

THE CITY OF DULUTH, MINNESOTA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007



City of Duluth Minnesota

Comprehensive Annual Financial Report
for the Fiscal Year Ending
December 31, 2007



Department of Finance

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

Introductory Section

**CITY OF DULUTH, MINNESOTA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2007**

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	1
Elected and Appointed Officials	5
Organizational Chart	7
Certificate of Achievement	9
FINANCIAL SECTION	
Independent Auditor's Report	11
Management's Discussion and Analysis	13
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	23
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet - Governmental Funds	26
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	28
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	29
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	31
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	32
Statement of Net Assets - Proprietary Funds	33
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	35
Statement of Cash Flows - Proprietary Funds	37
Statement of Fiduciary Net Assets	39
Statement of Changes in Fiduciary Net Assets – Other Post Employment Benefits Trust Fund	40
Statement of Net Assets - Component Units	41
Statement of Activities - Component Units	42
Notes to the Financial Statements	45
Required Supplementary Information :	
Schedule of Employer Contributions – Other Post Employment Benefits Plan Trust	91
Schedule of Funding Progress – Other Post Employment Benefits Plan	92
Combining and Individual Fund Statements and Schedules :	
Combining Balance Sheet - Nonmajor Governmental Funds	95
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	101
Schedule of Revenues - Estimated and Actual - General Fund	108
Schedule of Expenditures and Encumbrances - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	111
Schedule of Expenditures/Transfers Out - General Fund	116
Combining Statement of Net Assets - Nonmajor Enterprise Funds	120
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Enterprise Funds	121
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	122
Combining Statement of Net Assets - Internal Service Funds	123

**CITY OF DULUTH, MINNESOTA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2007**

TABLE OF CONTENTS

	Page
FINANCIAL SECTION	
Combining and Individual Fund Statements and Schedules :	
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	124
Combining Statement of Cash Flows - Internal Service Funds	125
Statement of Changes in Assets and Liabilities - Agency Funds	128
Supplementary Information	
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Source	131
Schedule by Function and Activity	132
Schedule of Changes by Function and Activity	133
Schedule of Changes in Long-Term Debt	
Bonds and Certificates Payable	134
Notes Payable	138
Schedule of Intergovernmental Revenues	140
Duluth Economic Development Authority	
Balance Sheet	142
Statement of Revenues, Expenditures and Changes in Fund Balance	144
STATISTICAL SECTION	
Net Assets by Component	148
Changes in Net Assets	149
Fund Balances of Governmental Funds	151
Changes in Fund Balances of Governmental Funds	152
Assessed and Estimated Taxable Market Value of Property	154
Property Tax Rates – Direct and Overlapping Governments	155
Principal Property Taxpayers	155
Property Tax Levies and Collections	156
Ratios of Outstanding Debt by Type	156
Ratios of Net General Obligation Bonded Debt	157
Direct and Overlapping Governmental Activities Debt	157
Legal Debt Margin Information	158
Revenue Bond Coverage	159
Demographic and Economic Statistics	161
Principal Employers	161
Full-time Equivalent City Government Employees by Function	162
Operating Indicators by Function	163
Capital Asset Statistics by Function	165
Component Unit Statistical Data	167



CITY OF DULUTH

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Genevieve A. Stark
Director of Finance

June 25, 2008

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, 2007.

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

The Minnesota Office of the State Auditor has issued an unqualified opinion on the City of Duluth's financial statements for the year ended December 31, 2007. The independent auditor's report is located at the front of the financial section of this report.

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

GOVERNMENT PROFILE

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

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

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

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

LOCAL ECONOMY

Once dependent on heavy industry for its economic health, Duluth has diversified and is now a strong regional center for shipping, tourism, education, health care, retail sales, technology, and aviation. According to the Minnesota Department of Economic Security, Duluth had 65,451 non-agricultural jobs in December 2007. This is the highest December figure in the city's history.

Duluth also showed improvement in its signature industry, shipping. The Seaway Port Authority of Duluth reports that 1,231 ships used the port last year, an increase of 44 ships from 2006. But more importantly, tonnage carried by those vessels was up, to 47,858,000 tons. This is the largest tonnage figure since 1979. These numbers include 158 foreign-flag vessels, 292 Canadian-flag vessels and 781 U.S.-flag vessels.

Duluth continues to excel in the key industry of tourism. Duluth's efforts in this area resulted in 59 conventions hosted by the Duluth Entertainment Convention Center (DECC) during 2007, an increase of 16 events over 2006. Over 20,600 people attended these conventions, placing an estimated \$15.5 million directly into the Duluth economy. The DECC remains in the top twenty nationwide in terms of convention center business and is uniquely located on the world's largest inland port.

Legislative approval was also obtained early in 2008 on a third expansion for this fine facility, to house a new home for the University of Minnesota-Duluth's men's and women's hockey teams and attract even more, and even bigger, conventions to the city. This expansion is expected to be in the \$70 million range.

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

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

Work is also nearly complete on the Heritage Hockey Center project, a combined hockey facility, hotel complex and museum which will provide unparalleled opportunities for Duluth's youth and help the city claim its rightful place as a capital city in the State of Hockey. This unique center will open during the spring of 2008.

LONG-TERM FINANCIAL PLANNING

Unreserved, undesignated fund balance in the general fund (1.4 percent of total general fund expenditures and transfers) does not fall within the policy guidelines set by the Administration and Council for budgetary and planning purposes. According to the policy, unreserved, undesignated fund balance should fall within the following range of general fund expenditures and transfers; 5% as a minimum, 7% as a moderate scenario, with 10% regarded as optimum. The City will develop a fund balance recovery initiative to work towards rebuilding unreserved, undesignated fund balance to meet policy requirements during 2008.

RELEVANT FINANCIAL POLICIES

The City established a Community Investment Fund in 1994. The Fund is financed by the City's share of revenues generated from the operation of the Fond-du-Luth Casino administered by the Fond du Lac

Band of Lake Superior Chippewa. Investment earnings from the Community Investment Fund are applied towards the City's Street Improvement Program. All other monies appropriated from the Fund must be approved by resolution by at least seven members of the nine-member City Council.

As of December 31, 2007, the City Council has approved resolutions authorizing the use of \$ 3.4 million of future Community Investment Fund revenues for a variety of projects including the creation of affordable housing and the construction of recreational facilities. In addition, in 2007, the City Council transferred \$10 million from the Community Investment Fund into an irrevocable trust for funding the City's other post employment benefits obligation and authorized future transfers of \$1.2 million annually.

MAJOR INITIATIVES

In 2007, the City established an irrevocable trust to pre-fund the City's other post employment benefit liability. Contributions totaling \$13.7 million were made to the irrevocable trust in 2007. Future contributions will be made from a variety of funding sources including the property taxes, public utility revenues and the Community Investment Fund.

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

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

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, 2006. This was the thirty-second 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 2007. In order to qualify for the Distinguished Budget Presentation Award, a governmental unit's budget must be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

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

Respectfully submitted,

/s/ Genevieve A. Stark

Genevieve A. Stark
Director of Finance

/s/ Wayne Parson

Wayne Parson, CPA
City Auditor

**ELECTED AND APPOINTED OFFICIALS
CITY OF DULUTH, MINNESOTA
2007**

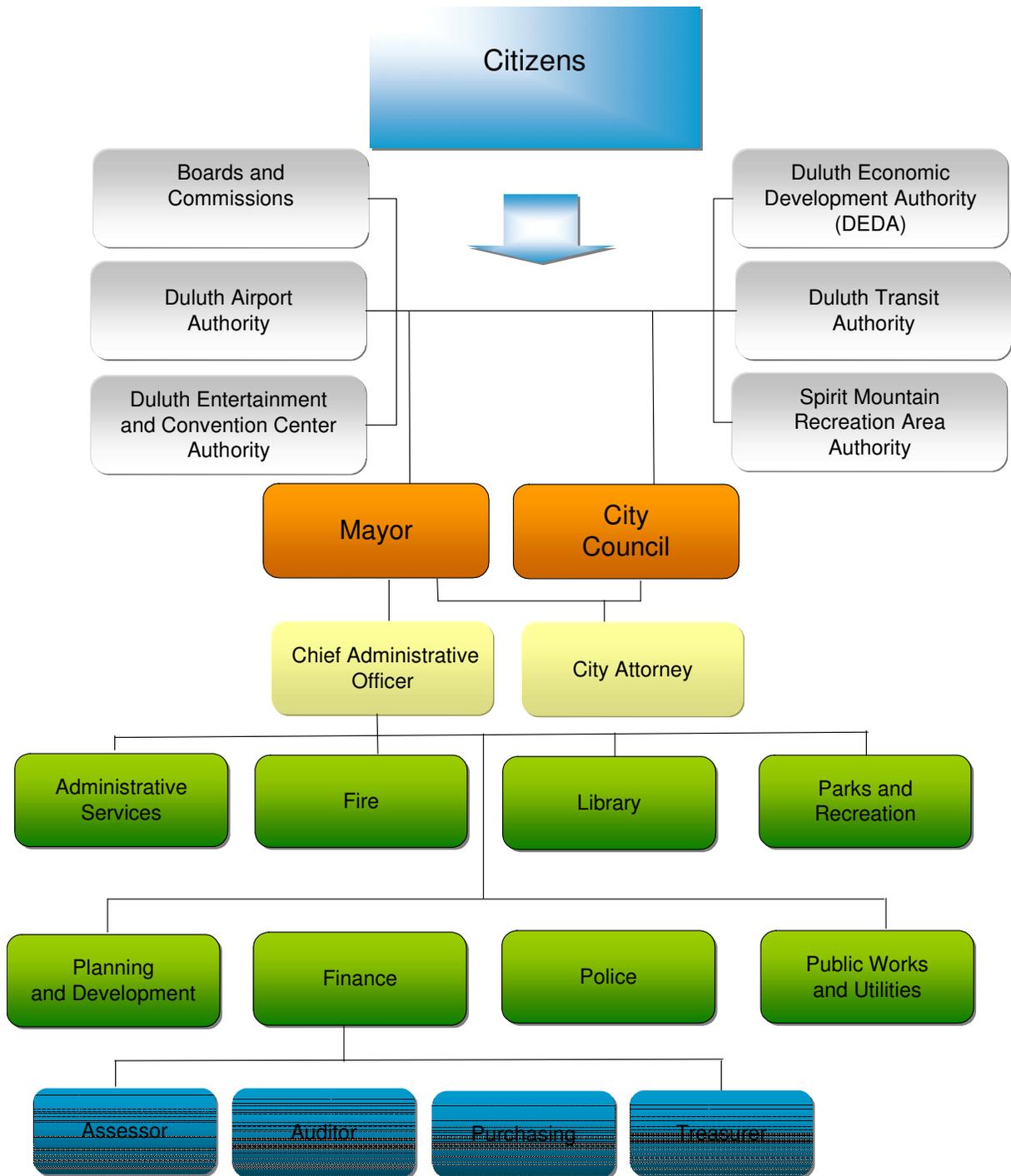
ELECTED POSITIONS	DISTRICT	TERM EXPIRES
Mayor Don Ness		2012
City Council		
Jeff Anderson	At large	2012
Tony Cuneo	At large	2012
Roger Reinert	At large	2010
James Stauber	At large	2010
Todd Fedora	1	2012
Greg Gilbert	2	2010
Sharla Gardner	3	2012
Garry Krause	4	2010
Jay Fosle	5	2012

