,823	-	(703,244)
Cash and cash equivalents - January 1, 2017	3,440,039	6,683,739	2,883,737	-	13,007,515
Cash and cash equivalents - December 31, 2017	<u>\$ 2,353,332</u>	<u>\$ 6,950,379</u>	<u>\$ 3,000,560</u>	<u>\$ -</u>	<u>\$ 12,304,271</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	\$(1,348,714)	\$ 93,631	\$ -	\$ (312,428)	\$ (1,567,511)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation	-	-	-	64,630	64,630
Change in assets and liabilities:					
Decrease (increase) in receivables	-	(34,427)	130,575	982	97,130
Decrease (increase) in inventories	-	-	-	576	576
Decrease (increase) in deferred pension obligation outflows	3,485	-	-	53,951	57,436
Increase (decrease) in payables	251,418	161,704	(9,415)	(84,520)	319,187
Increase (decrease) in deferred pension obligation inflows	17,890	-	-	213,071	230,961
Increase (decrease) in pension liability	(13,464)	-	-	(191,103)	(204,567)
Total adjustments	<u>259,329</u>	<u>127,277</u>	<u>121,160</u>	<u>57,587</u>	<u>565,353</u>
Net cash provided (used) by operating activities	<u>\$ (1,089,385)</u>	<u>\$ 220,908</u>	<u>\$ 121,160</u>	<u>\$ (254,841)</u>	<u>\$ (1,002,158)</u>

Fiduciary Funds

**CITY OF DULUTH, MINNESOTA
FIDUCIARY FUNDS
AGENCY FUNDS
DECEMBER 31, 2017**

AGENCY FUNDS

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

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Balance 01/01/17	Additions	Deductions	Balance 12/31/17
<u>DULUTH 1200 FUND</u>				
Assets				
Cash and cash equivalents	\$ 2,549,572	\$ 444,907	\$ 241,313	\$ 2,753,166
Loans receivable	782,751	283,712	822,879	243,584
Total Assets	<u>\$ 3,332,323</u>	<u>\$ 728,619</u>	<u>\$ 1,064,192</u>	<u>\$ 2,996,750</u>
Liabilities				
Accounts payable	\$ 34,683	\$ 168,093	\$ 201,208	\$ 1,568
Due to agency	3,297,640	12,752	315,210	2,995,182
Total Liabilities	<u>\$ 3,332,323</u>	<u>\$ 180,845</u>	<u>\$ 516,418</u>	<u>\$ 2,996,750</u>

**Supplementary
Information**

**CITY OF DULUTH, MINNESOTA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY SOURCE*
 DECEMBER 31, 2017**

Governmental Funds Capital Assets:

Land and land improvements	\$	22,467,642
Buildings		86,431,687
Equipment		38,113,403
Infrastructure		347,724,125
Construction in Progress		14,023,177
		<hr/>

Total Governmental Funds Capital Assets **\$ 508,760,034**

Investments in Governmental Funds Capital Assets:

General fund	\$	10,376,059
Special revenue fund		30,272,680
Capital projects fund		466,134,809
Donations		1,976,486
		<hr/>

Total Governmental Funds Capital Assets **\$ 508,760,034**

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

**CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY*
DECEMBER 31, 2017**

Function and Activity	Land and Land Improvements	Buildings	Equipment	Infrastructure	Construction in Progress	Total
General Government						
Legislative and Executive	\$ -	\$ -	\$ 6,319	\$ -	\$ -	\$ 6,319
Public Administration	-	-	508,647	-	-	508,647
Management Information Systems	-	-	3,901,116	-	-	3,901,116
Facilities Management	1,636,325	15,948,728	1,915,376	14,390,994	3,239,059	37,130,482
Finance	-	-	325,708	-	-	325,708
Total General Government	1,636,325	15,948,728	6,657,166	14,390,994	3,239,059	41,872,272
Public Safety						
Fire	83,005	3,114,984	11,217,771	-	-	14,415,760
Police	2,000	16,627,233	5,133,002	562,251	-	22,324,486
Total Public Safety	85,005	19,742,217	16,350,773	562,251	-	36,740,246
Public Works						
Street Construction	-	-	-	327,041,046	5,758,967	332,800,013
Maintenance Operations	54,435	1,258,641	13,368,371	60,403	-	14,741,850
Engineering	5,145,615	1,956,385	190,665	-	-	7,292,665
Total Public Works	5,200,050	3,215,026	13,559,036	327,101,449	5,758,967	354,834,528
Culture and Recreation						
Libraries	51,585	7,545,988	154,981	-	-	7,752,554
Parks and Recreation	12,447,764	38,882,698	874,827	5,669,431	5,025,151	62,899,871
Total Culture and Recreation	12,499,349	46,428,686	1,029,808	5,669,431	5,025,151	70,652,425
Urban and Economic Development						
Planning and Construction Services	3,046,913	1,097,030	516,620	-	-	4,660,563
Total Governmental Funds Capital Assets	\$ 22,467,642	\$ 86,431,687	\$ 38,113,403	\$ 347,724,125	\$ 14,023,177	\$ 508,760,034

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

**CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY*
FOR THE YEAR ENDED DECEMBER 31, 2017**

Function and Activity	Governmental Funds Capital Assets 01/01/17	Additions	Deductions	Governmental Funds Capital Assets 12/31/17
General Government				
Legislative and Executive	\$ 6,319	\$ -	\$ -	\$ 6,319
Public Administration	508,647	-	-	508,647
Management Information Systems	3,691,037	210,079	-	3,901,116
Facilities Management	34,121,861	3,693,819	685,198	37,130,482
Finance	325,708	-	-	325,708
Total General Government	38,653,572	3,903,898	685,198	41,872,272
Public Safety				
Fire	12,768,082	1,806,897	159,219	14,415,760
Police	22,105,513	454,141	235,168	22,324,486
Total Public Safety	34,873,595	2,261,038	394,387	36,740,246
Public Works				
Street Construction	328,326,462	16,581,936	12,108,385	332,800,013
Maintenance Operations	14,289,257	608,572	155,979	14,741,850
Engineering	7,292,665	-	-	7,292,665
Total Public Works	349,908,384	17,190,508	12,264,364	354,834,528
Culture and Recreation				
Libraries	7,752,554	-	-	7,752,554
Parks and Recreation	60,454,481	2,464,265	18,875	62,899,871
Total Culture and Recreation	68,207,035	2,464,265	18,875	70,652,425
Urban and Economic Development				
Planning and Construction Services	4,641,648	45,602	26,687	4,660,563
Total Governmental Funds Capital Assets	\$ 496,284,234	\$ 25,865,311	\$ 13,389,511	\$ 508,760,034

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

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2017**

	Issue Amount	Issue Date	Final Maturity	Jan 1 Balance
Governmental Activities:				
General Obligation Bonds Payable				
General Obligation				
Airpark Improvement	\$ 945,000	9/1/2004	2/1/2020	\$ 320,000
Capital Improvement	1,240,000	12/13/2007	2/1/2017	160,000
Aerial Lift Bridge Improvement	1,475,000	8/7/2008	2/1/2019	495,000
Duluth Entertainment and Convention Center Improvement	40,635,000	8/7/2008	2/1/2034	1,525,000
Capital Improvement	1,600,000	12/9/2008	2/1/2018	410,000
Capital Improvement	7,085,000	12/17/2009	2/1/2020	3,395,000
Capital Improvement - Law Enforcement Center	11,905,000	12/17/2009	2/1/2032	11,905,000
Capital Improvement	2,175,000	11/23/2010	2/1/2021	1,160,000
Airport Improvement Refunding	1,850,000	11/23/2010	2/1/2017	325,000
Capital Improvement	1,870,000	11/29/2011	2/1/2022	1,190,000
Airport Improvement	7,650,000	5/24/2012	2/1/2028	6,315,000
Airport Improvement	3,400,000	12/18/2013	2/1/2029	3,400,000
Capital Improvement	1,795,000	12/18/2013	2/1/2024	1,475,000
Capital Improvement - Lakewalk	1,460,000	12/18/2013	2/1/2029	1,305,000
Wade Stadium Improvement	2,330,000	10/30/2014	2/1/2030	2,225,000
Spirit Mountain Improvement	2,150,000	10/30/2014	2/1/2035	2,080,000
Capital Improvement	1,115,000	10/30/2014	2/1/2025	1,020,000
Capital Improvement	1,615,000	11/5/2015	2/1/2026	1,615,000
Airport Improvement	2,855,000	11/5/2015	2/1/2031	2,855,000
Capital Improvement - 1/2 & 1/2	13,520,000	11/5/2015	2/1/2032	13,520,000
Duluth Entertainment and Convention Center Improvement				
Refunding	33,470,000	3/22/2016	2/1/2034	33,470,000
Capital Improvement	1,135,000	11/9/2016	2/1/2027	1,135,000
Capital Improvement	1,545,000	11/21/2017	2/1/2028	-
Total General Obligation				\$ 91,300,000
General Obligation - Tax Abatement				
Spirit Mountain Tax Abatement Bonds	\$ 7,055,000	2/23/2012	2/1/2030	\$ 5,985,000
GO Tax Abatement (Cirrus)	7,820,000	3/22/2016	2/1/2032	7,820,000
Total General Obligation - Tax Abatement				\$ 13,805,000
Total General Obligation Bonds Payable				\$ 105,105,000
Special Assessment Debt with Government Commitment				
General Obligation Improvement	\$ 1,985,000	9/7/2006	2/1/2021	\$ 855,000
Street Improvement	2,320,000	8/7/2008	2/1/2024	1,390,000
General Obligation Improvement Refunding	1,205,000	11/23/2010	2/1/2019	455,675
General Obligation Improvement Refunding	1,135,000	11/23/2010	2/1/2019	429,325
Street Improvement Refunding	6,905,000	11/27/2012	2/1/2021	4,300,000
General Obligation Improvement Refunding	865,000	10/30/2014	2/1/2020	705,000
Street Improvement Refunding	2,630,000	11/5/2015	2/1/2023	2,630,000
Total Special Assessment Debt with Government Commitment				\$ 10,765,000
General Obligation Certificates Payable				
Equipment	\$ 3,095,000	11/29/2011	2/1/2017	\$ 645,000
Equipment	3,275,000	11/27/2012	2/1/2018	1,370,000
Equipment	3,835,000	12/18/2013	2/1/2019	2,355,000
Equipment	2,460,000	10/30/2014	2/1/2020	1,990,000
Equipment	3,325,000	11/5/2015	2/1/2021	3,325,000
Equipment	3,565,000	11/9/2016	2/1/2022	3,565,000
Equipment	3,615,000	11/21/2017	2/1/2023	-
Total General Obligation Certificates Payable				\$ 13,250,000
Total Governmental Activities Bonds and Certificates Payable				\$ 129,120,000

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2017**

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2018</u>	<u>Interest Due in 2018</u>
Governmental Activities:					
General Obligation Bonds Payable					
General Obligation					
Airpark Improvement	\$ -	\$ 75,000	\$ 245,000	\$ 80,000	\$ 8,530
Capital Improvement	-	160,000	-	-	-
Aerial Lift Bridge Improvement	-	160,000	335,000	165,000	10,775
Duluth Entertainment and Convention Center Improvement	-	720,000	805,000	805,000	16,100
Capital Improvement	-	200,000	210,000	210,000	4,463
Capital Improvement	-	855,000	2,540,000	880,000	79,600
Capital Improvement - Law Enforcement Center	-	-	11,905,000	-	682,282
Capital Improvement	-	220,000	940,000	225,000	24,825
Airport Improvement Refunding	-	325,000	-	-	-
Capital Improvement	-	185,000	1,005,000	190,000	27,300
Airport Improvement	-	465,000	5,850,000	470,000	146,282
Airport Improvement	-	220,000	3,180,000	225,000	113,322
Capital Improvement	-	170,000	1,305,000	170,000	36,600
Capital Improvement - Lakewalk	-	85,000	1,220,000	85,000	42,431
Wade Stadium Improvement	-	130,000	2,095,000	135,000	65,850
Spirit Mountain Improvement	-	85,000	1,995,000	90,000	56,300
Capital Improvement	-	105,000	915,000	105,000	18,612
Capital Improvement	-	140,000	1,475,000	150,000	29,969
Airport Improvement	-	130,000	2,725,000	160,000	84,738
Capital Improvement - 1/2 & 1/2	-	1,800,000	11,720,000	645,000	371,270
Duluth Entertainment and Convention Center Improvement Refunding	-	-	33,470,000	-	1,486,300
Capital Improvement	-	-	1,135,000	100,000	43,400
Capital Improvement	1,545,000	-	1,545,000	-	32,187
Total General Obligation	\$ 1,545,000	\$ 6,230,000	\$ 86,615,000	\$ 4,890,000	\$ 3,381,136
General Obligation - Tax Abatement					
Spirit Mountain Tax Abatement Bonds	\$ -	\$ 370,000	\$ 5,615,000	\$ 380,000	\$ 135,319
GO Tax Abatement (Cirrus)	-	-	7,820,000	450,000	194,275
Total General Obligation - Tax Abatement	\$ -	\$ 370,000	\$ 13,435,000	\$ 830,000	\$ 329,594
Total General Obligation Bonds Payable	\$ 1,545,000	\$ 6,600,000	\$ 100,050,000	\$ 5,720,000	\$ 3,710,730
Special Assessment Debt with Government Commitment					
General Obligation Improvement	\$ -	\$ 155,000	\$ 700,000	\$ 165,000	\$ 24,700
Street Improvement	-	1,390,000	-	-	-
General Obligation Improvement Refunding	-	180,250	275,425	182,825	4,281
General Obligation Improvement Refunding	-	169,750	259,575	172,175	4,033
Street Improvement Refunding	-	1,035,000	3,265,000	1,075,000	81,825
General Obligation Improvement Refunding	-	170,000	535,000	175,000	8,062
Street Improvement Refunding	-	345,000	2,285,000	385,000	83,700
Total Special Assessment Debt with Government Commitment	\$ -	\$ 3,445,000	\$ 7,320,000	\$ 2,155,000	\$ 206,601
General Obligation Certificates Payable					
Equipment	\$ -	\$ 645,000	\$ -	\$ -	\$ -
Equipment	-	675,000	695,000	695,000	10,425
Equipment	-	770,000	1,585,000	785,000	23,850
Equipment	-	485,000	1,505,000	495,000	22,662
Equipment	-	620,000	2,705,000	650,000	68,150
Equipment	-	-	3,565,000	635,000	129,900
Equipment	3,615,000	-	3,615,000	-	85,556
Total General Obligation Certificates Payable	\$ 3,615,000	\$ 3,195,000	\$ 13,670,000	\$ 3,260,000	\$ 340,543
Total Governmental Activities Bonds and Certificates Payable	\$ 5,160,000	\$ 13,240,000	\$ 121,040,000	\$ 11,135,000	\$ 4,257,874

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2017**

	<u>Issue Amount</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan 1 Balance</u>
Business-type Activities:				
Revenue and General Obligation Bonds Payable				
Parking Fund				
Parking Improvement Tax Increment Refunding	\$ 10,270,000	11/27/2012	2/1/2026	\$ 8,565,000
410 West First Street Ramp				
Parking Improvement Tax Increment (Note 1)	\$ 11,500,000	5/15/2014	4/1/2044	\$ 12,572,031
Water Fund				
Water Utility Revenue and General Obligation	\$ 196,000	2/19/2009	2/1/2024	\$ 116,000
Water Utility Revenue and General Obligation Refunding	1,625,000	11/23/2010	2/1/2018	494,324
Water Utility Revenue and General Obligation Refunding	515,000	11/5/2015	2/1/2022	515,000
Total Water Fund				<u>\$ 1,125,324</u>
Gas Fund				
Gas Utility Revenue and General Obligation Refunding	\$ 2,846,814	12/17/2009	2/1/2017	\$ 432,931
Gas Utility Revenue and General Obligation Refunding	3,125,000	11/29/2011	2/1/2019	1,455,000
Total Gas Fund				<u>\$ 1,887,931</u>
Steam Fund				
Steam Utility Revenue and General Obligation Refunding	\$ 5,475,000	11/27/2012	2/1/2022	\$ 3,615,000
Steam Utility Revenue and General Obligation	4,015,000	11/5/2015	2/1/2027	4,015,000
Total Steam Fund				<u>\$ 7,630,000</u>
Sewer Fund				
Sewer Utility Revenue and General Obligation	\$ 1,444,000	2/19/2009	2/1/2024	\$ 854,000
Sewer Utility Revenue and General Obligation Refunding	713,186	12/17/2009	2/1/2017	107,067
Sewer Utility Revenue and General Obligation	905,000	12/17/2009	2/1/2025	595,000
Sewer Utility Revenue and General Obligation Refunding	2,025,000	11/23/2010	2/1/2018	616,006
Sewer Utility Revenue and General Obligation Refunding	2,265,000	11/29/2011	2/1/2020	1,325,000
Sewer Utility Revenue and General Obligation Refunding	2,000,000	11/27/2012	2/1/2020	1,465,000
Sewer Utility Revenue and General Obligation Refunding	1,110,000	11/5/2015	2/1/2023	1,110,000
Sewer Utility Revenue and General Obligation Refunding	350,000	11/5/2015	2/1/2022	350,000
Total Sewer Fund				<u>\$ 6,422,073</u>
Stormwater Fund				
Stormwater Utility Revenue and General Obligation Refunding	\$ 755,000	11/23/2010	2/1/2018	\$ 229,670
Stormwater Utility Revenue and General Obligation Refunding	790,000	11/5/2015	2/1/2022	790,000
Total Stormwater Fund				<u>\$ 1,019,670</u>
Total Business-type Activities Bonds Payable				<u>\$ 39,222,029</u> (continued)

Note 1: Issue amount does not include capitalized interest of \$1,145,837.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2017**

	Issued	Retired	Dec 31 Balance	Principal Due in 2018	Interest Due in 2018
Business-type Activities:					
Revenue and General Obligation Bonds Payable					
Parking Fund					
Parking Improvement Tax Increment Refunding	\$ -	\$ 785,000	\$ 7,780,000	\$ 795,000	\$ 167,118
410 West First Street Ramp					
Parking Improvement Tax Increment	\$ -	\$ 50,023	\$ 12,522,008	\$ -	\$ 781,495
Water Fund					
Water Utility Revenue and General Obligation	\$ -	\$ 13,000	\$ 103,000	\$ 13,000	\$ 3,559
Water Utility Revenue and General Obligation Refunding	-	243,473	250,851	250,851	3,774
Water Utility Revenue and General Obligation Refunding	-	80,000	435,000	85,000	10,500
Total Water Fund	\$ -	\$ 336,473	\$ 788,851	\$ 348,851	\$ 17,833
Gas Fund					
Gas Utility Revenue and General Obligation Refunding	\$ -	\$ 432,931	\$ -	\$ -	\$ -
Gas Utility Revenue and General Obligation Refunding	-	470,000	985,000	480,000	29,800
Total Gas Fund	\$ -	\$ 902,931	\$ 985,000	\$ 480,000	\$ 29,800
Steam Fund					
Steam Utility Revenue and General Obligation Refunding	\$ -	\$ 635,000	\$ 2,980,000	\$ 650,000	\$ 47,928
Steam Utility Revenue and General Obligation	-	-	4,015,000	-	122,388
Total Steam Fund	\$ -	\$ 635,000	\$ 6,995,000	\$ 650,000	\$ 170,316
Sewer Fund					
Sewer Utility Revenue and General Obligation	\$ -	\$ 97,000	\$ 757,000	\$ 97,000	\$ 26,116
Sewer Utility Revenue and General Obligation Refunding	-	107,067	-	-	-
Sewer Utility Revenue and General Obligation	-	55,000	540,000	60,000	20,400
Sewer Utility Revenue and General Obligation Refunding	-	303,407	312,599	312,599	4,692
Sewer Utility Revenue and General Obligation Refunding	-	320,000	1,005,000	325,000	23,650
Sewer Utility Revenue and General Obligation Refunding	-	280,000	1,185,000	290,000	20,800
Sewer Utility Revenue and General Obligation Refunding	-	140,000	970,000	150,000	24,550
Sewer Utility Revenue and General Obligation Refunding	-	55,000	295,000	55,000	7,150
Total Sewer Fund	\$ -	\$ 1,357,474	\$ 5,064,599	\$ 1,289,599	\$ 127,358
Stormwater Fund					
Stormwater Utility Revenue and General Obligation Refunding	\$ -	\$ 113,121	\$ 116,549	\$ 116,549	\$ 1,734
Stormwater Utility Revenue and General Obligation Refunding	-	115,000	675,000	125,000	16,450
Total Stormwater Fund	\$ -	\$ 228,121	\$ 791,549	\$ 241,549	\$ 18,184
Total Business-type Activities Bonds Payable	\$ -	\$ 4,295,022	\$ 34,927,007	\$ 3,804,999	\$ 1,312,104

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2017**

	<u>Issue Amount</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan. 1 Balance</u>
Governmental Activities:				
General Obligation				
Public Facilities Authority Note	\$ 364,195	8/8/2002	8/20/2018	\$ <u>53,000</u>
Revenue Note				
U.S. Dept. of Housing and Urban Development	\$ 7,876,000	8/1/2005	8/1/2025	\$ <u>2,651,000</u>
Total Governmental Activities				<u>\$ 2,704,000</u>
Business-type Activities:				
General Obligation				
Water Fund -				
Public Facilities Authority Note	\$ 870,000	8/25/2003	8/20/2018	\$ 139,918
Public Facilities Authority Note	1,971,532	7/23/2004	8/20/2018	312,000
Public Facilities Authority Note	1,668,813	10/28/2009	8/20/2019	516,000
Public Facilities Authority Note	1,293,200	7/28/2010	8/20/2025	793,000
Public Facilities Authority Note	3,344,131	12/7/2010	8/20/2025	2,128,000
Public Facilities Authority Note	1,221,631	11/18/2011	8/20/2026	807,000
Public Facilities Authority Note	4,778,806	2/25/2014	8/20/2029	<u>4,022,000</u>
Total Water Fund				<u>\$ 8,717,918</u>
Sewer Fund -				
Public Facilities Authority Note	\$ 100,000	8/25/2003	8/20/2018	\$ 16,082
Public Facilities Authority Note	1,179,115	12/12/2003	8/20/2018	185,000
Public Facilities Authority Note	1,973,033	7/12/2007	8/20/2022	914,000
Public Facilities Authority Note	796,835	8/20/2009	8/20/2024	463,000
Public Facilities Authority Note	2,414,150	11/25/2009	8/20/2024	1,446,000
Public Facilities Authority Note	3,753,059	7/28/2010	8/20/2025	2,337,000
Public Facilities Authority Note	8,504,224	7/28/2010	8/20/2025	5,214,000
Public Facilities Authority Note	279,117	11/18/2011	8/20/2021	134,000
Public Facilities Authority Note	265,418	11/30/2011	8/20/2021	141,000
Public Facilities Authority Note	278,149	11/18/2011	8/20/2021	151,000
Public Facilities Authority Note	476,537	9/10/2012	8/20/2022	285,000
Public Facilities Authority Note (Note 1)	1,255,464	10/29/2014	8/20/2024	<u>515,069</u>
Total Sewer Fund				<u>\$ 11,801,151</u>
Total Business-type Activities				<u>\$ 20,519,069</u>
Component Unit:				
Duluth Airport Authority				
Revenue Note	\$ 497,379	11/1/2005	6/1/2019	\$ <u>164,969</u>

(Continued)

Note 1: Only \$ 860,847 has been drawn on the Public Facilities Authority Note dated 10/29/2014.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2017**

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2018</u>	<u>Interest Due in 2018</u>
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	\$ -	\$ 26,000	\$ 27,000	\$ 27,000	\$ 270
Revenue Note					
U.S. Dept. of Housing and Urban Development	\$ -	\$ 5,000	\$ 2,646,000	\$ 10,000	\$ 151,689
Total Governmental Activities	\$ -	\$ 31,000	\$ 2,673,000	\$ 37,000	\$ 151,959
Business-type Activities:					
General Obligation					
Water Fund -					
Public Facilities Authority Note	\$ -	\$ 69,062	\$ 70,856	\$ 70,856	\$ 1,997
Public Facilities Authority Note	-	154,000	158,000	158,000	3,997
Public Facilities Authority Note	-	170,000	346,000	172,000	3,726
Public Facilities Authority Note	-	84,000	709,000	85,000	8,919
Public Facilities Authority Note	-	226,000	1,902,000	229,000	20,466
Public Facilities Authority Note	-	76,000	731,000	77,000	8,926
Public Facilities Authority Note	-	291,000	3,731,000	294,000	37,310
Total Water Fund	\$ -	\$ 1,070,062	\$ 7,647,856	\$ 1,085,856	\$ 85,341
Sewer Fund -					
Public Facilities Authority Note	\$ -	\$ 7,938	\$ 8,144	\$ 8,144	\$ 230
Public Facilities Authority Note	-	92,000	93,000	93,000	1,246
Public Facilities Authority Note	-	148,000	766,000	150,000	8,809
Public Facilities Authority Note	-	54,000	409,000	55,000	8,053
Public Facilities Authority Note	-	168,000	1,278,000	172,000	25,777
Public Facilities Authority Note	-	247,000	2,090,000	250,000	26,292
Public Facilities Authority Note	-	551,000	4,663,000	558,000	58,660
Public Facilities Authority Note	-	26,000	108,000	26,000	1,080
Public Facilities Authority Note	-	28,000	113,000	28,000	1,130
Public Facilities Authority Note	-	30,000	121,000	30,000	1,210
Public Facilities Authority Note	-	46,000	239,000	47,000	2,390
Public Facilities Authority Note	122,314	125,000	512,383	126,000	9,027
Total Sewer Fund	\$ 122,314	\$ 1,522,938	\$ 10,400,527	\$ 1,543,144	\$ 143,904
Total Business-type Activities	\$ 122,314	\$ 2,593,000	\$ 18,048,383	\$ 2,629,000	\$ 229,245
Component Unit:					
Duluth Airport Authority					
Revenue Note	\$ -	\$ 61,737	\$ 103,232	\$ 67,321	\$ 7,679