*All terms expire in January

APPOINTED POSITIONS

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

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Duluth
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

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



Chloe S. Cox

President

Jeffrey R. Emer

Executive Director

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Financial Section



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

The Honorable Don Ness, Mayor,
and Members of the City Council
City of Duluth, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. The financial statements include the Spirit Mountain Recreation Area Authority's activities as of and for the year ended April 30, 2007. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Steam District #2 Enterprise Fund, which is both a major fund and 4.6 percent, 6.3 percent, and 9.8 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Steam District #2 Enterprise Fund, is based solely upon the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented

component units, each major fund, and the aggregate remaining fund information for the City of Duluth as of December 31, 2007, including the Spirit Mountain Recreation Area Authority as of April 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, during the year ended December 31, 2007, the City adopted Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

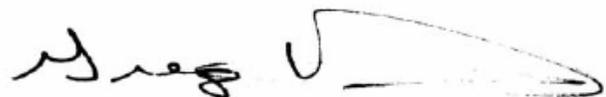
The Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures,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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated June 24, 2008, on our consideration of the City of Duluth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2008

Management's Discussion and Analysis (MD & A)

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

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, 2007 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, 2007 by \$416.3 million; this amount is identified as net assets. Of this amount, \$93.6 million is unrestricted and may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$26.5 million. The increase was due to the City's continued investment in capital assets and due to the elimination of long-term debt associated with an airline maintenance facility at Duluth International Airport as settlement of the Northwest Airlines bankruptcy.
- As of December 31, 2007, the City's governmental funds reported combined ending fund balances of \$96.5 million. Although \$65.8 million is reported as unreserved-undesignated fund balance, which is considered available for spending at the City's discretion, 84% of that amount is in the Community Investment Fund, which is for the financing of future capital improvements of the City. Any different use of those monies requires a "super-majority" vote of the City Council, or seven of nine votes.
- In 2007, the City created an irrevocable trust to pre-fund a portion of the City's other post-employment benefits. As of December 31, 2007, the trust reported net assets totaling \$13.8 million.
- As of December 31, 2007, the General Fund's undesignated, unreserved balance was \$1.1 million, or 1.5% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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, parking activities, and municipal golf courses.

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

for the Water, Gas, Sewer, Steam District #1, Steam District #2, and Parking funds, all of which are considered to be major funds. Data from the remaining enterprise funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is included in the combining and individual fund section of this report.

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

Fiduciary Funds

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

Notes to the Financial Statements

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

Other information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net assets may serve as a useful indicator of the City's financial position. The largest portion of the City's net assets (71 percent) is invested in capital assets (land, buildings, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to its citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it is important to realize that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (6 percent) represents resources that are subject to external restrictions on how they may be used, with the largest amount set aside for debt service. The remaining balance of net assets (23 percent) is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors. At the end of the past two fiscal years, all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities, had positive balances. The following table presents a summary of the City's net assets at December 31 for the past two fiscal years (dollars in thousands):

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 139,677	\$ 144,037	\$ 36,269	\$ 37,493	\$ 175,946	\$ 181,530
Capital assets	254,208	275,342	177,230	147,410	431,438	422,752
Total assets	\$ 393,885	\$ 419,379	\$ 213,499	\$ 184,903	\$ 607,384	\$ 604,282
Long-term liabilities outstanding	\$ 97,610	\$ 137,593	\$ 68,005	\$ 52,022	\$ 165,615	\$ 189,615
Other liabilities	12,226	13,872	13,200	10,949	25,426	24,821
Total liabilities	\$ 109,836	\$ 151,465	\$ 81,205	\$ 62,971	\$ 191,041	\$ 214,436
Net assets:						
Invested in capital assets net of related debt	\$ 183,582	\$ 171,676	\$ 112,994	\$ 95,017	\$ 296,576	\$ 266,693
Restricted	23,912	29,935	2,223	2,202	26,135	32,137
Unrestricted	76,555	66,303	17,077	24,713	93,632	91,016
Total net assets	\$ 284,049	\$ 267,914	\$ 132,294	\$ 121,932	\$ 416,343	\$ 389,846

Overall, the City's financial position improved from 2006. The City's net assets grew by \$26.5 million, an increase of 6.8%. This increase was due primarily to an increase in the City's investment in capital assets in both governmental and business-type activities. The governmental activities increase of \$11.9 million was primarily the result of the elimination of debt associated with an aircraft maintenance facility at Duluth International Airport. The business-type activities increase of \$18.0 million was the result of utility infrastructure improvements and due in part to the creation of a parking enterprise fund and transfer of related capital assets from governmental activities.

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

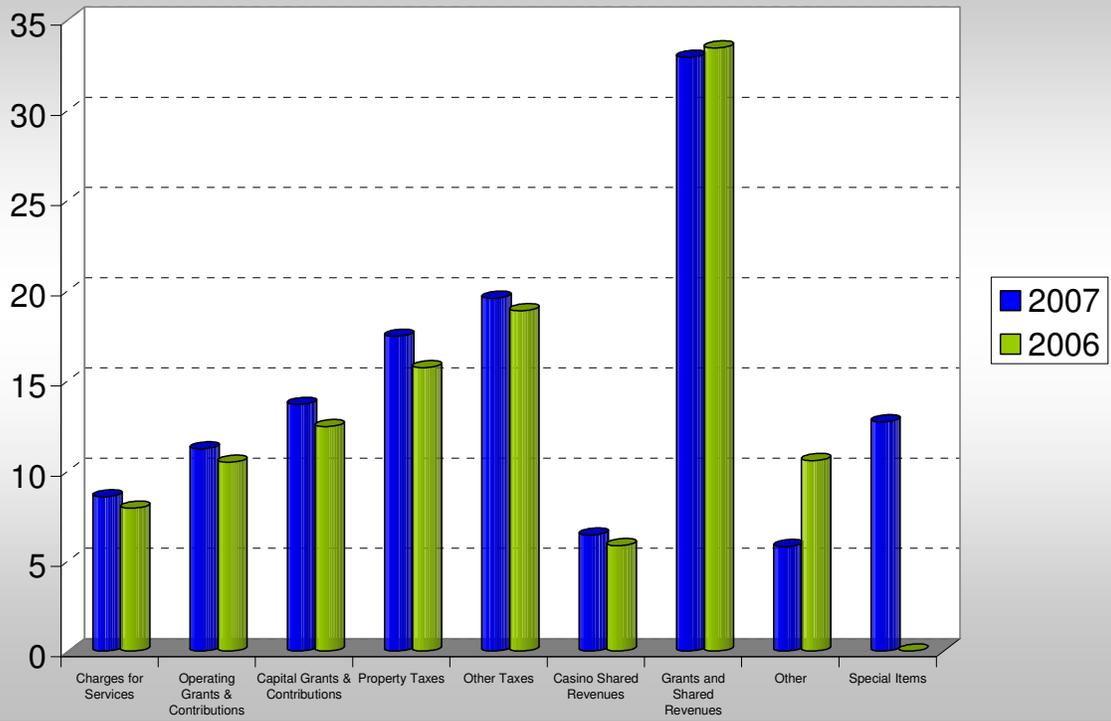
To give users a better understanding of the sources and uses of the City's net assets, the following table presents a summary of revenues, expenses, and changes in net assets for the past two fiscal years ending December 31 (dollars in thousands):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 8,552	\$ 7,922	\$ 97,618	\$ 92,704	\$ 106,170	\$ 100,626
Operating grants and contributions	11,210	10,470	-	-	11,210	10,470
Capital grants and contributions	13,674	12,445	4,468	2,961	18,142	15,406
General Revenues:						
Property taxes	17,452	15,710	-	-	17,452	15,710
Other taxes	19,561	18,867	-	-	19,561	18,867
Casino shared revenues	6,431	5,845	-	-	6,431	5,845
Grants and shared revenues not restricted to specific programs	32,916	33,434	-	-	32,916	33,434
Other	5,791	10,564	901	854	6,692	11,418
Special Item:						
Northwest maintenance facility	12,708	-	-	-	12,708	-
Total revenues	128,295	115,257	102,987	96,519	231,282	211,776
Expenses:						
General government	35,024	20,903	-	-	35,024	20,903
Public safety	30,351	28,481	-	-	30,351	28,481
Public works	15,232	13,823	-	-	15,232	13,823
Culture and recreation	6,851	9,107	-	-	6,851	9,107
Urban and economic development	13,179	12,773	-	-	13,179	12,773
Interest	7,762	7,427	-	-	7,762	7,427
Water	-	-	10,865	9,827	10,865	9,827
Gas	-	-	47,107	45,278	47,107	45,278
Sewer	-	-	15,024	14,928	15,024	14,928
Stormwater	-	-	2,866	2,777	2,866	2,777
Steam District #1	-	-	5,367	4,628	5,367	4,628
Steam District #2	-	-	11,398	9,315	11,398	9,315
Golf	-	-	1,888	1,890	1,888	1,890
Parking	-	-	1,871	-	1,871	-
Total expenses	108,399	92,514	96,386	88,643	204,785	181,157
Increase in net assets before transfers	19,896	22,743	6,601	7,876	26,497	30,619
Transfers	(3,761)	5,616	3,761	(5,616)	-	-
Increase in net assets	16,135	28,359	10,362	2,260	26,497	30,619
Net assets, January 1	267,914	239,555	121,932	119,672	389,846	359,227
Net assets, December 31	\$ 284,049	\$ 267,914	\$ 132,294	\$ 121,932	\$ 416,343	\$ 389,846