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNIT - GOVERNMENTAL FUNDS
DECEMBER 31, 2017**

	<u>General Operating</u>	<u>Loan Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 1,537,772	\$ 77,206	\$ 418,944	\$ 1,643,560	\$ 3,677,482
Taxes receivable, net	-	-	79,481	-	79,481
Accounts receivable, net	23,478	-	-	-	23,478
Loans receivable, net	697,603	3,651,758	-	3,708,877	8,058,238
Due from other funds	113,360	-	-	416,151	529,511
Due from primary government	500	-	999	-	1,499
Capital assets held for resale	192,500	-	-	-	192,500
Total Assets	<u>\$ 2,565,213</u>	<u>\$ 3,728,964</u>	<u>\$ 499,424</u>	<u>\$ 5,768,588</u>	<u>\$ 12,562,189</u>
Liabilities					
Accounts payable	\$ 174,255	\$ -	\$ 45,408	\$ -	\$ 219,663
Contracts payable	22,958	-	-	-	22,958
Due to other funds	-	-	416,151	113,360	529,511
Due to primary government	622,305	-	-	-	622,305
Total Liabilities	<u>819,518</u>	<u>-</u>	<u>461,559</u>	<u>113,360</u>	<u>1,394,437</u>
Deferred Inflows of Resources					
Unavailable revenue	697,603	-	29,245	3,708,877	4,435,725
Fund Balances					
Nonspendable	192,500	-	-	-	192,500
Restricted	-	-	8,620	1,946,351	1,954,971
Assigned	-	3,728,964	-	-	3,728,964
Unassigned	855,592	-	-	-	855,592
Total Fund Balances	<u>1,048,092</u>	<u>3,728,964</u>	<u>8,620</u>	<u>1,946,351</u>	<u>6,732,027</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,565,213</u>	<u>\$ 3,728,964</u>	<u>\$ 499,424</u>	<u>\$ 5,768,588</u>	

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

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	14,909,184
Other long-term assets are not available to pay for current-period expenditures, and therefore are deferred in the funds.	4,066,765
Other assets that are not available to pay for current period expenditures, and therefore are not reported in the funds.	236
Net position of governmental activities	<u>\$ 25,708,212</u>

CITY OF DULUTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNIT - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>General Operating</u>	<u>Loan Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues					
Taxes					
Tax increments	\$ -	\$ -	\$ 1,672,197	\$ -	\$ 1,672,197
Intergovernmental revenues					
Federal government	7,134	-	-	-	7,134
State of Minnesota grants	4,620,855	-	-	-	4,620,855
Charges for services					
Parking meters	627,215	-	-	-	627,215
Building rent	452,202	-	-	-	452,202
Other	26,498	-	-	-	26,498
Miscellaneous revenues					
Earnings on investments	14,848	654	4,743	18,112	38,357
Interest	-	5,200	-	-	5,200
Other	217,392	-	-	-	217,392
Total Revenues	<u>5,966,144</u>	<u>5,854</u>	<u>1,676,940</u>	<u>18,112</u>	<u>7,667,050</u>
Expenditures					
Current					
Urban and economic development					
Other services and charges	6,183,247	-	-	19,534	6,202,781
Economic development projects	-	-	414,924	6,975	421,899
Debt Service					
Interest and fiscal fees	-	-	794,315	-	794,315
Total Expenditures	<u>6,183,247</u>	<u>-</u>	<u>1,209,239</u>	<u>26,509</u>	<u>7,418,995</u>
Excess of Revenues Over (Under) Expenditures	<u>(217,103)</u>	<u>5,854</u>	<u>467,701</u>	<u>(8,397)</u>	<u>248,055</u>
Other Financing Sources (Uses)					
Transfers in					
DEDA Capital Projects	113,360	-	-	-	113,360
DEDA Debt Service	-	-	-	461,206	461,206
Total Transfers In	<u>113,360</u>	<u>-</u>	<u>-</u>	<u>461,206</u>	<u>574,566</u>
Transfers out					
DEDA General Operating	-	-	-	(113,360)	(113,360)
DEDA Capital Projects	-	-	(461,206)	-	(461,206)
Total Transfers Out	<u>-</u>	<u>-</u>	<u>(461,206)</u>	<u>(113,360)</u>	<u>(574,566)</u>
Total Other Financing Sources (Uses)	<u>113,360</u>	<u>-</u>	<u>(461,206)</u>	<u>347,846</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(103,743)</u>	<u>5,854</u>	<u>6,495</u>	<u>339,449</u>	<u>248,055</u>
Fund Balances					
Fund Balance - January 1, 2017	1,151,835	3,723,110	2,125	1,606,902	6,483,972
Fund Balance - December 31, 2017	<u>\$ 1,048,092</u>	<u>\$ 3,728,964</u>	<u>\$ 8,620</u>	<u>\$ 1,946,351</u>	<u>\$ 6,732,027</u>

**CITY OF DULUTH, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNITS - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net change in fund balances - total governmental funds	\$ 248,055
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(996,479)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, some revenues provide current financial resources to governmental funds but do not have any effect on net position. This amount is the net effect of these differences.	(106,767)
Change in net position of governmental activities	<u>\$ (855,191)</u>

**DULUTH JPE TRUST
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017**

	<u>Health Fund</u>	<u>Dental Fund</u>	<u>JPE Trust Total</u>
Assets			
Investments:			
Money market	\$ 891,457	\$ 93,500	\$ 984,957
US government treasury securities	1,494,472	-	1,494,472
US government agency securities	4,245,967	224,983	4,470,950
Receivables:			
Other	75,869	14,751	90,620
Total assets	<u>\$ 6,707,765</u>	<u>\$ 333,234</u>	<u>\$ 7,040,999</u>
Liabilities			
Claims payable	\$ 1,341,355	\$ 87,468	\$ 1,428,823
Accounts payable	55,193	-	55,193
Total liabilities	<u>\$ 1,396,548</u>	<u>\$ 87,468</u>	<u>\$ 1,484,016</u>
Net Position			
Held in trust	<u>\$ 5,311,217</u>	<u>\$ 245,766</u>	<u>\$ 5,556,983</u>

DULUTH JPE TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

	Health Fund	Dental Fund	JPE Trust Total
Additions			
Health premiums:			
Active employees	\$ 14,702,812	\$ -	\$ 14,702,812
Inactive employees	9,137,900	-	9,137,900
Dental premiums	-	863,397	863,397
Refunds and reimbursements:			
Prescription drug rebates	444,508	-	444,508
Flexible benefit forfeitures	6,824	-	6,824
Health Partners shared savings	187,829	-	187,829
Investment earnings	43,912	1,820	45,732
Total additions	<u>24,523,785</u>	<u>865,217</u>	<u>25,389,002</u>
Deductions			
Medical and drug claims:			
Active employees	13,190,541	-	13,190,541
Inactive employees	5,894,012	-	5,894,012
Medical insurance - medicare supplement	3,741,142	-	3,741,142
Dental claims	-	807,547	807,547
Administrative fees:			
Health Partners	800,513	-	800,513
Delta Dental	-	60,934	60,934
City of Duluth	350,000	-	350,000
Trust services	19,728	824	20,552
Consulting services	105,658	-	105,658
Wellness activities	78,168	-	78,168
Patient centered outcomes research fee	5,196	-	5,196
Stop loss insurance	181,013	-	181,013
Miscellaneous	14,363	-	14,363
Total deductions	<u>24,380,334</u>	<u>869,305</u>	<u>25,249,639</u>
Change in Net Position	143,451	(4,088)	139,363
Net Position - January 1, 2017	<u>5,167,766</u>	<u>249,854</u>	<u>5,417,620</u>
Net Position - December 31, 2017	<u>\$ 5,311,217</u>	<u>\$ 245,766</u>	<u>\$ 5,556,983</u>

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary and Internal Service Funds	Totals
Shared Revenue:						
State of Minnesota						
Local Government Aid	\$29,299,670	\$ -	\$ -	\$ -	\$ -	\$29,299,670
Property Tax Aid	-	1,718	4,192	172	-	6,082
PERA Aid	124,428	-	-	-	54,868	179,296
Insurance Premium	1,980,438	-	-	-	-	1,980,438
Total Shared Revenue	31,404,536	1,718	4,192	172	54,868	31,465,486
State Grants:						
State of Minnesota, Department of						
Agriculture						
NextGen Energy Grant	-	-	-	-	29,586	29,586
Commerce						
Auto Theft Prevention Program	-	42,622	-	-	-	42,622
Education						
Minnesota Library Information Network	5,054	-	-	-	-	5,054
Employment and Economic Development						
Cirrus Gas Main Development and Assessment						
	-	-	-	-	5,584	5,584
Dislocated Workers	-	152,973	-	-	-	152,973
Housing & Redevelopment Authority	-	933,002	-	-	-	933,002
Minnesota Investment Fund Grant	-	-	-	200,102	-	200,102
Workforce Housing Grant Program	-	969,999	-	-	-	969,999
Youth Program	-	239,506	-	-	-	239,506
Employment and Economic Development Total	-	2,295,480	-	200,102	5,584	2,501,166
Labor and Industry						
Fire Department Bailout Kits	-	6,988	-	-	-	6,988
Minnesota Amateur Sports Commission						
Mighty Ducks Grant Program	-	49,000	-	-	-	49,000
Natural Resources						
Cross Country Ski Trail	11,000	-	-	-	-	11,000
Lake Superior Zoo	-	160,000	-	-	-	160,000
Legacy Trail Program	-	250,000	-	-	-	250,000
Minnesota Flood Relief 2012	-	1,931,955	-	-	-	1,931,955
Parks Legacy Grant	-	716,828	-	-	-	716,828
Snowmobile Trail	11,527	-	-	-	-	11,527
Natural Resources Total	22,527	3,058,783	-	-	-	3,081,310
Peace Officers Board						
Post Training Reimbursement	47,689	-	-	-	-	47,689
Public Safety						
Bulletproof Vests	14,131	-	-	-	-	14,131
Firefighter Education Reimbursement	-	15,020	-	-	-	15,020
HAZMAT Regional Response Team	-	223,794	-	-	-	223,794
Sex Trafficking Investigations and Training	-	118,075	-	-	-	118,075
State of Minnesota Disaster Funds	150,830	11,881	-	-	-	162,711
Violent Crime Enforcement Team	-	410,000	-	-	-	410,000
Public Safety Total	164,961	778,770	-	-	-	943,731