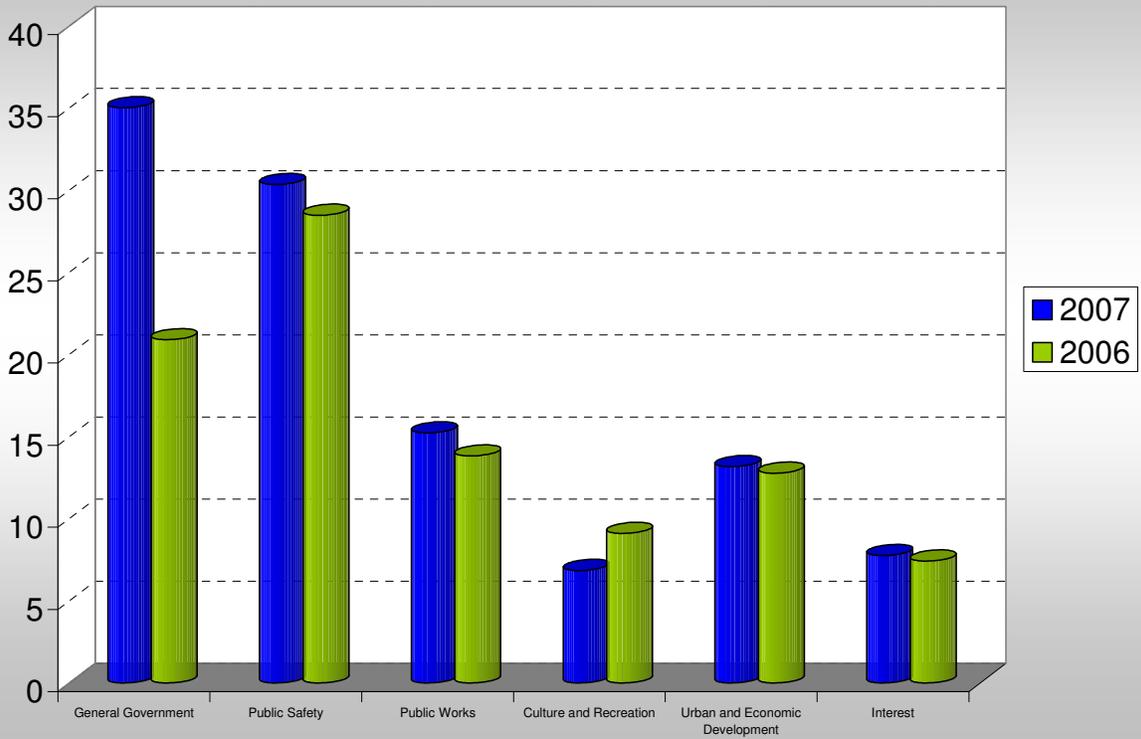
Total revenues increased for both governmental and business-type activities. The governmental activities revenue increase of \$13 million was due primarily to a special item regarding the elimination of debt associated with an aircraft maintenance facility located at Duluth International Airport. The elimination of debt was the result of a settlement agreement between various debtors including the State of Minnesota, the City of Duluth and DEDA due to a bankruptcy filing by Northwest Airlines. The business-type activities revenue increase of \$6.5 million was due to utility rate increase instituted in late 2006 and revenues associated with the newly created parking enterprise fund. Previously, parking revenues were accounted for in governmental activities.

Total expenses increased for both governmental and business-type activities. The governmental activities expense increase of \$15.9 million was due primarily to the creation of an irrevocable trust and pre-funding \$11 million of the City's other post employment benefits liability. The business-type activities expense increase of \$7.7 million was due to several factors including the pre-funding of \$2.7 million of the City's other post employment benefits liability, \$1 million of expenses associated with the newly created parking enterprise fund, and the increased cost of natural gas and costs associated with the generation of steam.

Revenue by Source - Governmental Activities
(In Millions)



Expense by Function - Governmental Activities
(In Millions)



**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

FUND FINANCIAL ANALYSIS

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

GOVERNMENTAL FUNDS

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

As of December 31, 2007, the City's governmental funds reported combined ending fund balances of \$96.5 million, a decrease of \$4.1 million from 2006. Of the total fund balance amount, \$81.6 million, or 85%, is reported as unreserved fund balance, which is available for spending at the City's discretion. Of the unreserved amount, \$15.8 million is already designated for specific purposes, with the largest amount, \$10.2 million, set aside for debt service. Of the \$66.8 million reported as unreserved, undesignated fund balance, 82% of it is in the Community Investment Special Revenue Fund, which is to be used to finance future capital improvements of the City. The remaining \$14.8 million of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate existing contracts and purchase orders totaling \$4.2 million; 2) to pay \$6.3 million for debt service; and 3) \$4.3 million for a variety of other restricted purposes.

The General Fund is the main operating fund of the City of Duluth. At December 31, 2007, fund balance of the General Fund was \$1.6 million, with \$1.4 million, or 88% reported as unreserved. The undesignated portion of unreserved fund balance was \$1.1 million. As a measure of the General Fund's liquidity, it may be useful to compare both undesignated, unreserved fund balance and total fund balance to total fund expenditures. Undesignated, unreserved fund balance is 1.5% and total fund balance is 2.2% of total General Fund expenditures. The unreserved-undesignated fund balance of the General Fund decreased in 2007 by \$2.4 million and was due primarily to an unexpected shortfall in state aids.

The Community Investment Special Revenue fund balance decreased by \$3.6 million in 2007 and was the result of the transfer of \$10 million to an irrevocable trust to pre-fund a portion of the City's other post employment benefits liability.

The Permanent Improvement Capital Project fund balance increase of \$3.2 million was due to state aids that met the revenue recognition criteria in the current year for funding various infrastructure projects.

PROPRIETARY FUNDS

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

	Unrestricted Net Assets December 31		Increase (Decrease) Net Assets December 31	
	2007	2006	2007	2006
Water	\$ 2,934	\$ 4,349	\$ 710	\$ 799
Gas	9,206	13,087	(3,237)	242
Sewer	2,170	5,048	2,909	1,136
Steam District #1	148	583	860	(29)
Steam District #2	33	8	(1,306)	(352)
Parking	1,100	-	9,158	-

Unrestricted net assets decreased for Water, Sewer, and Steam District #1 because of the planned investment in capital assets financed by operating revenues. The unrestricted net asset decrease for Gas was due to a variety of factors including other post employment benefit expense, a change in the gas rate structure and resulting timing differences caused by negative purchase gas adjustments.

The Parking Fund was created in 2007. Previously, parking related revenues and expenses were accounted for in the General Fund.

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$3.2 million increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$1.4 million appropriation increase to properly account for a refunding bond transaction.
- \$.3 million appropriation increase for sales tax administration costs incurred by the State of Minnesota for collecting city sales taxes.
- \$1.3 million appropriation increase for prior year carryovers.
- \$.2 million appropriation for grants, gifts and donations.

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

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

- Revenues and other financing sources were under budget by \$4.2 million. Unfavorable variances occurred in building inspection fees due to an unanticipated decrease in new building activity. A significant unfavorable variance in intergovernmental revenue was due an unanticipated shortfall in state aid due to conditions beyond the control of the City. Investment income was impacted negatively by an investment valuation adjustment for commercial paper. Finally, the budget was not modified for parking revenues that were accounted for in the newly created parking enterprise fund.
- Expenditures and transfers were under budget by \$2 million due primarily to staff vacancies and associated benefits. In addition, the budget was not modified for parking related expenses that were accounted for in the newly created parking enterprise fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City of Duluth's investment in capital assets for its governmental and business-type activities as of December 31, 2007 was \$431.4 million, net of accumulated depreciation. This investment includes land and improvements, buildings, equipment, roads and bridges, traffic signals, and utility-related infrastructure. In 2007, the City's total investment in capital assets, net of accumulated depreciation, increased by \$8.7 million. Capital assets (net) totaling \$23 million were transferred from governmental activities to business-type activities in conjunction with the establishment of a parking enterprise fund to account for the City's parking ramps, lots, and meter operations. The net increase of \$8.7 million was due primarily to the City's ongoing street improvement program, replacement of water and sewer lines, work on a sanitary system overflow storage project, and improvements to Steam District #1. Additional information related to the City's capital assets can be found in Note 6 of the notes to the financial statements. The following table shows the City's investment in capital assets, net of accumulated depreciation at December 31 for the past two fiscal years (dollars in thousands):

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Capital Assets:				
Land and improvements	\$ 22,480	\$ 25,107	\$ 3,756	\$ 856
Buildings	40,091	51,532	37,494	17,815
Equipment	7,350	6,255	19,823	19,059
Infrastructure	162,631	153,904	103,006	92,303
Construction in progress	21,655	38,544	13,151	17,377
Total	<u>\$ 254,207</u>	<u>\$ 275,342</u>	<u>\$ 177,230</u>	<u>\$ 147,410</u>

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

LONG-TERM DEBT

The City of Duluth had \$140.9 million of bonded debt outstanding as of December 31, 2007. Of this amount, \$25.1 million is debt backed by the full faith and credit of the City. \$52.1 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 \$60.6 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>12/31/07</u>	<u>12/31/06</u>
Governmental Activities:		
General Obligation Bonds	\$ 19,502	\$ 32,439
General Obligation Tax Increment Bonds	23	6,381
General Obligation Tax Abatement Bonds	310	310
Tax Increment Revenue Bonds	1,240	2,543
Lease Revenue Bonds	1,250	1,640
Special Assessment Debt with Government Commitment	52,060	53,600
General Obligation Certificates	<u>5,270</u>	<u>4,395</u>
 Total Governmental Activities Bonded Debt	 <u>\$ 79,655</u>	 <u>\$ 101,308</u>
 Business-type Activities:		
Revenue Bonds	675	800
Revenue and General Obligation Bonds	<u>60,595</u>	<u>46,815</u>
 Total Business-type Activities Bonded Debt	 <u>\$ 61,270</u>	 <u>\$ 47,615</u>

During 2007, the City's total debt decreased by \$ 8.0 million, or 5.4%. Long-term debt totaling \$15.6 million was transferred from governmental activities to business-type activities in conjunction with the establishment of a parking enterprise fund to account for the City's parking ramps, lots, and meter operations. In 2007, the City issued \$5.0 million of general obligation bonds, \$1.4 million lease revenue bonds, \$2.3 million special assessment debt with government commitment, and \$2.0 million of general obligation certificates. The City also issued \$4.4 million utility revenue and general obligation bonds and \$1.7 million utility general obligation notes. The City has an "Aa3" rating from Moody's Investors Service and an "AA-" rating from Standard and Poors.

State statutes limit the amount of general obligation debt the City can incur to no more than 2% of the market value of taxable property in the City. The City's current legal debt margin is \$104 million, which is significantly higher than the City's net debt of \$19.6 million. Additional information about the City's long-term debt can be found in Note 11 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The final approved 2008 General Fund budget of \$81 million is \$2.5 million or 3.1% more than the 2007 approved budget. State local government aid (LGA) payments are anticipated to supply 36% of General Fund revenues. State aid payments are the single biggest financing source for the General Fund.

In the 2003 state legislative session, the Legislature reduced local government aid to cities across the state as part of the solution to the State's budget deficit and has enacted significant changes to the LGA program for 2005 and beyond. The amount of dollars allocated to the program has been reduced and the Legislature also eliminated the automatic inflationary increase that had been in place since 1993. The greatest change to the program however, was the adoption of a new formula which measures each city's

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

expenditure need based on a number of statistical variables. Once a city's need is calculated, it is compared to a city's ability to pay or revenue raising capacity. Cities that have spending needs that exceed their ability to pay receive a share of the LGA distribution. This figure is then compared to ten percent of a city's prior year property tax levy, with the final certified aid amount being the lesser of the two. For Duluth's 2008 allocation, the formula aid was greater than the property tax number. Therefore, the City's increase was limited to \$1.2 million for a total of \$29.1 million. In 2002, prior to the LGA legislative changes, the City's allocation was \$30.2 million.