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary and Internal Service Funds	Totals
Revenue						
Market Value Credit	9,839	-	-	-	-	9,839
Transportation						
Local Road & Bridge Disaster Relief	-	15,095	-	-	-	15,095
MSA Street Construction Allotment	-	-	-	2,288,350	-	2,288,350
MSA Street Maintenance Allotment	1,533,400	-	-	-	-	1,533,400
Transportation Total	1,533,400	15,095	-	2,288,350	-	3,836,845
Total State Grants	1,783,470	6,246,738	-	2,488,452	35,170	10,553,830
Other Grants:						
St. Louis County						
Job Training Services	-	926,445	-	-	-	926,445
Other	143,500	-	-	108,345	-	251,845
St. Louis County Total	143,500	926,445	-	108,345	-	1,178,290
Housing and Redevelopment Authority	66,305	66,494	-	-	-	132,799
Duluth Transit Authority	-	98,378	-	-	-	98,378
Independent School District #709	255,662	-	-	-	-	255,662
Total Other Grants	465,467	1,091,317	-	108,345	-	1,665,129
Federal Grants:						
Federal, Department of						
Agriculture						
Cooperative Forestry Assistance	-	1,750	-	-	-	1,750
Urban and Community Forestry Program	-	349,258	-	-	-	349,258
Agriculture Total	-	351,008	-	-	-	351,008
Commerce						
Coastal Zone Management Grant	-	-	-	185,720	-	185,720
Corporation for National and Community Service						
Social Innovation Fund	-	8,416	-	-	-	8,416
Defense						
Military Construction, National Guard	-	-	-	37,916	-	37,916
Education						
Rehabilitation Services Vocational Rehabilitation	-	7,717	-	-	-	7,717
Environmental Protection Agency						
Brownfields Assessment and Cleanup Cooperative	-	146,533	-	-	-	146,533
Brownfields Training, Research, and Technical Assistance Grants	-	97,943	-	-	-	97,943
Environmental Protection Agency Total	-	244,476	-	-	-	244,476
Health and Human Services System						
Building Capacity of the Public Health to Improve Population Health	959	-	-	-	-	959
Homeland Security						
Emergency Management Performance Grants	-	33,847	-	-	-	33,847
FEMA Disaster Assistance	-	(7,537)	-	-	-	(7,537)
Homeland Security Grant Program	-	112,275	-	-	-	112,275
Port Security Grant Program	-	2,717	-	-	-	2,717
Homeland Security Total	-	141,302	-	-	-	141,302

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary and Internal Service Funds	Totals
Housing and Urban Development						
Community Development Block Grant	-	2,124,328	-	-	-	2,124,328
Emergency Solutions Grant Program	-	195,789	-	-	-	195,789
Fair Housing Enforcement	17,000	-	-	-	-	17,000
Home Investment Partnerships Program	-	287,013	-	-	-	287,013
Housing and Urban Development Total	<u>17,000</u>	<u>2,607,130</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,624,130</u>
Interior						
Historic Preservation Fund Grants-in-Aid	2,741	-	-	-	-	2,741
Justice						
ATF (Alcohol Tobacco Firearms)						
Task Force	81,279	-	-	-	-	81,279
Blueprint for Safety	-	41,557	-	-	-	41,557
Bulletproof Vest Partnership Program	15,598	-	-	-	-	15,598
Edward Bryne Memorial Formula Grant	-	56,121	-	-	-	56,121
Grants to Encourage Arrest Policies	-	3,034	-	-	-	3,034
National Sexual Assault Kit Initiative	-	329,684	-	-	-	329,684
Organized Crime Drug Enforcement						
Task Force	(7,499)	-	-	-	-	(7,499)
Justice Total	<u>89,378</u>	<u>430,396</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>519,774</u>
Labor						
WIOA Dislocated Workers Formula Grant	-	115,715	-	-	-	115,715
Senior Community Service Employment	-	352,581	-	-	-	352,581
Temporary Assistance to Needy Families	-	14,063	-	-	-	14,063
Workforce Innovation and Opportunity Act	-	520,164	-	-	-	520,164
Labor Total	<u>-</u>	<u>1,002,523</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,002,523</u>
Transportation						
Federal Highway Assistance	-	70,143	-	-	-	70,143
Highway Planning and Construction	-	-	-	1,853,827	-	1,853,827
Interagency Hazardous Materials						
Public Sector	-	4,949	-	-	-	4,949
NHTSA: DWI Officers	-	102,545	-	-	-	102,545
Recreational Trails Program	-	150,000	-	-	-	150,000
Toward Zero Deaths Law						
Enforcement Grant	-	229,018	-	-	-	229,018
Transportation Total	<u>-</u>	<u>556,655</u>	<u>-</u>	<u>1,853,827</u>	<u>-</u>	<u>2,410,482</u>
Total Federal Grants	<u>110,078</u>	<u>5,349,623</u>	<u>-</u>	<u>2,077,463</u>	<u>-</u>	<u>7,537,164</u>
Other Federal:						
Treasury						
Build America Interest Rebate	-	-	222,322	-	-	222,322
Total Intergovernmental Revenue	<u>\$33,763,551</u>	<u>\$12,689,396</u>	<u>\$226,514</u>	<u>\$ 4,674,432</u>	<u>\$ 90,038</u>	<u>\$51,443,931</u>

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
Urban and Community Forestry Program		10.675	\$ 347,498	\$ -
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources				
Coastal Zone Management Administration Awards	15-306A	11.419	\$ 1,678	\$ -
Coastal Zone Management Administration Awards	16-306A	11.419	1,000	-
Coastal Zone Management Administration Awards	16-306A-01	11.419	72,956	-
Total U.S. Department of Commerce			\$ 75,634	\$ -
U.S. Department of Defense				
Direct				
Military Construction, National Guard		12.400	\$ 18,181	\$ -
U.S. Department of Housing and Urban Development				
Direct				
Community Development Block Grants/Entitlement Grants		14.218	\$ 2,509,645	\$ 1,804,014
Emergency Solutions Grant Program		14.231	196,426	183,357
Home Investment Partnerships Program		14.239	345,199	311,260
Fair Housing Assistance Program - State and Local		14.401	17,000	-
Lead-Based Paint Hazard Control in Privately-Owned Housing		14.900	8,335	2,098
Total U.S. Department of Housing and Urban Development			\$ 3,076,605	\$ 2,300,729
U.S. Department of the Interior				
Passed Through Minnesota Historical Society				
Historic Preservation Fund Grants-In-Aid	P16AF00068.026	15.904	\$ 2,741	\$ -
U.S. Department of Justice				
Direct				
Alcohol, Tobacco, and Firearms - Training Assistance		16.012	\$ 93,907	\$ -
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		16.590	18,380	-
Local Law Enforcement Block Grant Program		16.592	13,722	-
Bulletproof Vest Partnership Program		16.607	15,598	-
Edward Byrne Memorial Justice Assistance Grant Program		16.738	56,121	-
National Sexual Assault Kit Initiative		16.833	340,675	-
Total U.S. Department of Justice			\$ 538,403	\$ -
U.S. Department of Labor				
Passed Through Senior Service America, Inc.				
Senior Community Service Employment Program	116	17.235	\$ 250,195	\$ -
(Total Senior Community Service Employment Program 17.235 \$350,560)				
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	7045100	17.235	55,775	-
Senior Community Service Employment Program	8045100	17.235	44,590	-
(Total Senior Community Service Employment Program 17.235 \$350,560)				
Workforce Investment Act (WIA) National Incentive Grants - WIA Section 503	5043400	17.267	9,179	-
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	5047200	17.277	34,750	-
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	5047201	17.277	7,111	-
Total CFDA # 17.277			41,861	-

(continued)

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
(U.S. Department of Labor)				
Workforce Innovation and Opportunity Act (WIOA) Cluster				
WIOA Adult Program	5043100	17.258	3,423	-
WIOA Adult Program	5043101	17.258	1,685	-
WIOA Adult Program	6043100	17.258	141,680	-
WIOA Adult Program	7043100	17.258	34,244	-
Total CFDA # 17.258			<u>181,032</u>	<u>-</u>
WIOA Youth Activities	5043600	17.259	1,858	-
WIOA Youth Activities	5043601	17.259	2,299	-
WIOA Youth Activities	6043600	17.259	171,121	-
WIOA Youth Activities	7043600	17.259	123,000	-
Total CFDA # 17.259			<u>298,278</u>	<u>-</u>
WIOA Dislocated Worker Formula Grants	5048001	17.278	495	-
WIOA Dislocated Worker Formula Grants	6048000	17.278	52,997	-
WIOA Dislocated Worker Formula Grants	7048000	17.278	20,208	-
Total CFDA # 17.278			<u>73,700</u>	<u>-</u>
(Total expenditures for Workforce Innovation and Opportunity Act (WIOA) Cluster \$553,010)				
Total U.S. Department of Labor			\$ 954,610	\$ -
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	99887	20.205	\$ 1,799,602	\$ -
(Total Highway Planning and Construction 20.205 \$1,827,374)				
Passed Through Minnesota Department of Public Safety				
Highway Planning and Construction Cluster				
Highway Planning and Construction - Emergency Relief Program	ER MN 12	20.205	27,772	-
(Total Highway Planning and Construction 20.205 \$1,827,374)				
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	47856	20.219	80,664	-
(Total expenditures for Highway Planning and Construction Cluster \$1,908,038)				
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	A-ENFRC17-2017-DULUTHPD-014	20.600	18,680	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-ENFRC17-2017-DULUTHPD-014	20.608	160,502	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-ENFRC-18-2018-DULUTHPD-001	20.608	44,789	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-OFFICR17-2017-DULUTHPD-002	20.608	51,968	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-OFFICR18-2018-DULUTHPD-002	20.608	16,737	-
Total CFDA # 20.608			<u>273,996</u>	<u>-</u>
Highway Safety Cluster				
National Priority Safety Programs	A-ENFRC17-2017-DULUTHPD-014	20.616	3,783	-
National Priority Safety Programs	A-ENFRC-18-2018-DULUTHPD-001	20.616	1,265	-
National Priority Safety Programs	A-OFFICR17-2017-DULUTHPD-002	20.616	25,596	-
National Priority Safety Programs	A-OFFICR18-2018-DULUTHPD-002	20.616	8,244	-
Total CFDA # 20.616			<u>38,888</u>	<u>-</u>
(Total expenditures for Highway Safety Cluster \$57,568)				
Passed through Minnesota Department of Homeland Security and Emergency Management				
Interagency Hazardous Materials Public Sector Training and Planning Grants	A-HMEP-2015-DULUTHFD-012	20.703	4,949	-
Total U.S. Department of Transportation			\$ 2,244,551	\$ -

(continued)

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Environmental Protection Agency				
Direct				
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements		66.814	\$ 97,943	\$ -
Brownfields Assessment and Cleanup Cooperative Agreements		66.818	138,819	-
Passed through Minnesota Department of Employment and Economic Development				
Capitalization Grants for Clean Water State Revolving Funds	MPFA-13-0050-R-FY15	66.458	122,314	-
Total U.S. Environmental Protection Agency			\$ 359,076	\$ -
U.S. Department of Education				
Passed through Minnesota Department of Employment and Economic Development				
Rehabilitation Services Vocational Rehabilitation Grants to States	7047300	84.126	\$ 7,717	\$ -
U.S. Department of Health and Human Services				
Passed Through Arrowhead Regional Development Commission NON-ACA/PPHF-Building Capacity of the Public Health System to Improve Population Health through National Nonprofit Organizations	1632017	93.424	\$ 959	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Temporary Assistance for Needy Families	8047400	93.558	15,000	-
Total U.S. Department of Health and Human Services			\$ 15,959	\$ -
Corporation for National and Community Service				
Passed Through SOAR Career Solutions Social Innovation Fund	15SIHMN001	94.019	\$ 11,423	\$ -
U.S. Department of Homeland Security				
Direct				
Port Security Grant Program		97.056	\$ 2,717	\$ -
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	4069DRMNP0000001	97.036	314,471	-
Emergency Management Performance Grants	A-EMPG-2015-DULUTHCI-00022	97.042	37,063	-
Passed Through St. Louis County				
Homeland Security Grant Program	A-OPSG-2015-STLOUICO-007	97.067	29,055	-
Total U.S. Department of Homeland Security			\$ 383,306	\$ -
Total Federal Awards			\$ 8,035,704	\$ 2,300,729

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

CITY OF DULUTH, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Duluth. It does not include \$17,058,633 in federal awards expended by the Duluth Airport Authority, component unit of the City, which had a separate single audit. The City's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to, and does not present the financial position, changes in net position, or cash flows of the City.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribe Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

4. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 7,537,164
Expenditures of Revolving Loan Fund	
Community Development Block Grants	174,500
Grants received more than 45 days after year-end, unavailable in 2017	
Coastal Zone Management Administration Awards	73,456
Community Development Block Grants	356,844
Disaster Grants - Public Assistance	1,766,958
Emergency Solutions Grant Program	6,664
Highway Planning and Construction	165,529
Home Investment Partnerships Program	68,702
Lead-Based Paint Hazard Control in Privately-Owned Housing	41,387
Local Law Enforcement Block Grant Program	13,722
Recreational Trails Program	80,664
Social Initiative Fund	4,945
Temporary Assistance for Needy Families	937
WIOA Adult Program	384
WIOA Youth Program	598
Unavailable in 2016, recognized as revenue in 2017	
Urban and Community Forestry Program	(1,760)
Brownfields Assessment and Cleanup Cooperative Agreements	(14,848)
Coastal Zone Management Administration Awards	(183,542)
Community Development Block Grants	(149,319)
Disaster Grants - Public Assistance	(1,444,950)
Emergency Solutions Grant Program	(6,028)
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	(26,209)
Highway Planning and Construction	(220,935)
Highway Planning and Construction - Emergency Relief Program	(42,371)
Home Investment Partnerships Program	(10,517)