In 2007, the City contracted with an actuary to calculate its annual required contribution for post employment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. The annual required contribution was calculated to be \$23.7 million. For the year ended December 31, 2007, the City made contributions of \$13.7 million to an irrevocable trust and paid an additional \$8.4 million of retiree claims leaving a net other post employment liability of \$1.6 million. The City has budgeted contributions of \$4.3 million to the irrevocable trust for 2008.

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

REQUESTS FOR INFORMATION

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

Basic Financial Statements

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 96,929,083	\$ 11,995,790	\$ 108,924,873	\$ 6,001,793
Assets held by trustee	144,991	-	144,991	-
Receivables, net	28,843,683	14,325,804	43,169,487	1,336,618
Due from primary government	-	-	-	109,344
Internal balances	3,367,124	(3,367,124)	-	-
Due from component units	228,213	-	228,213	-
Due from other governments	8,209,599	719,786	8,929,385	309,368
Inventories	400,431	1,761,500	2,161,931	539,515
Prepays	630,307	3,268,117	3,898,424	129,236
Restricted assets:				
Cash and cash equivalents	-	4,367,206	4,367,206	869,133
Accounts receivable	-	-	-	68,914
Loans receivable	-	2,574,124	2,574,124	-
Grants receivable	-	-	-	2,205,271
Assets held by trustee	-	110,349	110,349	88,385
Deferred charges	924,481	512,958	1,437,439	632,174
Capital assets (Note 6):				
Non-depreciable	44,134,635	16,907,085	61,041,720	16,288,393
Depreciable, net	210,072,780	160,323,326	370,396,106	109,829,047
Total assets	393,885,327	213,498,921	607,384,248	138,407,191
LIABILITIES				
Accounts payable and other short-term liabilities	8,804,041	9,441,143	18,245,184	3,089,247
Accrued interest payable	2,389,600	1,054,870	3,444,470	105,318
Due to component units	109,344	-	109,344	-
Due to primary government	-	-	-	143,001
Due to other government	640,656	848,140	1,488,796	36,579
Unearned revenues	283,525	1,855,729	2,139,254	799,268
Liabilities payable from restricted assets	-	-	-	226,886
Noncurrent liabilities (Note 11):				
Due within one year	17,694,603	5,201,119	22,895,722	1,853,801
Due in more than one year	79,914,609	62,804,210	142,718,819	6,232,997
Total liabilities	109,836,378	81,205,211	191,041,589	12,487,097
NET ASSETS				
Investment in capital assets, net of related debt	183,581,640	112,994,409	296,576,049	119,876,676
Restricted for:				
Debt service	18,297,045	-	18,297,045	88,385
Capital projects	2,311,606	-	2,311,606	287,295
Special projects	2,280,494	261,063	2,541,557	-
Loans	982,842	1,961,608	2,944,450	-
Other	39,867	-	39,867	3,470,306
Unrestricted	76,555,455	17,076,630	93,632,085	2,197,432
Total net assets	\$ 284,048,949	\$ 132,293,710	\$ 416,342,659	\$ 125,920,094

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
DECEMBER 31, 2007**

<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	\$ 35,023,700	\$ 4,008,714	\$ 126,251	\$ 239,820
Public safety	30,350,398	2,451,449	1,208,573	51,246
Public works	15,232,820	353,575	1,278,902	12,271,738
Culture and recreation	6,851,355	815,732	248,040	-
Urban and economic development	13,178,400	922,159	8,347,812	1,111,582
Interest	7,762,355	-	-	-
Total governmental activities	108,399,028	8,551,629	11,209,578	13,674,386
Business-type activities:				
Water	10,865,334	12,166,968	-	49,979
Gas	47,107,309	47,489,082	-	22,383
Sewer	15,023,848	15,771,516	-	2,204,050
Stormwater	2,865,872	3,916,525	-	-
Steam district #1	5,367,034	5,261,495	-	1,051,640
Steam district #2	11,397,738	8,985,844	-	1,103,383
Golf	1,887,795	1,887,737	-	-
Parking	1,871,344	2,138,316	-	36,648
Total business-type activities	96,386,274	97,617,483	-	4,468,083
Total primary government	\$ 204,785,302	\$ 106,169,112	\$ 11,209,578	\$ 18,142,469
Component units :				
Duluth Entertainment and Convention Center Authority	\$ 9,479,353	\$ 6,988,830	\$ -	\$ 766,964
Duluth Airport Authority	7,725,623	4,302,356	104,174	11,656,512
Duluth Transit Authority	14,211,306	2,227,104	7,333,597	4,301,259
Spirit Mountain Recreation Area Authority	4,338,872	3,978,688	-	225,000
Total component units	\$ 35,755,154	\$ 17,496,978	\$ 7,437,771	\$ 16,949,735

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
DECEMBER 31, 2007**

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Primary Government:				
Governmental activities:				
General government	\$ (30,648,915)	\$ -	\$ (30,648,915)	\$ -
Public safety	(26,639,130)	-	(26,639,130)	-
Public works	(1,328,605)	-	(1,328,605)	-
Culture and recreation	(5,787,583)	-	(5,787,583)	-
Urban and economic development	(2,796,847)	-	(2,796,847)	-
Interest	(7,762,355)	-	(7,762,355)	-
Total governmental activities	(74,963,435)	-	(74,963,435)	-
Business-type activities:				
Water	-	1,351,613	1,351,613	-
Gas	-	404,156	404,156	-
Sewer	-	2,951,718	2,951,718	-
Stormwater	-	1,050,653	1,050,653	-
Steam district #1	-	946,101	946,101	-
Steam district #2	-	(1,308,511)	(1,308,511)	-
Golf	-	(58)	(58)	-
Parking	-	303,620	303,620	-
Total business-type activities	-	5,699,292	5,699,292	-
Total primary government	(74,963,435)	5,699,292	(69,264,143)	-
Component units :				
Duluth Entertainment and Convention Center Authority	-	-	-	(1,723,559)
Duluth Airport Authority	-	-	-	8,337,419
Duluth Transit Authority	-	-	-	(349,346)
Spirit Mountain Recreation Area Authority	-	-	-	(135,184)
Total component units	-	-	-	6,129,330
General Revenues:				
Property taxes	17,452,324	-	17,452,324	2,290,105
Market value credit aid	1,191,228	-	1,191,228	-
Sales taxes	17,509,877	-	17,509,877	-
Other taxes	2,051,173	-	2,051,173	-
Casino shared revenues	6,430,460	-	6,430,460	-
Grants and shared revenues not restricted to specific programs	31,725,087	-	31,725,087	1,229,919
Investment income	4,690,453	878,763	5,569,216	192,201
Gain on sale or disposition of capital assets	37,803	22,127	59,930	8,681
Miscellaneous	1,062,999	-	1,062,999	331,459
Special item: Northwest maintenance facility	12,708,044	-	12,708,044	-
Transfers	(3,761,041)	3,761,041	-	-
Total general revenues, special item and transfers	91,098,407	4,661,931	95,760,338	4,052,365
Change in net assets	16,134,972	10,361,223	26,496,195	10,181,695
Net assets - beginning	267,913,977	121,932,487	389,846,464	115,738,399
Net assets - ending	\$ 284,048,949	\$ 132,293,710	\$ 416,342,659	\$ 125,920,094

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

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	General Fund	Community Investment	Special Assessment Debt Service
ASSETS			
Cash and cash equivalents	\$ -	\$ 52,984,099	\$ 373,632
Assets held by trustee	144,991	-	-
Receivables, net:			
Taxes	2,666,970	-	-
Accounts	307,800	1,605,541	-
Assessments	1,127,801	-	7,592,396
Loans	271,757	-	-
Grants	-	-	-
Accrued interest	352,147	596,476	-
Deposits	-	-	-
Due from other funds	2,672,045	-	500,000
Due from component units	156,627	-	-
Interfund loan receivable	2,449,427	-	-
Due from other governments	1,079,326	-	-
Land held for resale	-	-	-
Prepays	-	-	-
Total assets	<u>\$ 11,228,891</u>	<u>\$ 55,186,116</u>	<u>\$ 8,466,028</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,441,302	\$ -	\$ -
Contracts payable	64,295	8,010	-
Due to other funds	5,411,078	67,163	-
Due to component units	-	-	-
Interfund loan payable	-	-	-
Loans payable	-	-	-
Due to other governments	107,124	-	-
Accrued salaries payable	944,302	-	-
Deferred revenue	1,646,763	-	7,580,890
Total liabilities	<u>9,614,864</u>	<u>75,173</u>	<u>7,580,890</u>
Fund balances:			
Reserved for:			
Encumbrances	-	-	-
Debt service	-	-	-
Special accounts	190,911	-	-
Unreserved:			
Designated for, reported in:			
Debt Service	-	-	885,138
Capital improvements	222,367	-	-
Special accounts	113,836	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital project funds	-	-	-
Undesignated, reported in:			
General fund	1,086,913	-	-
Special revenue funds	-	55,110,943	-
Capital project funds	-	-	-
Total fund balances	<u>1,614,027</u>	<u>55,110,943</u>	<u>885,138</u>
Total liabilities and fund balances	<u>\$ 11,228,891</u>	<u>\$ 55,186,116</u>	<u>\$ 8,466,028</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 31,499,437	\$ 84,857,168
Assets held by trustee	-	-	144,991
Receivables, net:			
Taxes	19,504	973,690	3,660,164
Accounts	-	89,641	2,002,982
Assessments	-	3,894,979	12,615,176
Loans	-	8,884,622	9,156,379
Grants	-	744,073	744,073
Accrued interest	-	-	948,623
Deposits	-	250,000	250,000
Due from other funds	2,379,442	13,184,399	18,735,886
Due from component units	-	-	156,627
Interfund loan receivable	-	1,797,452	4,246,879
Due from other governments	4,192,800	2,860,377	8,132,503
Land held for resale	-	192,500	192,500
Prepays	-	630,307	630,307
	<u>\$ 6,591,746</u>	<u>\$ 65,001,477</u>	<u>\$ 146,474,258</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 1,135,101	\$ 2,576,403
Contracts payable	162,533	4,259,874	4,494,712
Due to other funds	378,764	9,195,064	15,052,069
Due to component units	-	109,344	109,344
Interfund loan payable	2,838,129	404,039	3,242,168
Loans payable	-	463,463	463,463
Due to other governments	1,275	496,073	604,472
Accrued salaries payable	-	42,772	987,074
Deferred revenue	2,045,444	11,218,082	22,491,179
	<u>5,426,145</u>	<u>27,323,812</u>	<u>50,020,884</u>
Fund balances:			
Reserved for:			
Encumbrances	1,440,304	2,761,664	4,201,968
Debt service	-	6,295,456	6,295,456
Special accounts	-	4,131,499	4,322,410
Unreserved:			
Designated for, reported in:			
Debt Service	-	-	885,138
Capital improvements	-	-	222,367
Special accounts	-	-	113,836
Special revenue funds	-	2,214,537	2,214,537
Debt service funds	-	10,240,785	10,240,785
Capital project funds	-	2,137,003	2,137,003
Undesignated, reported in:			
General fund	-	-	1,086,913
Special revenue funds	-	5,772,151	60,883,094
Capital project funds	(274,703)	4,124,570	3,849,867
	<u>1,165,601</u>	<u>37,677,665</u>	<u>96,453,374</u>
Total liabilities and fund balances	<u>\$ 6,591,746</u>	<u>\$ 65,001,477</u>	<u>\$ 146,474,258</u>