CITY OF DULUTH, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

4. Reconciliation to Schedule of Intergovernmental Revenues (continued)

Homeland Security Grant Programs	(83,220)
Lead-Based Paint Hazard Control in Privately-Owned Housing	(39,289)
Military Construction, National Guard	(19,734)
Social Initiative Fund	(1,939)
Senior Community Service Employment Program	(2,018)
WIOA National Dislocated Worker Grants/WIA	(1,382)
WIOA Adult Program	(14,255)
WIOA Youth Program	(11,291)
WIOA Dislocated Worker Formula Grant	(5,804)
Timing Differences Between Expenditures and Related Reimbursements	(106,787)
Capital grants received in enterprise funds	
Capitalization Grants for Clean Water State Revolving Funds	122,314
Grant received by Component Unit - DEDA	
Brownfields Assessment and Cleanup Cooperative Agreements	<u>7,134</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 8,035,704</u>

STATISTICAL SECTION

STATISTICAL SECTION

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

Guide to Statistical Section

Financial Trends - Pages 157-164

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 165-167

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

Debt Capacity - Pages 168-172

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

Demographic and Economic Information - Page 173

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 174-179

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

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

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

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

(continued)

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

	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net (expense)/revenue					
Governmental activities	\$ (84,638,551)	\$ (96,948,276)	\$ (92,027,195)	\$ (75,283,072)	\$ (89,517,243)
Business-type activities	<u>9,244,662</u>	<u>17,786,998</u>	<u>20,523,373</u>	<u>15,818,320</u>	<u>15,079,940</u>
Total primary government net expense	<u>\$ (75,393,889)</u>	<u>\$ (79,161,278)</u>	<u>\$ (71,503,822)</u>	<u>\$ (59,464,752)</u>	<u>\$ (74,437,303)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
General Revenues:					
Property taxes	\$ 18,170,135	\$ 18,125,284	\$ 16,001,873	\$ 16,718,385	\$ 21,379,384
Market value credit aid	1,086,482	1,147,029	33,675	34,071	9,759
Sales taxes	18,363,052	18,009,914	19,252,407	20,071,454	20,888,940
Franchise taxes	1,851,406	1,889,796	1,917,379	1,922,796	1,928,149
Other taxes	198,442	684,088	97,549	159,416	141,927
Casino shared revenues	6,156,767	5,963,162	6,258,727	2,096,800	579,478
Grants and shared revenues not restricted to specific programs	30,311,915	31,498,519	29,130,992	29,154,013	29,148,898
Investment income	4,058,373	4,034,753	2,307,506	2,934,301	506,168
Gain on sale or disposition of capital assets	136,787	84,278	19,174	169,695	19,124
Miscellaneous	3,623,533	1,031,930	13,584	1,157,996	1,172,063
Extraordinary items	-	-	-	-	-
Transfers	<u>2,234,661</u>	<u>7,839,803</u>	<u>4,552,145</u>	<u>5,379,481</u>	<u>4,671,197</u>
Total governmental activities	<u>86,191,553</u>	<u>90,308,556</u>	<u>79,585,011</u>	<u>79,798,408</u>	<u>80,445,087</u>
Business-type activities:					
General Revenues:					
Property taxes	-	-	-	-	-
Grants and shared revenues not restricted to specific programs	-	-	-	48,567	51,272
Investment income	545,151	320,540	282,545	349,471	184,954
Gain on sale or disposition of capital assets	11,577	112,447	7,256	-	55,623
Miscellaneous	-	-	-	2,300,000	-
Extraordinary items	-	(5,441,237)	-	-	-
Transfers	<u>(2,234,661)</u>	<u>(7,839,803)</u>	<u>(4,552,145)</u>	<u>(5,379,481)</u>	<u>(4,671,197)</u>
Total business-type activities	<u>(1,677,933)</u>	<u>(12,848,053)</u>	<u>(4,262,344)</u>	<u>(2,681,443)</u>	<u>(4,379,348)</u>
Total primary government	<u>\$ 84,513,620</u>	<u>\$ 77,460,503</u>	<u>\$ 75,322,667</u>	<u>\$ 77,116,965</u>	<u>\$ 76,065,739</u>
Change in Net Position					
Governmental activities	\$ 1,553,002	\$ (6,639,720)	\$ (12,442,184)	\$ 4,515,336	\$ (9,072,156)
Business-type activities	<u>7,566,729</u>	<u>4,938,945</u>	<u>16,261,029</u>	<u>13,136,877</u>	<u>10,700,592</u>
Total primary government	<u>\$ 9,119,731</u>	<u>\$ (1,700,775)</u>	<u>\$ 3,818,845</u>	<u>\$ 17,652,213</u>	<u>\$ 1,628,436</u>

Source: Statement of Activities

(continued)

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

	Fiscal Year				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Expenses					
Governmental activities:					
General government	\$ 24,455,977	\$ 27,045,420	\$ 26,652,865	\$ 28,487,636	\$ 29,490,639
Public safety	39,860,955	40,104,416	40,798,398	55,526,260	47,268,796
Public works	26,286,454	21,622,112	22,230,628	25,219,128	23,999,112
Culture and recreation	11,872,741	11,584,949	18,319,587	10,407,695	12,497,000
Urban and economic development	14,922,283	14,294,290	14,265,141	17,688,597	15,406,291
Interest	<u>4,535,639</u>	<u>4,338,915</u>	<u>4,619,216</u>	<u>4,543,299</u>	<u>3,951,480</u>
Total governmental activities expenses	<u>121,934,049</u>	<u>118,990,102</u>	<u>126,885,835</u>	<u>141,872,615</u>	<u>132,613,318</u>
Business-type activities:					
Water	11,015,475	11,255,835	10,187,477	10,997,029	11,159,899
Gas	35,174,140	49,131,965	29,262,281	27,526,208	31,537,930
Sewer	17,882,780	16,963,128	16,284,112	16,034,063	16,018,954
Stormwater	3,581,689	3,701,827	3,764,611	4,208,833	3,564,421
Steam district #1	7,692,984	7,254,245	7,666,582	8,364,984	8,298,624
Steam district #2	-	-	-	-	-
Golf	2,059,673	2,020,655	2,309,016	2,068,650	1,940,477
Parking	2,901,617	2,701,445	2,550,028	2,630,605	2,748,883
410 West First Street ramp	-	-	-	768,011	1,266,511
Street lighting	<u>1,545,598</u>	<u>1,910,875</u>	<u>1,914,331</u>	<u>2,307,565</u>	<u>2,123,129</u>
Total business-type activities expenses	<u>81,853,956</u>	<u>94,939,975</u>	<u>73,938,438</u>	<u>74,905,948</u>	<u>78,658,828</u>
Total primary government expenses	<u>\$ 203,788,005</u>	<u>\$ 213,930,077</u>	<u>\$ 200,824,273</u>	<u>\$ 216,778,563</u>	<u>\$ 211,272,146</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 4,675,590	\$ 5,018,181	\$ 4,854,823	\$ 4,934,248	\$ 5,706,995
Public safety	1,948,070	1,501,647	1,562,794	1,698,161	2,869,629
Public works	111,061	1,320,130	2,801,089	2,723,412	56,549
Culture and recreation	1,332,448	1,299,671	1,310,840	1,182,738	1,247,455
Urban and economic development	2,816,814	3,383,810	3,095,554	2,655,700	2,183,548
Operating grants and contributions	13,309,497	11,487,629	10,096,446	12,402,217	11,758,737
Capital grants and contributions	<u>17,878,748</u>	<u>19,388,699</u>	<u>19,174,980</u>	<u>15,968,844</u>	<u>11,096,107</u>
Total governmental activities program revenues	<u>42,072,228</u>	<u>43,399,767</u>	<u>42,896,526</u>	<u>41,565,320</u>	<u>34,919,020</u>
Business-type activities:					
Charges for services:					
Water	14,866,657	14,529,002	14,426,316	14,479,884	14,428,987
Gas	40,587,986	58,291,132	35,495,409	31,209,095	36,122,015
Sewer	20,535,669	19,493,753	19,973,712	19,527,000	19,538,573
Stormwater	4,750,421	4,624,063	4,754,516	5,243,461	5,298,272
Steam district #1	7,858,968	6,820,043	6,725,164	7,064,402	7,712,154
Steam district #2	-	-	-	-	-
Golf	1,738,980	1,734,534	1,931,016	1,822,938	1,730,447
Parking	3,777,759	4,207,977	4,516,797	4,552,144	4,060,636
410 West First Street ramp	-	-	-	339,417	446,597
Street lighting	2,147,449	2,146,270	1,922,930	1,501,926	1,399,669
Operating grants and contributions	60,699	76,493	-	164,101	104,170
Capital grants and contributions	<u>2,812,199</u>	<u>4,597,404</u>	<u>8,380,978</u>	<u>2,251,332</u>	<u>2,832,186</u>
Total business-type activities program revenues	<u>99,136,787</u>	<u>116,520,671</u>	<u>98,126,838</u>	<u>88,155,700</u>	<u>93,673,706</u>
Total primary government program revenues	<u>\$ 141,209,015</u>	<u>\$ 159,920,438</u>	<u>\$ 141,023,364</u>	<u>\$ 129,721,020</u>	<u>\$ 128,592,726</u>

(continued)

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

	Fiscal Year				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Net (expense)/revenue					
Governmental activities	\$ (79,861,821)	\$ (75,590,335)	\$ (83,989,309)	\$ (100,307,295)	\$ (97,694,298)
Business-type activities	<u>17,282,831</u>	<u>21,580,696</u>	<u>24,188,400</u>	<u>13,249,752</u>	<u>15,014,878</u>
Total primary government net expense	<u>\$ (62,578,990)</u>	<u>\$ (54,009,639)</u>	<u>\$ (59,800,909)</u>	<u>\$ (87,057,543)</u>	<u>\$ (82,679,420)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
General Revenues:					
Property taxes	\$ 21,924,954	\$ 22,146,676	\$ 22,405,560	\$ 23,587,371	\$ 27,596,775
Market value credit aid	-	-	-	-	-
Sales taxes	20,388,588	22,031,014	24,305,293	24,585,124	25,188,254
Franchise taxes	1,958,297	2,013,126	2,008,194	1,998,457	3,883,316
Other taxes	134,580	622,015	255,491	198,546	204,587
Casino shared revenues	-	-	-	-	-
Grants and shared revenues not restricted to specific programs	29,401,345	30,995,305	31,232,887	31,345,365	31,420,457
Investment income	(1,632,312)	2,148,194	328,502	1,805,404	3,571,853
Gain on sale or disposition of capital assets	550,473	54,776	-	-	-
Miscellaneous	2,694,159	1,996,119	1,323,545	1,726,300	997,006
Extraordinary items	-	-	(13,264,958)	-	-
Transfers	<u>4,714,434</u>	<u>5,008,750</u>	<u>6,336,860</u>	<u>4,881,948</u>	<u>4,144,712</u>
Total governmental activities	<u>80,134,518</u>	<u>87,015,975</u>	<u>74,931,374</u>	<u>90,128,515</u>	<u>97,006,960</u>
Business-type activities:					
General Revenues:					
Property taxes	-	-	220,293	647,013	756,037
Grants and shared revenues not restricted to specific programs	48,566	48,566	48,566	48,566	59,826
Investment income	33,206	468,471	124,243	99,045	86,837
Gain on sale or disposition of capital assets	(4,983)	58,974	79,246	2,220	57,913
Miscellaneous	69,099	122,789	56,606	53,425	90,095
Extraordinary items	-	-	-	-	-
Transfers	<u>(4,714,434)</u>	<u>(5,008,750)</u>	<u>(6,336,860)</u>	<u>(4,881,948)</u>	<u>(4,144,712)</u>
Total business-type activities	<u>(4,568,546)</u>	<u>(4,309,950)</u>	<u>(5,807,906)</u>	<u>(4,031,679)</u>	<u>(3,094,004)</u>
Total primary government	<u>\$ 75,565,972</u>	<u>\$ 82,706,025</u>	<u>\$ 69,123,468</u>	<u>\$ 86,096,836</u>	<u>\$ 93,912,956</u>
Change in Net Position					
Governmental activities	\$ 272,697	\$ 11,425,640	\$ (9,057,935)	\$ (10,178,780)	\$ (687,338)
Business-type activities	<u>12,714,285</u>	<u>17,270,746</u>	<u>18,380,494</u>	<u>9,218,073</u>	<u>11,920,874</u>
Total primary government	<u>\$ 12,986,982</u>	<u>\$ 28,696,386</u>	<u>\$ 9,322,559</u>	<u>\$ (960,707)</u>	<u>\$ 11,233,536</u>

Unaudited

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

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

	Fiscal Year				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	-
Nonspendable*	414,309	258,535	-	-	-
Restricted*	75,741	91,324	95,801	85,776	99,766
Committed*	13,454	13,129	21,781	32,075	36,242
Assigned*	821,114	1,634,029	2,132,059	1,616,063	2,280,311
Unassigned*	7,746,042	9,320,545	11,624,121	11,634,076	13,190,484
Total general fund	<u>\$ 9,070,660</u>	<u>\$ 11,317,562</u>	<u>\$ 13,873,762</u>	<u>\$ 13,367,990</u>	<u>\$ 15,606,803</u>
All other governmental funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Restricted*	31,790,209	31,233,325	44,269,018	45,235,185	42,708,250
Committed*	18,095,100	19,705,618	19,846,164	21,707,282	24,583,093
Assigned*	576,094	445,627	389,344	824,467	1,209,071
Unassigned*	(5,512,643)	(4,232,523)	(8,155,193)	(2,101,580)	(1,981,450)
Total all other governmental funds	<u>\$ 44,948,760</u>	<u>\$ 47,152,047</u>	<u>\$ 56,349,333</u>	<u>\$ 65,665,354</u>	<u>\$ 66,518,964</u>

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

Source: Balance Sheet - Governmental Funds

Unaudited

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

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

General Governmental includes Capital Projects Fund.