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

**CITY OF DULUTH, MINNESOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

Fund Balance--total governmental funds	\$ 96,453,374
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, therefore, are not reported in the funds. The cost of the assets is \$377,607,209, and the accumulated depreciation is \$123,884,950.	253,722,259
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	21,592,630
Internal service funds are used by management to charge the costs of fleet services, group health insurance, loss control activities, and vacation benefits payable to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets for \$6,573,273 less \$1,312,316 attributed to business-type activities.	5,260,957
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year-end consist of:	
Bonds and Notes payable, net of issuance costs	83,171,011
PERA police and fire pension liability	6,773,088
Other post employment benefits	731,195
Interest accrued on long-term debt	<u>2,387,187</u>
	(93,062,481)
Other assets that are not available to pay for current period expenditures, and therefore, are not reported in the funds.	<u>82,210</u>
Net assets of governmental activities	<u>\$ 284,048,949</u>

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	<u>General Fund</u>	<u>Community Investment</u>	<u>Special Assessment Debt Service</u>
REVENUES			
Taxes:			
Property taxes	\$ 6,528,666	\$ -	\$ -
Sales taxes	11,606,342	-	-
Other taxes	2,037,430	-	-
Licenses and permits	1,111,727	-	-
Intergovernmental revenues	34,430,227	-	-
Charges for services	5,768,870	-	-
Fines and forfeits	1,086,304	-	-
Special assessments	404,899	-	1,415,466
Investment income	(1,137,118)	3,917,607	1,002
Miscellaneous revenues	614,080	6,430,460	-
	<u>62,451,427</u>	<u>10,348,067</u>	<u>1,416,468</u>
Total revenues			
EXPENDITURES			
Current:			
General government	21,559,583	10,087,690	-
Public safety	32,747,906	-	-
Public works	10,381,406	-	-
Culture and recreation	6,407,520	-	-
Urban and economic development	413,672	-	-
Debt service:			
Principal retirement	391,923	-	1,291,600
Interest and fiscal fees	86,170	-	446,108
Revenue pledge	-	-	-
Bond issuance costs	59,577	-	-
Capital outlay	-	-	-
	<u>72,047,757</u>	<u>10,087,690</u>	<u>1,737,708</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(9,596,330)</u>	<u>260,377</u>	<u>(321,240)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	1,380,000	-	-
Premium on issuance of bonds	11,641	-	-
Payment to refunded bond escrow agent	(1,391,641)	-	-
Transfers in	12,395,623	-	500,000
Transfers out	(6,239,120)	(3,832,163)	-
	<u>6,156,503</u>	<u>(3,832,163)</u>	<u>500,000</u>
Total other financing sources (uses)			
Net change in fund balance	(3,439,827)	(3,571,786)	178,760
Fund balance - January 1, 2007	5,053,854	58,682,729	706,378
Fund balance - December 31, 2007	<u>\$ 1,614,027</u>	<u>\$ 55,110,943</u>	<u>\$ 885,138</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes:			
Property taxes	\$ 471,040	\$ 10,837,305	\$ 17,837,011
Sales taxes	-	5,903,535	17,509,877
Other taxes	-	13,743	2,051,173
Licenses and permits	-	-	1,111,727
Intergovernmental revenues	8,957,540	10,405,540	53,793,307
Charges for services	-	226,209	5,995,079
Fines and forfeits	-	-	1,086,304
Special assessments	-	1,120,879	2,941,244
Investment income	-	1,126,644	3,908,135
Miscellaneous revenues	-	3,596,723	10,641,263
	<u>9,428,580</u>	<u>33,230,578</u>	<u>116,875,120</u>
EXPENDITURES			
Current:			
General government	-	462,252	32,109,525
Public safety	-	571,636	33,319,542
Public works	698,833	-	11,080,239
Culture and recreation	-	308,690	6,716,210
Urban and economic development	-	14,117,477	14,531,149
Debt service:			
Principal retirement	-	9,770,929	11,454,452
Interest and fiscal fees	-	4,245,142	4,777,420
Revenue pledge	-	2,966,875	2,966,875
Bond issuance costs	-	145,759	205,336
Capital outlay	6,565,210	6,930,842	13,496,052
	<u>7,264,043</u>	<u>39,519,602</u>	<u>130,656,800</u>
Excess (deficiency) of revenues over expenditures	<u>2,164,537</u>	<u>(6,289,024)</u>	<u>(13,781,680)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	9,270,000	10,650,000
Premium on issuance of bonds	-	257,953	269,594
Payment to refunded bond escrow agent	-	(4,436,094)	(5,827,735)
Transfers in	1,170,440	15,634,174	29,700,237
Transfers out	(75,829)	(15,043,111)	(25,190,223)
	<u>1,094,611</u>	<u>5,682,922</u>	<u>9,601,873</u>
Net change in fund balance	3,259,148	(606,102)	(4,179,807)
Fund balance - January 1, 2007	<u>(2,093,547)</u>	<u>38,283,767</u>	<u>100,633,181</u>
Fund balance - December 31, 2007	<u>\$ 1,165,601</u>	<u>\$ 37,677,665</u>	<u>\$ 96,453,374</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
DECEMBER 31, 2007**

Net change in fund balances - total governmental funds		\$ (4,179,807)
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	12,959,549	
Depreciation expense	<u>(9,357,553)</u>	
Excess of capital outlay over depreciation expense		3,601,996
Miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and other disposals) decreased net assets.		(1,130,644)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of \$1,799,800 from internal funds less \$434,289 attributed to business-type activities is reported with governmental activities.		1,365,511
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:		
Bonds issued, including a bond premium of \$172,368 less issuance costs of \$106,643.	5,575,725	
Refunding bonds, including a bond premium of \$97,226 less issuance costs of \$98,693.	<u>5,138,533</u>	
Total bond proceeds		(10,714,258)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement	26,657,529	
PERA police and fire liability	2,993,994	
Payments to the bond refunding agent	<u>5,725,000</u>	
Total long-term debt repayment		35,376,523
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year.		(893,189)
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	1,341,989	
Increase in net other post employment benefits payable	(731,195)	
Amortization of deferred amounts:		
for bond premiums	102,891	
for bond issuance costs	(121,307)	
on refundings	<u>(40,822)</u>	
Total additional expenditures		551,556
Transfer of capital assets and related long-term debt to business-type activities decreased net assets		<u>(7,842,716)</u>
Change in net assets of governmental activities		<u>\$ 16,134,972</u>

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
DECEMBER 31, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	(Budgetary Basis) (Note 2)
REVENUES			
Taxes	\$ 20,551,300	\$ 20,801,300	\$ 20,172,438
Licenses and permits	1,077,200	1,077,200	1,111,727
Intergovernmental revenues	35,512,400	35,761,389	34,430,227
Charges for services	8,136,900	8,171,089	5,768,870
Fines and forfeits	908,000	926,623	1,086,304
Special assessments	414,000	414,000	404,899
Investment income	2,450,000	2,450,000	(1,137,118)
Miscellaneous revenues	756,500	713,859	614,080
	<u>69,806,300</u>	<u>70,315,460</u>	<u>62,451,427</u>
EXPENDITURES			
Current:			
General government	20,846,800	21,341,100	21,559,583
Public safety	32,664,600	33,007,503	32,747,906
Public works	9,590,400	10,351,149	10,381,406
Culture and recreation	6,814,500	6,688,861	6,407,520
Urban and economic development	590,400	547,400	413,672
Debt service:			
Capital lease obligation - principal	135,000	396,923	391,923
Capital lease obligation - interest	113,200	113,200	86,170
Bond issuance costs	-	59,577	59,577
	<u>70,754,900</u>	<u>72,505,713</u>	<u>72,047,757</u>
Excess (deficiency) of revenues over expenditures	<u>(948,600)</u>	<u>(2,190,253)</u>	<u>(9,596,330)</u>
OTHER FINANCING SOURCES (USES)			
Issuance of bonds	-	1,352,742	1,380,000
Premium on issuance of bonds	-	-	11,641
Payment to refunded bond escrow agent	-	(1,391,641)	(1,391,641)
Transfers in	8,732,400	8,752,400	12,395,623
Transfers out	(7,783,800)	(7,826,075)	(6,239,120)
	<u>948,600</u>	<u>887,426</u>	<u>6,156,503</u>
Net change in fund balance - budgetary basis	-	(1,302,827)	(3,439,827)
Net adjustments to reflect operations in accordance with generally accepted accounting principles			-
Net change in fund balance - GAAP basis	-	(1,302,827)	(3,439,827)
Fund balance - January 1, 2007	<u>5,053,854</u>	<u>5,053,854</u>	<u>5,053,854</u>
Fund balance - December 31, 2007	<u>\$ 5,053,854</u>	<u>\$ 3,751,027</u>	<u>\$ 1,614,027</u>

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007**

Business-type Activities - Enterprise Funds					
	Water	Gas	Sewer	Steam District #1	Steam District #2
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 3,157,936	\$ 1,386,531	\$ 3,870,321	\$ -	\$ 392,279
Restricted cash and cash equivalents:					
Customer deposits	57,432	968,555	-	-	-
Construction	-	117,885	1,076,245	360,284	-
Loans	-	1,786,805	-	-	-
Restricted assets held by trustee	-	-	-	-	-
Receivables, net:					
Accounts	853,122	9,284,643	1,111,145	797,877	1,339,542
Restricted loans	-	326,861	-	-	-
Assessments	201,467	22,877	17,241	-	-
Due from other funds	24,151	25,513	11,638	50,672	-
Due from component units	-	-	-	-	-
Due from other governments	11,936	16,247	527,940	-	-
Inventories	691,027	796,886	-	206,284	-
Prepays	-	3,079,738	-	33,075	70,880
Total current assets	<u>4,997,071</u>	<u>17,812,541</u>	<u>6,614,530</u>	<u>1,448,192</u>	<u>1,802,701</u>
Noncurrent assets:					
Assessments receivable	400,664	75,246	151,135	-	-
Due from other governments	-	-	-	25,000	-
Restricted loans receivable	-	2,247,263	-	-	-
Issuance costs	34,122	17,691	124,446	86,748	-
Planning and development costs	-	-	-	-	-
Capital assets, net	<u>36,984,398</u>	<u>39,281,652</u>	<u>45,392,459</u>	<u>10,717,587</u>	<u>8,090,696</u>
Total noncurrent assets	<u>37,419,184</u>	<u>41,621,852</u>	<u>45,668,040</u>	<u>10,829,335</u>	<u>8,090,696</u>
Total assets	<u>42,416,255</u>	<u>59,434,393</u>	<u>52,282,570</u>	<u>12,277,527</u>	<u>9,893,397</u>
LIABILITIES					
Current liabilities:					
Accounts payable	188,113	4,768,297	108,940	351,859	1,620,176
Contracts payable	69,287	193,633	587,137	186,434	-
Claims payable	-	-	-	-	-
Notes payable	176,814	-	88,186	5,271	-
Leases payable	-	-	-	-	-
Due to other funds	1,249,029	36,414	1,742,069	2,918	-
Interfund loan payable	-	-	-	271,081	-
Due to other governments	120,392	96,632	614,733	16,254	-
Accrued interest payable	89,937	218,354	224,139	136,367	-
Accrued salaries payable	72,629	93,909	47,338	-	-
Unearned revenue	-	1,691,214	-	-	-
Deposits	10,000	968,555	-	-	-
Revenue bonds payable	613,000	933,000	1,136,000	475,000	-
Total current liabilities	<u>2,589,201</u>	<u>9,000,008</u>	<u>4,548,542</u>	<u>1,445,184</u>	<u>1,620,176</u>
Noncurrent liabilities:					
Notes payable	2,043,732	-	2,637,208	12,514	-
Claims payable	-	-	-	-	-
Compensated absences	243,221	328,158	160,259	-	-
Leases payable	-	-	-	-	-
Net other postemployment benefits payable	421,339	454,039	35,134	-	-
Revenue bonds payable	4,447,000	12,088,000	15,113,000	7,670,000	-
Less unamortized bond discount	(29,310)	(137,659)	(82,699)	(4,650)	-
Total noncurrent liabilities	<u>7,125,982</u>	<u>12,732,538</u>	<u>17,862,902</u>	<u>7,677,864</u>	<u>-</u>
Total liabilities	<u>9,715,183</u>	<u>21,732,546</u>	<u>22,411,444</u>	<u>9,123,048</u>	<u>1,620,176</u>
NET ASSETS					
Invested in capital assets, net of related debt	29,767,284	26,533,887	27,698,809	3,006,484	8,090,696
Restricted for special accounts	-	-	2,646	-	150,000
Restricted for loans	-	1,961,608	-	-	-
Unrestricted	<u>2,933,788</u>	<u>9,206,352</u>	<u>2,169,671</u>	<u>147,995</u>	<u>32,525</u>
Total net assets	<u>\$ 32,701,072</u>	<u>\$ 37,701,847</u>	<u>\$ 29,871,126</u>	<u>\$ 3,154,479</u>	<u>\$ 8,273,221</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007**

	Business-type Activities - Enterprise Funds		Governmental	
	Parking	Other Enterprise Funds	Activities - Internal Service Funds	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,437,333	\$ 1,751,390	\$ 11,995,790	\$ 12,071,915
Restricted cash and cash equivalents:				
Customer deposits	-	-	1,025,987	-
Construction	-	-	1,554,414	-
Loans	-	-	1,786,805	-
Restricted assets held by trustee	-	110,349	110,349	-
Receivables, net:				
Accounts	32,415	38,431	13,457,175	25,990
Restricted loans	-	-	326,861	-
Assessments	-	-	241,585	-
Due from other funds	98,797	9,762	220,533	452,347
Due from component units	-	-	-	71,586
Due from other governments	2,012	136,651	694,786	77,096
Inventories	-	67,303	1,761,500	207,931
Prepays	-	84,424	3,268,117	-
Total current assets	<u>1,570,557</u>	<u>2,198,310</u>	<u>36,443,902</u>	<u>12,906,865</u>
Noncurrent assets:				
Assessments receivable	-	-	627,045	-
Due from other governments	-	-	25,000	-
Restricted loans receivable	-	-	2,247,263	-
Issuance costs	172,993	61,958	497,958	-
Planning and development costs	-	15,000	15,000	-
Capital assets, net	<u>23,179,597</u>	<u>13,584,021</u>	<u>177,230,410</u>	<u>485,156</u>
Total noncurrent assets	<u>23,352,590</u>	<u>13,660,979</u>	<u>180,642,676</u>	<u>485,156</u>
Total assets	<u>24,923,147</u>	<u>15,859,289</u>	<u>217,086,578</u>	<u>13,392,021</u>
LIABILITIES				
Current liabilities:				
Accounts payable	39,954	22,183	7,099,522	225,632
Contracts payable	-	84,745	1,121,236	33,918
Claims payable	-	-	-	1,524,578
Notes payable	-	-	270,271	-
Leases payable	-	90,402	90,402	37,540
Due to other funds	59,465	805,367	3,895,262	461,435
Interfund loan payable	-	733,630	1,004,711	-
Due to other governments	-	129	848,140	36,184
Accrued interest payable	334,545	51,528	1,054,870	2,413
Accrued salaries payable	3,336	24,617	241,829	23,152
Unearned revenue	20,460	144,055	1,855,729	26,890
Deposits	-	-	978,555	-
Revenue bonds payable	680,000	293,000	4,130,000	-
Total current liabilities	<u>1,137,760</u>	<u>2,249,656</u>	<u>22,590,527</u>	<u>2,371,742</u>
Noncurrent liabilities:				
Notes payable	-	-	4,693,454	-
Claims payable	-	-	-	1,138,325
Compensated absences	12,822	73,869	818,329	3,153,222
Leases payable	-	191,668	191,668	155,459
Net other postemployment benefits payable	-	19,529	930,041	-
Revenue bonds payable	14,615,000	3,207,000	57,140,000	-
Less unamortized bond discount	-	(4,517)	(258,835)	-
Total noncurrent liabilities	<u>14,627,822</u>	<u>3,487,549</u>	<u>63,514,657</u>	<u>4,447,006</u>
Total liabilities	<u>15,765,582</u>	<u>5,737,205</u>	<u>86,105,184</u>	<u>6,818,748</u>
NET ASSETS				
Invested in capital assets, net of related debt	8,057,590	9,839,659	112,994,409	292,157
Restricted for special accounts	-	108,417	261,063	-
Restricted for loans	-	-	1,961,608	-
Unrestricted	<u>1,099,975</u>	<u>174,008</u>	<u>15,764,314</u>	<u>6,281,116</u>
Total net assets	<u>\$ 9,157,565</u>	<u>\$ 10,122,084</u>	<u>130,981,394</u>	<u>\$ 6,573,273</u>

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

Net assets of business-type activities \$ 132,293,710

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

Business-type Activities - Enterprise Funds					
	<u>Water</u>	<u>Gas</u>	<u>Sewer</u>	<u>Steam Dist #1</u>	<u>Steam Dist. #2</u>
OPERATING REVENUES					
Sales	\$ -	\$ 46,493,608	\$ -	\$ -	\$ -
Charges for services	11,934,067	540,769	15,708,285	5,183,951	8,985,844
Miscellaneous revenues	<u>215,982</u>	<u>431,340</u>	<u>54,948</u>	<u>77,544</u>	<u>-</u>
Total operating revenues	<u>12,150,049</u>	<u>47,465,717</u>	<u>15,763,233</u>	<u>5,261,495</u>	<u>8,985,844</u>
OPERATING EXPENSES					
Cost of sales and services	-	36,093,665	-	-	-
Personal services	5,773,339	7,094,976	3,357,067	-	-
Supplies	934,621	671,401	295,000	2,072,266	1,253,939
Utilities	1,140,533	34,312	93,108	320,612	1,194,727
Other services and charges	1,694,447	1,759,858	9,975,208	1,883,401	6,515,295
Amortization	2,809	1,256	7,372	7,823	-
Depreciation	1,184,485	1,060,245	755,676	762,927	2,371,833
Medical and insurance	-	-	-	-	-
Total operating expenses	<u>10,730,234</u>	<u>46,715,713</u>	<u>14,483,431</u>	<u>5,047,029</u>	<u>11,335,794</u>
Operating income	<u>1,419,815</u>	<u>750,004</u>	<u>1,279,802</u>	<u>214,466</u>	<u>(2,349,950)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	243,898	236,102	234,164	5,407	2,278
Intergovernmental revenue	16,919	23,365	8,283	-	-
Gain (Loss) on sale or disposition of capital assets	1,499	1,005	19,623	-	(61,944)
Interest expense	<u>(305,579)</u>	<u>(540,182)</u>	<u>(635,585)</u>	<u>(321,466)</u>	<u>-</u>
Total non-operating revenue (expenses)	<u>(43,263)</u>	<u>(279,710)</u>	<u>(373,515)</u>	<u>(316,059)</u>	<u>(59,666)</u>
Income before contributions and transfers	1,376,552	470,294	906,287	(101,593)	(2,409,616)
Capital contributions	49,979	22,383	2,204,050	1,051,640	1,103,383
Transfers in	-	-	-	-	-
Transfers out	<u>(716,350)</u>	<u>(3,729,813)</u>	<u>(201,518)</u>	<u>(90,000)</u>	<u>-</u>
Change in net assets	710,181	(3,237,136)	2,908,819	860,047	(1,306,233)
Total net assets - January 1, 2007	<u>31,990,891</u>	<u>40,938,983</u>	<u>26,962,307</u>	<u>2,294,432</u>	<u>9,579,454</u>
Total net assets - December 31, 2007	<u>\$ 32,701,072</u>	<u>\$ 37,701,847</u>	<u>\$ 29,871,126</u>	<u>\$ 3,154,479</u>	<u>\$ 8,273,221</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Business-type Activities - Enterprise Funds			Governmental Activities -
	Parking	Other Enterprise Funds	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES				
Sales	\$ -	\$ 489,206	\$ 46,982,814	\$ 2,022,360
Charges for services	2,138,316	5,277,335	49,768,567	25,046,860
Miscellaneous revenues	-	19,844	799,658	719,460
Total operating revenues	<u>2,138,316</u>	<u>5,786,385</u>	<u>97,551,039</u>	<u>27,788,680</u>
OPERATING EXPENSES				
Cost of sales and services	-	274,590	36,368,255	1,767,321
Personal services	222,442	1,812,307	18,260,131	5,383,967
Supplies	45,787	311,464	5,584,478	65,864
Utilities	117,710	119,569	3,020,571	-
Other services and charges	199,623	1,621,686	23,649,518	2,564,598
Amortization	12,264	38,208	69,732	-
Depreciation	471,342	412,854	7,019,362	49,016
Medical and insurance	-	-	-	16,222,812
Total operating expenses	<u>1,069,168</u>	<u>4,590,678</u>	<u>93,972,047</u>	<u>26,053,578</u>
Operating income	<u>1,069,148</u>	<u>1,195,707</u>	<u>3,578,992</u>	<u>1,735,102</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	55,484	101,430	878,763	504,540
Intergovernmental revenue	-	17,877	66,444	5,836
Gain (Loss) on sale or disposition of capital assets	-	(1,516)	(41,333)	-
Interest expense	(803,854)	(178,390)	(2,785,056)	(17,339)
Total non-operating revenue (expenses)	<u>(748,370)</u>	<u>(60,599)</u>	<u>(1,881,182)</u>	<u>493,037</u>
Income before contributions and transfers	320,778	1,135,108	1,697,810	2,228,139
Capital contributions	7,879,364	-	12,310,799	-
Transfers in	2,204,107	-	2,204,107	-
Transfers out	(1,246,684)	(301,417)	(6,285,782)	(428,339)
Change in net assets	<u>9,157,565</u>	<u>833,691</u>	<u>9,926,934</u>	<u>1,799,800</u>
Total net assets - January 1, 2007	<u>-</u>	<u>9,288,393</u>	<u>121,054,460</u>	<u>4,773,473</u>
Total net assets - December 31, 2007	<u>\$ 9,157,565</u>	<u>\$ 10,122,084</u>	<u>\$ 130,981,394</u>	<u>\$ 6,573,273</u>