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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues					
Taxes:					
Property taxes	\$ 21,913,489	\$ 22,118,257	\$ 22,549,109	\$ 23,671,256	\$ 27,606,911
Sales taxes	20,388,588	22,031,014	24,305,293	24,585,124	25,188,254
Other taxes	2,092,877	2,635,141	2,263,685	2,197,003	4,087,903
Licenses and permits	1,863,333	1,737,068	1,783,741	1,786,472	1,759,507
Intergovernmental revenues	55,451,614	57,455,627	55,941,414	60,343,948	51,353,893
Charges for services	6,441,338	7,987,527	9,289,681	8,510,151	6,171,005
Fines and forfeits	699,846	709,213	652,033	719,928	1,906,404
Special assessments	2,328,821	2,458,912	1,983,776	2,095,202	1,752,933
Investment income	(1,675,875)	2,022,447	230,692	1,740,987	3,527,779
Miscellaneous revenues	4,521,654	4,304,525	5,326,755	5,980,771	4,809,871
Total revenues	<u>114,025,685</u>	<u>123,459,731</u>	<u>124,326,179</u>	<u>131,630,842</u>	<u>128,164,460</u>
Expenditures					
General government	22,290,793	23,174,447	24,004,445	24,378,741	24,722,755
Public safety	35,035,481	35,512,569	37,150,741	38,524,220	39,263,288
Public works	19,397,379	12,536,734	14,388,357	14,515,792	13,194,918
Culture and recreation	9,469,074	9,645,981	15,954,443	9,117,853	9,779,866
Urban and economic development	17,762,959	13,858,327	16,906,657	24,913,908	15,022,941
Debt service					
Principal retirement	8,655,000	11,350,000	10,501,000	9,531,000	13,271,000
Interest and fiscal fees	4,673,854	4,600,843	4,577,976	4,422,939	4,603,199
Bond issuance costs	203,741	223,753	361,424	595,689	91,522
Capital outlay	17,169,385	21,355,037	16,962,641	15,016,363	14,753,506
Total expenditures	<u>134,657,666</u>	<u>132,257,691</u>	<u>140,807,684</u>	<u>141,016,505</u>	<u>134,702,995</u>
Excess of revenues over (under) expenditures	<u>(20,631,981)</u>	<u>(8,797,960)</u>	<u>(16,481,505)</u>	<u>(9,385,663)</u>	<u>(6,538,535)</u>
Other financing sources (uses)					
Issuance of bonds	10,490,000	8,055,000	21,315,000	12,520,000	5,160,000
Proceeds from refundings	-	865,000	2,630,000	33,470,000	-
Premium on issuance of bonds	271,507	153,373	799,031	7,185,320	326,247
Payment to refunded bond escrow agent	-	(865,000)	(2,845,900)	(39,861,356)	-
Transfers in	16,753,906	16,540,403	19,136,245	22,385,436	21,369,040
Transfers out	(11,988,958)	(11,500,627)	(12,799,385)	(17,503,488)	(17,224,328)
Total other financing sources (uses)	<u>15,526,455</u>	<u>13,248,149</u>	<u>28,234,991</u>	<u>18,195,912</u>	<u>9,630,959</u>
Net change in fund balances	<u>\$ (5,105,526)</u>	<u>\$ 4,450,189</u>	<u>\$ 11,753,486</u>	<u>\$ 8,810,249</u>	<u>\$ 3,092,424</u>
Debt service as a percentage of noncapital expenditures	11.4%	14.1%	12.1%	11.0%	14.7%

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
2008	4,448,018,800	44,960,335	914,966,520	16,708,234
2009	4,596,572,476	46,544,301	1,006,191,824	18,391,705
2010	4,545,577,900	46,457,611	1,041,761,700	19,131,580
2011	4,391,758,200	44,888,003	1,026,682,900	18,853,813
2012	4,399,683,300	40,350,188	1,033,199,600	19,007,636
2013	4,276,314,100	40,087,613	1,057,616,100	19,632,127
2014	4,338,067,800	39,838,986	1,113,116,900	20,463,377
2015	4,441,627,300	40,989,014	1,144,647,100	21,018,612
2016	4,561,213,000	42,373,863	1,202,773,500	22,169,916
2017	4,694,140,900	44,079,263	1,297,252,450	23,998,224

Fiscal Year Ended December 31	Personal Property			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
2008	26,327,800	237,536	94,105,200	1,816,792
2009	28,487,600	283,617	75,268,900	1,435,838
2010	30,139,300	307,525	78,621,200	1,447,720
2011	28,363,500	284,857	84,724,000	1,551,297
2012	28,591,200	208,707	107,565,700	1,966,342
2013	29,300,100	217,752	109,785,500	2,011,293
2014	28,448,100	221,073	104,465,800	1,906,608
2015	33,827,800	276,580	105,380,900	1,937,051
2016	33,899,000	271,921	105,806,200	1,961,029
2017	33,802,700	271,921	99,447,550	1,815,452

Fiscal Year Ended December 31	Total		Percentage of Total Tax Capacity to	
	Estimated Market Value	Tax Capacity	Total Estimated Market Value	Tax Rate
	2008	5,483,418,320	63,722,897	1.16%
2009	5,706,520,800	66,655,461	1.17%	0.25403
2010	5,696,100,100	67,344,436	1.18%	0.26331
2011	5,531,528,600	65,577,970	1.19%	0.27956
2012	5,569,039,800	61,532,873	1.10%	0.31597
2013	5,473,015,800	61,948,785	1.13%	0.33198
2014	5,584,098,600	62,430,044	1.12%	0.32338
2015	5,725,483,100	64,221,257	1.12%	0.32509
2016	5,903,691,700	66,776,729	1.13%	0.33378
2017	6,124,643,600	69,892,939	1.14%	0.37568

Unaudited

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

**PROPERTY TAX RATES*
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS**

Fiscal Year	City			Overlapping Rates			Total Direct & Overlapping Rates
	Operations	Debt Service	Total Direct	Schools	County	Special	
2008	0.14743	0.08516	0.23259	0.20874	0.59190	0.06298	1.09621
2009	0.16193	0.09210	0.25403	0.20940	0.57645	0.06497	1.10485
2010	0.18050	0.08281	0.26331	0.20971	0.55365	0.05654	1.08321
2011	0.18686	0.09270	0.27956	0.23373	0.56011	0.05829	1.13169
2012	0.21847	0.09750	0.31597	0.27706	0.62325	0.05975	1.27603
2013	0.22411	0.10787	0.33198	0.32886	0.63885	0.06180	1.36149
2014	0.23152	0.09186	0.32338	0.34314	0.63613	0.06319	1.36584
2015	0.23089	0.09420	0.32509	0.34108	0.64457	0.06216	1.37290
2016	0.24322	0.09056	0.33378	0.31825	0.61443	0.06193	1.32839
2017	0.28416	0.09152	0.37568	0.29516	0.65056	0.06049	1.38189

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

Source: St. Louis County web site

Unaudited

**PRINCIPAL PROPERTY TAXPAYERS
CURRENT AND NINE YEARS AGO**

Taxpayer	Type of Business	2017			2008		
		Estimated Market Value	Rank	Percentage of Total Estimated Market Value	Estimated Market Value	Rank	Percentage of Total Estimated Market Value
Minnesota Power	Electric utility	130,646,500	1	2.13%	123,129,700	1	2.25%
Simon Property, Inc.	Shopping mall	52,705,900	2	0.86%	41,235,600	2	0.75%
Essentia Health	Healthcare & hospital	46,159,500	3	0.75%	40,428,100	3	0.74%
Wisconsin Central Ltd	Railway	35,080,100	4	0.57%			
Sherman Associates	Real estate development	22,971,400	5	0.38%	27,081,800	4	0.49%
Burlington Northern	Railroad	20,069,900	6	0.33%			
Hall Equities Group	Real estate development	19,337,900	7	0.32%			
NewPage (StoraEnso)	Paper mill	18,009,100	8	0.29%	22,393,900	5	0.41%
IRET Properties	Property management	15,589,800	9	0.25%	21,099,500	6	0.38%
Miner's, Inc.	Grocery wholesaler	15,379,800	10	0.25%			
ZMC Hotels	Hotels				14,119,800	7	0.26%
D M & I R Railroad	Railroad				13,400,800	8	0.24%
US Bank	Bank & office building				11,653,800	9	0.21%
JMM Limited Partnership	Retail & hotel				10,587,100	10	0.19%
		<u>\$375,949,900</u>		<u>6.13%</u>	<u>\$325,130,100</u>		<u>5.92%</u>

Source: St. Louis County Assessor

Unaudited

**CITY OF DULUTH, MINNESOTA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
AND NET CAPACITY OF REAL PROPERTY BY CATEGORY 2017**

**PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year Ended December 31	Net Tax 1 Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2008	12,443,867	12,046,909	96.8%	318,112	12,365,021	99.4%
2009	14,366,814	13,790,094	96.0%	418,529	14,208,623	98.9%
2010	16,050,825	15,531,833	96.8%	411,885	15,943,718	99.3%
2011	16,648,242	16,102,214	96.7%	368,960	16,471,174	98.9%
2012	21,403,582	20,835,227	97.3%	392,475	21,227,702	99.2%
2013	21,966,088	21,396,584	97.4%	437,022	21,833,606	99.4%
2014	22,040,149	21,498,351	97.5%	302,555	21,800,906	98.9%
2015	22,686,100	22,310,465	98.3%	250,491	22,560,956	99.4%
2016	24,233,053	23,842,607	98.4%	190,995	24,033,602	99.2%
2017	28,039,466	27,593,516	98.4%	-	27,593,516	98.4%

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

Unaudited

**NET CAPACITY OF REAL PROPERTY BY CATEGORY
TAXES PAYABLE IN 2017**

<u>Real Estate Only</u>	<u>Net Tax Capacity</u>	<u>% of Total Net Tax Capacity</u>
Residential	\$ 29,766,110	43.73%
Non-Homestead Residential	14,313,153	21.02%
Commercial/Industrial	21,357,603	31.37%
Agricultural	20,010	0.03%
Public Utility	1,284,506	1.89%
Railroad	1,110,694	1.63%
Seasonal/Recreational	225,411	0.33%
Total	<u>\$ 68,077,487</u>	<u>100.00%</u>

Unaudited

**CITY OF DULUTH, MINNESOTA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

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

Governmental Activities						
Fiscal Year	General Obligation Bonds	General Obligation Tax Abatement Bonds	Tax Increment Revenue Bonds	Lease Revenue Bonds	Special Assessment Debt with Government Commitment	General Obligation Certificates
2008	60,815	310	175	1,125	48,845	6,715
2009	76,699	310	135	995	41,106	8,065
2010	** 75,449	310	-	860	36,011	8,920
2011	74,561	285	-	715	29,569	10,275
2012	76,927	7,315	-	565	23,943	11,300
2013	80,754	7,290	-	415	20,901	12,625
2014	82,936	6,705	-	-	16,814	12,340
2015	97,340	6,350	-	-	13,080	12,670
2016	91,300	13,805	-	-	10,765	13,250
2017	86,615	13,435	-	-	7,320	13,670

Governmental Activities			Business Activities			
Fiscal Year	Deferred Amount for Bond Premium	Revenue and General Obligation Notes	Capital Leases	Revenue Bonds	Revenue and General Obligation Bonds	Deferred Amount for Bond Discounts/Premiums
2008	565	3,544	155	550	56,315	(188)
2009	1,042	3,415	114	420	54,505	(16)
2010	** 989	3,171	70	285	47,900	67
2011	938	3,086	24	145	44,005	127
2012	1,612	2,996	-	-	41,045	608
2013	1,579	2,896	-	-	37,305	505
2014	1,419	2,791	-	-	44,343	401
2015	1,910	2,735	110	-	42,760	496
2016	8,418	2,704	75	-	39,222	377
2017	7,917	2,673	38	-	34,927	270

Business Activities					
Fiscal Year	General Obligation Notes	Capital Leases	Total Primary Government	Percentage of Personal Income*	Per Capita*
2008	4,892	8,999	192,817	8.07%	2,263
2009	5,906	9,120	201,816	8.83%	2,360
2010	** 10,766	8,725	193,523	8.56%	2,243
2011	20,562	8,672	192,964	8.30%	2,237
2012	23,084	8,041	197,436	8.34%	2,290
2013	21,904	7,385	193,559	7.71%	2,247
2014	24,581	6,704	199,034	7.64%	2,308
2015	23,034	5,995	206,480	7.48%	2,398
2016	20,519	5,385	205,820	7.60%	2,385
2017	18,048	4,752	189,665	6.88%	2,198

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

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

Unaudited

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

**RATIOS OF NET GENERAL OBLIGATION BONDED DEBT
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Population</u>	<u>Tax Capacity</u>	<u>Gross Bonded Debt</u>	<u>Less Debt Service Funds</u>	<u>Net Bonded Debt</u>	<u>Percent of Net Bonded Debt to Tax Capacity</u>	<u>Net Bonded Debt per Capita</u>
2008	85,220	63,722,897	67,840,000	14,636,181	53,203,819	83.49%	624.31
2009	85,530	66,655,461	85,074,118	18,612,250	66,461,868	99.71%	777.06
2010*	86,265	67,344,436	84,679,118	19,144,190	65,534,928	97.31%	759.69
2011	86,277	65,577,970	86,059,378	18,629,920	67,429,458	102.82%	781.55
2012	86,200	61,532,873	97,154,314	17,742,090	79,412,224	129.06%	921.26
2013	86,128	61,948,785	102,247,605	19,802,762	82,444,843	133.09%	957.24
2014	86,238	62,430,044	103,399,159	22,948,537	80,450,622	128.87%	932.89
2015	86,110	64,221,257	118,269,847	19,496,773	98,773,074	153.80%	1,147.06
2016	86,293	66,776,729	126,772,630	22,581,641	104,190,989	156.03%	1,207.41
2017	86,293	69,892,939	121,637,268	7,639,067	113,998,201	163.10%	1,321.06

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

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

Unaudited

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF DECEMBER 31, 2017**

<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	\$94,700,000	88.08%	\$ 83,409,770
Independent School District 704	27,590,000	5.87%	1,618,356
St. Louis County	109,880,000	36.79%	<u>40,427,299</u>
Subtotal, overlapping debt			125,455,425
City of Duluth direct debt			<u>123,713,000</u>
Total direct and overlapping debt			<u><u>\$ 249,168,425</u></u>

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

Unaudited

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

	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Taxable market value	\$5,483,418,320	\$5,706,520,800	\$5,696,100,100	\$5,531,528,600	\$5,569,039,800
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	\$ 109,668,366	\$ 114,130,416	\$ 113,922,002	\$ 110,630,572	\$ 111,380,796
Debt applicable to limit:					
Total bonds payable	\$ 174,850,000	\$ 182,235,000	\$ 169,735,000	\$ 159,554,999	\$ 161,095,000
Less: Deductions allowable	(152,495,000)	(141,965,882)	(128,955,882)	(117,723,976)	(123,073,029)
Total net debt applicable to limit	\$ 22,355,000	\$ 40,269,118	\$ 40,779,118	\$ 41,831,023	\$ 38,021,971
Total net debt applicable to the limit as a percentage of debt limit	20.38%	35.28%	35.80%	37.81%	34.14%

	Fiscal Year				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Taxable market value	\$5,473,015,800	\$5,584,098,600	\$5,725,483,100	\$5,903,691,700	\$6,124,643,600
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	\$ 109,460,316	\$ 111,681,972	\$ 114,509,662	\$ 118,073,834	\$ 122,492,872
Debt applicable to limit:					
Total bonds payable	\$ 159,290,002	\$ 163,138,242	\$ 172,200,045	\$ 168,342,029	\$ 155,967,007
Less: Deductions allowable	(118,746,296)	(123,892,674)	(133,220,045)	(129,827,029)	(117,767,007)
Total net debt applicable to limit	\$ 40,543,706	\$ 39,245,568	\$ 38,980,000	\$ 38,515,000	\$ 38,200,000
Total net debt applicable to the limit as a percentage of debt limit	37.04%	35.14%	34.04%	32.62%	31.19%

Unaudited

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

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<u>WATER REVENUE BOND</u>							
2008	11,460,937	9,930,687	1,530,250	446,000	167,583	613,583	2.49
2009	11,997,431	9,250,685	2,746,746	460,000	157,856	617,856	4.45
2010	12,045,133	9,275,099	2,770,034	186,000	94,605	280,605	9.87
2011	11,747,715	9,395,019	2,352,696	399,428	97,166	496,594	4.74
2012	13,928,511	8,897,762	5,030,749	427,028	85,385	512,413	9.82
2013	14,892,290	9,394,544	5,497,746	433,873	73,085	506,958	10.84
2014	14,555,607	9,529,831	5,025,776	451,251	60,371	511,622	9.82
2015	14,440,052	8,528,252	5,911,800	388,095	33,951	422,046	14.01
2016	14,494,396	9,008,318	5,486,078	336,473	27,326	363,799	15.08
2017	14,443,317	9,286,000	5,157,317	348,851	17,833	366,684	14.06
<u>GAS REVENUE BOND</u>							
2008	58,737,875	52,926,055	5,811,820	964,000	473,807	1,437,807	4.04
2009	46,526,246	36,939,946	9,586,300	652,000	341,269	993,269	9.65
2010	39,970,909	34,319,333	5,651,576	821,000	255,813	1,076,813	5.25
2011	41,552,067	34,549,583	7,002,484	855,957	305,411	1,161,368	6.03
2012	34,148,624	28,790,209	5,358,415	857,980	185,574	1,043,554	5.13
2013	40,611,707	33,701,058	6,910,649	896,020	161,825	1,057,845	6.53
2014	58,554,131	47,699,256	10,854,875	922,972	136,104	1,059,076	10.25
2015	35,584,151	27,708,531	7,875,620	869,955	84,237	954,192	8.25
2016	31,767,073	25,294,510	6,472,563	902,931	55,294	958,225	6.75
2017	36,217,772	29,677,464	6,540,308	480,000	29,800	509,800	12.83
<u>SEWER REVENUE BOND</u>							
2008	17,368,159	15,398,048	1,970,111	1,365,000	574,828	1,939,828	1.02
2009	20,344,639	15,900,214	4,444,425	1,274,000	567,498	1,841,498	2.41
2010	20,388,169	14,482,465	5,905,704	1,008,000	482,913	1,490,913	3.96
2011	20,130,587	15,215,558	4,915,029	1,317,776	404,300	1,722,076	2.85
2012	20,387,041	15,946,629	4,440,412	1,390,440	324,927	1,715,367	2.59
2013	20,541,361	16,013,024	4,528,337	1,454,699	296,240	1,750,939	2.59
2014	19,545,030	14,653,139	4,891,891	1,506,941	257,061	1,764,002	2.77
2015	19,986,777	13,852,969	6,133,808	1,177,256	179,515	1,356,771	4.52
2016	20,670,314	13,608,142	7,062,172	1,357,475	159,416	1,516,891	4.66
2017	19,543,095	13,717,618	5,825,477	1,289,599	127,358	1,416,957	4.11
<u>STORMWATER REVENUE BOND</u>							
2008	4,576,883	2,559,032	2,017,851	170,000	103,169	273,169	7.39
2009	5,187,017	2,862,787	2,324,230	179,000	96,730	275,730	8.43
2010	4,734,525	2,845,983	1,888,542	95,000	67,887	162,887	11.59
2011	4,672,485	2,868,448	1,804,037	196,839	68,295	265,134	6.80
2012	4,820,629	2,897,725	1,922,904	204,552	62,297	266,849	7.21
2013	4,755,764	3,059,690	1,696,074	210,409	56,115	266,524	6.36
2014	4,670,074	3,248,954	1,421,120	218,837	49,690	268,527	5.29
2015	4,767,610	3,291,078	1,476,532	109,694	22,700	132,394	11.15
2016	5,253,324	3,670,639	1,582,685	228,121	24,001	252,122	6.28
2017	5,293,060	3,141,177	2,151,883	241,549	18,184	259,733	8.28

(continued)

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

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<u>STEAM DISTRICT #1 REVENUE BOND</u>							
2008	5,959,836	4,576,313	1,383,523	510,000	299,986	809,986	1.71
2009	6,152,268	4,784,338	1,367,930	500,000	280,645	780,645	1.75
2010	6,497,846	5,032,398	1,465,448	515,000	260,912	775,912	1.89
2011	7,169,515	5,712,409	1,457,106	495,000	241,246	736,246	1.98
2012	7,239,954	5,867,609	1,372,345	-	52,148	52,148	26.32
2013	7,847,524	6,547,268	1,300,256	600,000	73,940	673,940	1.93
2014	6,861,228	6,060,699	800,529	625,000	67,815	692,815	1.16
2015	6,728,330	6,230,054	498,276	635,000	151,946	786,946	0.63
2016	7,069,377	6,896,627	172,750	635,000	177,553	812,553	0.21
2017	7,712,154	6,845,368	866,786	650,000	170,315	820,315	1.06
<u>GOLF REVENUE BOND (3)</u>							
2008	1,882,898	1,707,326	175,572	130,000	19,435	149,435	1.17
2009	1,945,535	1,723,055	222,480	135,000	15,210	150,210	1.48
2010	1,967,418	1,858,207	109,211	140,000	10,620	150,620	0.73
2011	1,872,594	1,789,906	82,688	145,000	5,510	150,510	0.55
<u>PARKING REVENUE BOND</u>							
2008	4,200,392	816,515	3,383,877	430,000	694,889	1,124,889	3.01
2009	2,592,185	693,301	1,898,884	745,000	692,013	1,437,013	1.32
2010	2,610,111	789,126	1,820,985	790,000	657,056	1,447,056	1.26
2011	2,645,997	800,256	1,845,741	825,000	620,263	1,445,263	1.28
2012	3,216,205	1,860,989	1,355,216	860,000	211,266	1,071,266	1.27
2013	3,780,214	2,085,827	1,694,387	1,045,000	234,363	1,279,363	1.32
2014	4,286,789	1,983,869	2,302,920	1,130,000	201,694	1,331,694	1.73
2015	4,513,311	1,789,669	2,723,642	780,000	186,819	966,819	2.82
2016	4,563,427	1,850,051	2,713,376	785,000	178,994	963,994	2.81
2017	4,054,780	1,971,083	2,083,697	795,000	167,119	962,119	2.17

Notes:

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

Unaudited

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

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>Population</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2008	85,220	2,390,569,327	28,052	9,554	5.7%
2009	85,530	2,286,461,687	26,733	9,195	7.7%
2010	86,265	2,260,614,999	26,205	8,780	7.6%
2011	86,277	2,324,435,029	26,942	8,815	6.8%
2012	86,200	2,368,110,337	27,472	8,686	6.0%
2013	86,128	2,510,223,601	29,145	8,517	5.2%
2014	86,238	2,605,207,475	30,210	8,517	4.4%
2015	86,110	2,761,947,379	32,075	8,353	3.4%
2016	86,293	2,709,373,102	31,397	8,115	4.0%
2017	86,293 *	2,755,917,780 *	31,937	8,067	3.7%

Data sources:

The population figures are estimates of the US Census Bureau.