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

Change in net assets	\$ 9,926,934
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>434,289</u>
Change in net assets of business-type activities	<u>\$ 10,361,223</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, 2007**

	Business-type Activities - Enterprise Funds				
	Water	Gas	Sewer	Steam District #1	Steam District #2
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 11,854,957	\$ 46,408,081	\$ 15,756,123	\$ 5,050,653	\$ 8,353,171
Cash paid to suppliers	(3,703,174)	(37,901,554)	(10,182,433)	(4,392,180)	(8,113,170)
Cash paid to employees	(5,394,960)	(6,656,747)	(3,331,653)	-	-
Other operating revenues	157,599	16,746	8,184	10,325	-
Net cash provided (used) by operating activities	<u>2,914,422</u>	<u>1,866,526</u>	<u>2,250,221</u>	<u>668,798</u>	<u>240,001</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	-	-	-	-
Transfers to other funds	(701,337)	(3,996,573)	(358,600)	(90,000)	-
Operating grants	16,919	23,365	8,283	-	-
Interfund financing	-	-	-	271,081	-
Net cash provided (used) by noncapital financing activities	<u>(684,418)</u>	<u>(3,973,208)</u>	<u>(350,317)</u>	<u>181,081</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants and contributions	103,874	20,372	1,952,235	-	1,103,383
Transfer from other funds	-	-	-	-	-
Interest received on capital	-	-	-	-	2,278
Issuance of revenue bonds and notes	972,761	-	4,935,710	-	-
Principal paid on bonds, notes and capitalized leases	(2,216,322)	(844,000)	(2,762,979)	(272,544)	-
Interest paid on bonds, notes and capitalized leases	(306,942)	(520,370)	(638,591)	(263,389)	-
Transfer to trustee debt service account	-	-	-	-	-
Payment of bond issuance costs	(12,651)	-	(52,703)	(17,000)	-
Special assessments received	225,249	26,965	31,190	-	-
Sale of capital assets	6,037	6,731	25,002	-	-
Acquisition or construction of capital assets	(2,405,520)	(829,294)	(5,801,965)	(1,811,876)	(1,103,383)
Net cash provided (used) by capital and related financing activities	<u>(3,633,514)</u>	<u>(2,139,596)</u>	<u>(2,312,101)</u>	<u>(2,364,809)</u>	<u>2,278</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment interest	202,069	230,623	224,427	5,407	-
Net increase (decrease) in cash and cash equivalents	(1,201,441)	(4,015,655)	(187,770)	(1,509,523)	242,279
Cash and cash equivalents - January 1, 2007	4,416,809	8,275,431	5,134,336	1,869,807	150,000
Cash and cash equivalents - December 31, 2007	<u>\$ 3,215,368</u>	<u>\$ 4,259,776</u>	<u>\$ 4,946,566</u>	<u>\$ 360,284</u>	<u>\$ 392,279</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	\$ 1,419,815	\$ 750,004	\$ 1,279,802	\$ 214,466	\$ (2,349,950)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	1,187,294	1,061,501	763,048	770,750	2,371,833
Change in assets and liabilities:					
Decrease (increase) in receivables	(78,350)	(1,796,115)	111,119	(231,720)	(632,673)
Decrease (increase) in inventory	(18,202)	39,422	-	11,963	-
Decrease (increase) in prepaid items	-	238,621	-	(33,075)	(4,439)
Increase (decrease) in payables	403,865	1,594,549	96,252	(63,586)	855,230
Increase (decrease) in deferred revenues	-	(21,456)	-	-	-
Total adjustments	<u>1,494,607</u>	<u>1,116,522</u>	<u>970,419</u>	<u>454,332</u>	<u>2,589,951</u>
Net cash provided (used) by operating activities	<u>\$ 2,914,422</u>	<u>\$ 1,866,526</u>	<u>\$ 2,250,221</u>	<u>\$ 668,798</u>	<u>\$ 240,001</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, 2007**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Parking</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Activities - Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,124,287	\$ 5,838,348	\$ 95,385,620	\$ 28,489,209
Cash paid to suppliers	(323,166)	(2,437,670)	(67,053,347)	(22,461,700)
Cash paid to employees	(206,284)	(1,855,132)	(17,444,776)	(4,493,282)
Other operating revenues	-	5,675	198,529	2,135
Net cash provided (used) by operating activities	1,594,837	1,551,221	11,086,026	1,536,362
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	367,655	-	367,655	-
Transfers to other funds	(1,187,219)	(261,277)	(6,595,006)	(246,961)
Operating grants	-	90,743	139,310	5,836
Interfund financing	-	143,996	415,077	(519,429)
Net cash provided (used) by noncapital financing activities	(819,564)	(26,538)	(5,672,964)	(760,554)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital grants and contributions	-	-	3,179,864	-
Transfer from other funds	1,737,717	-	1,737,717	-
Interest received on capital	-	-	2,278	-
Issuance of revenue bonds and notes	-	-	5,908,471	-
Principal paid on bonds, notes and capitalized leases	(255,000)	(166,923)	(6,517,768)	(34,160)
Interest paid on bonds, notes and capitalized leases	(808,582)	(120,652)	(2,658,526)	(18,050)
Transfer to trustee debt service account	-	(143,175)	(143,175)	-
Payment of bond issuance costs	-	-	(82,354)	-
Special assessments received	-	-	283,404	-
Sale of capital assets	-	2,311	40,081	-
Acquisition or construction of capital assets	(67,559)	(916,400)	(12,935,997)	-
Net cash provided (used) by capital and related financing activities	606,576	(1,344,839)	(11,186,005)	(52,210)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment interest	55,484	93,186	811,196	504,540
Net increase (decrease) in cash and cash equivalents	1,437,333	273,030	(4,961,747)	1,228,138
Cash and cash equivalents - January 1, 2007	-	1,478,360	21,324,743	10,843,777
Cash and cash equivalents - December 31, 2007	\$ 1,437,333	\$ 1,751,390	\$ 16,362,996	\$ 12,071,915
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	\$ 1,069,148	\$ 1,195,707	\$ 3,578,992	\$ 1,735,102
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	483,606	451,062	7,089,094	49,016
Change in assets and liabilities:				
Decrease (increase) in receivables	(34,489)	(19,607)	(2,681,835)	789,679
Decrease (increase) in inventory	-	(610)	32,573	(50)
Decrease (increase) in prepaid items	-	(65,576)	135,531	-
Increase (decrease) in payables	56,112	(64,343)	2,878,079	(1,046,141)
Increase (decrease) in deferred revenues	20,460	54,588	53,592	8,756
Total adjustments	525,689	355,514	7,507,034	(198,740)
Net cash provided (used) by operating activities	\$ 1,594,837	\$ 1,551,221	\$ 11,086,026	\$ 1,536,362
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Parking				
Contributions of capital assets net of debt from government, \$7,879,364				

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2007**

	Other Post Employment Benefits Trust Fund	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 47,782	\$ 1,871,553
Receivables:		
Accounts	-	2,310
Taxes	-	9,279
Loans	-	1,723,890
Investments, at fair value	13,705,020	-
Other assets	<u>-</u>	<u>349,232</u>
 Total assets	 <u>\$ 13,752,802</u>	 <u>\$ 3,956,264</u>
LIABILITIES		
Accounts payable	\$ -	\$ 972
Due to other governments	-	52,554
Due to agency	<u>-</u>	<u>3,902,738</u>
 Total liabilities	 <u>-</u>	 <u>\$ 3,956,264</u>
NET ASSETS		
Held in trust for post employment benefits	<u>\$ 13,752,802</u>	

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

**CITY OF DULUTH, MINNESOTA
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 OTHER POST EMPLOYMENT BENEFITS TRUST FUND
 YEAR ENDED DECEMBER 31, 2007**

ADDITIONS	
Contributions	<u>\$ 13,700,000</u>
Investment earnings:	
Interest	145,933
Net (decrease) in fair value of investments	<u>(93,131)</u>
Total investment earnings	<u>52,802</u>
Change in net assets	13,752,802
Net assets - January 1, 2007	<u>-</u>
Net assets - December 31, 2007	<u><u>\$ 13,752,802</u></u>

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET ASSETS
COMPONENT UNITS
DECEMBER 31, 2007**

	Duluth Entertainment & Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	Totals
ASSETS					
Cash and cash equivalents	\$ 469,291	\$ 383,492	\$ 4,712,155	\$ 436,855	\$ 6,001,793
Receivables, net					
Taxes	-	-	71,500	-	71,500
Accounts	378,317	718,754	49,130	57,918	1,204,119
Grants	-	60,999	-	-	60,999
Due from primary government	109,344	-	-	-	109,344
Due from other governments	-	-	309,368	-	309,368
Inventories	156,324	87,100	226,559	69,532	539,515
Prepays	21,463	49,849	8,850	49,074	129,236
Deferred charges	7,534	565,778	-	58,862	632,174
Restricted assets:					
Cash and cash equivalents	207,266	366,495	-	295,372	869,133
Accounts receivable	20,693	48,221	-	-	68,914
Grants receivable	-	2,205,271	-	-	2,205,271
Assets held by trustee	88,385	-	-	-	88,385
Capital assets, net:					
Non-depreciable	967,801	12,546,485	222,367	2,551,740	16,288,393
Depreciable	37,980,776	52,883,171	16,742,315	2,222,785	109,829,047
Total assets	40,407,194	69,915,615	22,342,244	5,742,138	138,407,191
LIABILITIES					
Accounts payable and other short-term liabilities	325,681	102,053	650,922	139,685	1,218,341
Contracts payable	-	1,870,906	-	-	1,870,906
Accrued interest payable	41,103	41,050	-	23,165	105,318
Due to primary government	21,101	30,900	-	91,000	143,001
Due to other government	-	31,417	-	5,162	36,579
Deferred revenue	188,231	416,567	63,020	131,450	799,268
Deposits	226,886	-	-	-	226,886
Non-current liabilities:					
Due within one year	879,138	90,086	500,557	384,020	1,853,801
Due in more than one year	3,887,541	1,074,764	-	1,270,692	6,232,997
Total liabilities	5,569,681	3,657,743	1,214,499	2,045,174	12,487,097
NET ASSETS					
Invested in capital assets, net of related debt	34,537,448	65,080,767	16,936,790	3,321,671	119,876,676
Restricted for:					
Debt service	88,385	-	-	-	88,385
Capital projects	-	-	-	287,295	287,295
Other	-	-	3,436,781	33,525	3,470,306
Unrestricted	211,680	1,177,105	754,174	54,473	2,197,432
Total net assets	\$ 34,837,513	\$ 66,257,872	\$ 21,127,745	\$ 3,696,964	\$ 125,920,094