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 Employment and Economic Development.

*Estimates

Unaudited

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

<u>Employer</u>	<u>Type of Business</u>	<u>2017</u>			<u>2008</u>		
		<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Essentia Health (SMDC)	Healthcare / hospital	6,569	1	11.14%	4,693	1	7.73%
St. Luke's Hospital	Healthcare / hospital	2,051	2	3.48%	1,657	3	2.73%
St. Louis County	Government	1,956	3	3.32%	1,640	4	2.70%
University of Minnesota - Duluth	Education	1,635	4	2.77%	1,700	2	2.80%
Independent School District No. 709	Education	1,426	5	2.42%	1,426	5	2.35%
Allete (Minnesota Power)	Electric utility	1,314	6	2.23%	1,400	6	2.31%
Duluth Air National Guard Base	Military	1,068	7	1.81%	1,068	8	1.76%
United Health Care	Insurance	999	9	1.69%	1,087	7	1.79%
Cirrus Design	Aviation	980	8	1.66%	905	9	1.49%
City of Duluth	Government	871	10	1.48%	852	10	1.40%
		<u>18,869</u>		<u>32.00%</u>	<u>16,428</u>		<u>27.06%</u>

Source: Northland Connection's website.

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

Unaudited

**CITY OF DULUTH, MINNESOTA
 FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS**

Function:	Full-time Equivalent Employees as of December 31				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General government	128.00	107.20	114.40	113.90	115.90
Public safety					
Police	179.00	182.00	187.00	185.00	185.00
Fire	134.00	134.00	140.00	140.00	138.00
Public works	83.40	100.20	123.80	118.60	106.60
Culture and recreation					
Parks and recreation	17.60	7.50	7.50	7.50	9.00
Zoo	11.00	-	-	-	-
Library	57.30	47.30	43.50	43.50	48.50
Urban and economic development	56.00	56.00	59.00	62.50	61.50
Water & Gas	122.50	120.50	124.80	128.20	131.00
Sewer	38.60	38.60	38.40	38.40	39.20
Stormwater	20.10	21.10	24.20	24.20	26.00
Parking	4.00	4.00	4.00	3.00	3.00
Street lighting	-	4.00	4.00	5.00	5.00
Total	<u>851.50</u>	<u>822.40</u>	<u>870.60</u>	<u>869.80</u>	<u>868.70</u>

Function:	Full-time Equivalent Employees as of December 31				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
General government	125.75	127.65	131.65	132.40	133.00
Public safety					
Police	178.50	178.50	178.50	180.50	184.14
Fire	141.00	142.00	143.00	144.50	146.50
Public works	87.10	85.90	85.05	86.25	86.50
Culture and recreation					
Parks and recreation	10.00	10.00	9.75	11.75	11.95
Zoo	-	-	-	-	-
Library	49.00	49.00	46.50	46.50	46.70
Urban and economic development	60.25	59.53	55.50	54.05	54.05
Water & Gas	133.00	132.60	128.65	129.15	134.75
Sewer	40.20	39.33	36.93	35.80	33.15
Stormwater	26.00	25.52	26.87	27.30	25.85
Parking	8.00	8.00	8.00	9.00	9.00
Street lighting	5.00	5.10	5.10	5.10	5.10
Total	<u>863.80</u>	<u>863.13</u>	<u>855.50</u>	<u>862.30</u>	<u>870.69</u>

Source: City of Duluth Budget Office

Unaudited

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

Function:	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police					
Criminal offences	10,720	11,071	10,540	11,278	9,924
Cleared by arrest	3,777	4,393	4,436	4,231	3,785
Traffic violations	2,951	2,153	5,241	9,746	9,499
Parking violations	49,498	54,953	56,292	51,991	46,492
Fire					
Number of calls answered	8,552	9,319	8,484	9,262	9,857
Number of inspections conducted	1,200	1,200	1,200	1,200	1,200
Public works					
Construction permits:					
Permits issued	2,757	2,362	2,026	1,700	2,325
Estimated cost of construction during year	\$ 115,091,545	\$ 113,965,408	\$ 238,186,019	\$ 173,357,959	\$ 104,841,877
Culture and recreation					
Parks and recreation department					
Participation in special events	59,353	42,858	48,896	15,436	18,129
Participation in recreation	112,826	36,217	31,905	39,839	35,681
Zoo regular customers	92,218	91,606	102,986	93,705	71,842
Library					
Registered borrowers	49,233	47,662	46,592	47,965	50,171
Items in collection*	344,302	620,941	620,101	463,418	457,999
Items loaned	901,128	881,268	929,161	902,221	953,270
Library visits	404,724	362,719	380,982	376,817	460,918
Internet uses	40,187	43,907	62,379	66,394	89,070
Reference/research questions answered**	250,756	67,460	80,678	79,443	90,155
Water					
Meters in service	28,016	27,950	30,317	29,069	28,082
Average number of gallons treated per month	514,647,500	516,805,833	481,950,833	461,125,000	468,170,000
Water pumped - million cubic feet	826.00	829.10	773.10	739.80	756.10
Water sold - million cubic feet	601.00	658.00	665.50	589.60	644.40
Daily average consumption in gallons	16,919,918	16,973,333	15,844,958	15,160,274	13,206,643
Gas					
Meters in service	25,983	26,148	26,668	26,693	27,542
MMBTU sold	5,169,299	4,804,897	4,617,923	5,184,800	4,528,009
Sewer					
Number of service connections	28,845	28,845	28,845	28,845	27,250
Daily average treatment in gallons	15,249,900	13,740,000	14,859,000	13,284,575	12,137,000
Stormwater					
Cleaning storm sewer pipe (in feet)	21,254	23,358	14,734	14,750	230,165
Steam District #1					
Steam sold (in 1,000 lbs)	465,717	441,808	403,085	409,295	379,257
Golf					
Season passes	928	863	823	810	803
Daily tickets	35,230	33,815	32,252	32,101	35,121
Carts	12,811	11,128	10,670	12,553	14,751
Rounds played	83,390	80,987	79,430	75,480	84,740

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

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

Sources: Various government departments

(continued)

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

Function:	Fiscal Year				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Police					
Criminal offences	10,828	9,472	10,262	10,447	10,561
Cleared by arrest	4,473	4,070	4,081	4,062	3,802
Traffic violations	11,152	9,307	8,525	6,819	5,196
Parking violations	51,361	55,097	50,647	55,226	34,437
Fire					
Number of calls answered	10,816	11,114	12,231	12,799	13,239
Number of inspections conducted	1,200	1,200	1,200	1,200	7,490
Public works					
Construction permits:					
Permits issued	2,054	2,030	1,896	2,085	2,071
Estimated cost of construction during year	\$ 137,097,967	\$ 182,409,369	\$ 160,884,495	\$ 108,815,274	\$ 92,039,794
Culture and recreation					
Parks and recreation department					
Participation in special events	40,045	30,749	23,122	49,125	67,300
Participation in recreation	27,393	28,304	22,586	31,555	25,210
Zoo regular customers	58,306	65,270	64,071	76,316	81,538
Library					
Registered borrowers	50,491	48,147	47,086	45,424	42,674
Items in collection*	467,050	456,753	444,790	435,385	424,304
Items loaned	959,432	923,063	927,389	848,293	871,704
Library visits	484,917	492,106	474,982	461,403	475,363
Internet uses	106,662	118,825	109,965	92,656	90,489
Reference/research questions answered**	84,838	89,232	77,896	59,321	71,253
Water					
Meters in service	28,051	28,131	28,134	28,134	28,243
Average number of gallons treated per month	433,795,000	433,676,667	431,616,667	415,642,500	408,434,167
Water pumped - million cubic feet	695.90	695.74	692.4	666.8	655.2
Water sold - million cubic feet	605.95	591.00	589.8	565.6	568.4
Daily average consumption in gallons	12,418,716	14,257,863	14,190,136	11,590,274	11,648,560
Gas					
Meters in service	27,452	26,585	26,896	28,540	28,712
MMBTU sold	5,355,988	5,679,683	4,885,371	4,770,804	5,218,978
Sewer					
Number of service connections	27,956	27,956	27,963	27,985	27,993
Daily average treatment in gallons	12,843,000	14,257,000	13,000,530	13,729,690	14,355,390
Stormwater					
Cleaning storm sewer pipe (in feet)	31,658	2,700	3,330	20,017	107,965
Steam District #1					
Steam sold (in 1,000 lbs)	394,762	300,669	332,830	313,408	305,465
Golf					
Season passes	695	644	795	731	436
Daily tickets	31,401	28,860	46,700	38,894	34,358
Carts	14,019	15,056	42,606	39,846	28,555
Rounds played	63,196	60,172	81,082	75,544	67,657

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

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

Sources: Various government departments

Unaudited

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

Function:	Fiscal Year				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police					
Patrol units	96	91	96	94	93
Fire					
Fire stations	9	9	9	9	8
Public works					
Miles of streets and alleys:					
Miles of streets - paved	476.30	476.30	469.00	470.23	470.43
Miles of streets - unpaved	73.11	73.11	48.02	48.02	48.02
Miles of sidewalk	382.56	382.56	277.00	409.00	409.90
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,758	3,930	3,930	3,930	3,930
Overhead street lamps	3,732	3,657	3,665	3,665	3,665
Culture and recreation					
Parks and recreation department					
Number of parks	111	145	127	127	128
Park acreage	13,490	11,880	15,255	15,255	12,000
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	22	15	17	17	17
Community clubs/field houses operated	27	22	22	22	21
Number of athletic fields	36	57	57	57	57
Number of hiking trails	13	13	13	14	14
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	413.79	414.59	424.10	426.30	426.74
Number of hydrants	2,500	2,506	2,535	2,583	2,597
Maximum daily capacity of plant in gallons	32,000,000	32,000,000	32,000,000	32,000,000	32,000,000
Gas					
Miles of gas mains	510.20	506.00	512.40	511.00	520.00
Sewer					
Miles of sanitary sewers	424.00	444.00	392.00	382.00	406.20
Stormwater					
Miles of storm sewers	431.00	431.00	431.00	431.00	431.00
Steam District #1					
Miles of line	11.00	11.00	11.00	11.00	11.00
Golf					
Number of municipal golf courses	2	2	2	2	2

Sources: Various government departments.

(continued)

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

Function:	Fiscal Year				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Police					
Patrol units	93	93	93	97	102
Fire					
Fire stations	8	8	8	8	8
Public works					
Miles of streets and alleys:					
Miles of streets - paved	470.49	472.51	473.80	475.77	475.74
Miles of streets - unpaved	47.96	47.96	47.96	47.96	47.96
Miles of sidewalk	410.98	410.98	410.98	411.08	352.00
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,930	3,930	3,930	3,940	3,930
Overhead street lamps	3,665	3,665	3,665	3,665	3,665
Culture and recreation					
Parks and recreation department					
Number of parks	128	128	128	129	129
Park acreage	12,000	12,000	12,000	12,000	12,000
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	17	19	19	17	17
Community clubs/field houses operated	21	19	19	19	19
Number of athletic fields	57	57	57	48	48
Number of hiking trails	14	14	14	14	14
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	428.30	429.50	430.40	428.30	428.40
Number of hydrants	2,671	2,677	2,688	2,699	2,708
Maximum daily capacity of plant in gallons	32,000,000	32,000,000	32,000,000	32,000,000	32,000,000
Gas					
Miles of gas mains	527.00	534.70	534.10	538.20	544.40
Sewer					
Miles of sanitary sewers	398.00	402.00	395.30	397.60	398.80
Stormwater					
Miles of storm sewers	443.00	435.00	398.07	404.56	412.00
Steam District #1					
Miles of line	11.00	11.00	11.00	11.00	11.00
Golf					
Number of municipal golf courses	2	2	2	2	2

Sources: Various government departments.

Unaudited

**CITY OF DULUTH, MINNESOTA
 COMPONENT UNIT STATISTICAL DATA
 LAST TEN FISCAL YEARS**

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

	Fiscal Year				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
COMPONENT UNITS					
Duluth Entertainment and Convention Center Authority (DECC)					
Number of events	471	516	519	506	510
Number of conventions	51	45	52	47	45
Duluth Airport Authority					
Number of passengers	313,839	310,893	266,500	251,459	244,839
Duluth Transit Authority					
Number of buses	66	67	66	67	67
Number of routes	19	19	19	20	23
Number of passengers	3,195,020	3,107,305	2,850,000	2,804,000	2,786,000
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority					
Skier visits	136,990	140,017	95,401	89,483	78,739
Season passes	6,773	6,728	5,697	4,275	3,386

Unaudited



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