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, 2007**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Duluth Entertainment & Convention Center Authority				
Business-type activities:				
Entertainment and convention facility	\$ 9,479,353	\$ 6,988,830	\$ -	\$ 766,964
Duluth Airport Authority				
Business-type activities:				
Airport facility	7,725,623	4,302,356	104,174	11,656,512
Duluth Transit Authority				
Business-type activities:				
Public transportation	14,211,306	2,227,104	7,333,597	4,301,259
Spirit Mountain Recreation Area Authority				
Business-type activities:				
Ski hill operations	4,338,872	3,978,688	-	225,000
Total component units	\$ 35,755,154	\$ 17,496,978	\$ 7,437,771	\$ 16,949,735

(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, 2007**

<u>Functions/Programs</u>	Net (Expense) Revenue and Changes in Net Assets				Totals
	Duluth Entertainment & Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	
Duluth Entertainment & Convention Center Authority					
Business-type activities:					
Entertainment and convention facility	\$ (1,723,559)	\$ -	\$ -	\$ -	\$ (1,723,559)
Duluth Airport Authority					
Business-type activities:					
Airport facility	-	8,337,419	-	-	8,337,419
Duluth Transit Authority					
Business-type activities:					
Public transportation	-	-	(349,346)	-	(349,346)
Spirit Mountain Recreation Area Authority					
Business-type activities:					
Ski hill operations	-	-	-	(135,184)	(135,184)
Total component units					<u>6,129,330</u>
General revenues:					
Property taxes	973,207	-	1,316,898	-	2,290,105
Grants and shared revenues not restricted to specific programs	-	-	1,229,919	-	1,229,919
Investment income	7,298	568	161,964	22,371	192,201
Gain on sale of capital assets	-	-	-	8,681	8,681
Miscellaneous	275,688	-	-	55,771	331,459
Total general revenues and transfers	<u>1,256,193</u>	<u>568</u>	<u>2,708,781</u>	<u>86,823</u>	<u>4,052,365</u>
Change in net assets	(467,366)	8,337,987	2,359,435	(48,361)	10,181,695
Net assets - beginning	<u>35,304,879</u>	<u>57,919,885</u>	<u>18,768,310</u>	<u>3,745,325</u>	<u>115,738,399</u>
Net assets - ending	<u>\$ 34,837,513</u>	<u>\$ 66,257,872</u>	<u>\$ 21,127,745</u>	<u>\$ 3,696,964</u>	<u>\$ 125,920,094</u>

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

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Notes to the Financial Statements

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

Guide to Notes

<u>Note</u>		<u>Page</u>
1.	Summary of Significant Accounting Policies	46
2.	Stewardship, Compliance and Accountability	53
3.	Deposits and Investments	54
4.	Property Taxes	57
5.	Receivables	57
6.	Capital Assets	58
7.	Commitments	60
8.	Risk Management	60
9.	Lease Obligations	61
10.	Short-term Debt	62
11.	Long-Term Debt	63
12.	Interfund Assets/Liabilities/Transfers	77
13.	Pension Plans	80
14.	Other Post-Employment Benefits (OPEB)	82
15.	Segment Information	85
16.	Summary Disclosure of Significant Contingencies	86
17.	Subsequent Events	89

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

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

BLENDED COMPONENT UNIT

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

DISCRETELY PRESENTED COMPONENT UNITS

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

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

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

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

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

Duluth Airport Authority
Duluth International Airport
Duluth, MN 55811

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

Duluth Transit Authority
2402 West Michigan Street
Duluth, MN 55806

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

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

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

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

The **Steam District #2 Enterprise Fund** accounts for the generation and distribution of steam to New Page Corporation – Duluth Paper Mill and other industrial customers.

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Additionally, the City reports the following fund types:

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

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

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

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

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

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

CASH AND CASH EQUIVALENTS

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

ASSETS HELD BY TRUSTEE

The assets represent funds held for debt service reserves.

RECEIVABLES AND PAYABLES

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
RECEIVABLES

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

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

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

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

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

INVENTORIES AND PREPAID ITEMS

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

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

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

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

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

RESTRICTED ASSETS

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

CAPITAL ASSETS

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

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

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

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

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

COMPENSATED ABSENCES

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

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

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

LONG-TERM OBLIGATIONS

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

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

FUND EQUITY

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

RECLASSIFICATIONS

As of January 1, 2007, the City established a Parking Enterprise Fund to account for the City's parking ramps, lots and meter operations. These operations were previously accounted for in the General Fund. As part of the establishment of this new fund, capital assets (net of accumulated depreciation) of \$22,974,341 and associated long term-debt of \$15,550,000 were transferred from governmental activities to business-type activities.

In addition, several account balances were reclassified for the year ended December 31, 2006, 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.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
BUDGETARY INFORMATION

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

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

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

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

DEFICIT FUND EQUITY

The Street Improvement Program Capital Project Fund had a deficit fund balance of \$317,172 at December 31, 2007. This deficit is a result of expenditures for projects to be bonded in the future.

The DEDA Operating Special Revenue Fund deficit fund balance of \$370,078 as of December 31, 2007 is expected to be eliminated by future grants, transfers and loan proceeds.

The Police Grant Programs Special Revenue Fund deficit fund balance of \$71,191 as of December 31, 2007 was due to the deferral of grant revenues not considered available.

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, 2007; an auditor's report on compliance and internal accounting control will be issued at a later date.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

3. DEPOSITS AND INVESTMENTS

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

Government-wide statement of net assets	
Governmental Activities	
Cash and cash equivalents	\$ 96,929,083
Assets held by trustee	144,991
Business-type activities	
Cash and cash equivalents	11,995,790
Cash and cash equivalents - restricted assets	4,367,206
Assets held by trustee	110,349
Discrete Component Units	
Cash and cash equivalents	6,001,793
Cash and cash equivalents - restricted assets	869,133
Assets held by trustee	88,385
Statement of fiduciary net assets	
Cash and cash equivalents	1,919,335
Investments, at fair value	<u>13,705,020</u>
 Total Cash and Investments	 <u><u>\$ 136,131,085</u></u>

DEPOSITS

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

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy to obtain pledged collateral for all deposits in excess of FDIC insurance. As of December 31, 2007; deposits with financial institutions were fully insured or collateralized by securities held in the City's name.

INVESTMENTS

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

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

3. DEPOSITS AND INVESTMENTS
INVESTMENTS (continued)

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

3. DEPOSITS AND INVESTMENTS
INVESTMENTS (continued)

- 9) agreements or contracts for guaranteed investment contract may be entered into if they are issued or guaranteed by United States commercial banks, domestic branches of foreign banks, United States insurance companies, or their Canadian subsidiaries. The credit quality of the issuer's or guarantor's short- and long-term unsecured debt must be rated in one of the two highest categories by a nationally recognized rating agency. Should the issuer's or guarantor's credit quality be downgraded 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, 2007 the City had the following investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>6 - 10 years</u>
U.S. Government Agency Securities	\$ 111,442,723	\$ 55,231,978	\$ 27,404,265	\$ 28,806,480
Commercial Paper	1,050,000	1,050,000		
Negotiable Certificates of Deposit	4,885,042	4,885,042		
Mutual Funds	14,440,489	14,440,489		
Total Investments	\$ 131,818,254	\$ 75,607,509	\$ 27,404,265	\$ 28,806,480
Deposits	\$ 4,312,831			
Total Deposits and Investments*	\$ 136,131,085			

* 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, 2007 is as follows:

<u>S & P Rating</u>	<u>Fair Value</u>
AAA	\$ 111,442,723
<u>Moody's Rating</u>	
Aaa	687,687
<u>Not Rated</u>	
Mutual Funds	13,752,802
Commercial Paper	1,050,000
Negotiable Certificates of Deposit	4,885,042
Total	\$ 131,818,254

The City's investment in commercial paper was written down from \$2,979,760 to \$1,050,000 due to the issuer defaulting on the investment. The issuer is currently under receivership.

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, 2007 none of the City's investments were subject to custodial credit risk.

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007**

3. DEPOSITS AND INVESTMENTS
INVESTMENTS (continued)

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

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Bank	\$ 43,490,346
Federal National Mortgage Association	61,426,899

4. PROPERTY TAXES

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

Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The County is required to distribute collections to the City three times each year. Taxes which remain unpaid at year-end are delinquent. Collections made by the County through the end of the year and remitted to the City within 60 days after year-end are recognized as revenue and the remainder is deferred. The current year collection rate at December 31, 2007 was 97.4%.

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 \$1,570,659. The uncollectible amounts related to the revenues of the City's utility enterprise funds at December 31, 2007 are as follows:

Water	\$ 177,359
Gas	675,378
Sewer	228,870
Steam District #1	<u>3,512</u>
Total Uncollectibles	<u>\$ 1,085,119</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition for resources that have been received, but not yet earned. The following schedule shows the detail of deferred revenue at December 31, 2007:

	<u>Unavailable</u>	<u>Unearned</u>
Taxes	\$ 599,242	\$ -
Grants	2,945,474	206,414
Assessments	12,808,876	-
Loans	5,239,038	47,445
Deposits	<u>-</u>	<u>2,776</u>
Total for Governmental Funds	<u>\$ 21,592,630</u>	<u>\$ 256,635</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

6. CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2007 was as follows:

Primary Government

	Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land and land improvements	\$ 25,106,418	\$ (2,518,664)	\$ 14,000	\$ 122,156	\$ 22,479,598
Construction in progress	38,544,096	(10,937,772)	11,876,015	17,827,302	21,655,037
Total capital assets, not being depreciated	<u>63,650,514</u>	<u>(13,456,436)</u>	<u>11,890,015</u>	<u>17,949,458</u>	<u>44,134,635</u>
Capital assets, being depreciated:					
Buildings	86,655,889	(12,713,490)	-	-	73,942,399
Equipment	20,681,681	-	2,687,717	828,784	22,540,614
Infrastructure	223,285,556	-	14,692,737	-	237,978,293
Total capital assets being depreciated	<u>330,623,126</u>	<u>(12,713,490)</u>	<u>17,380,454</u>	<u>828,784</u>	<u>334,461,306</u>
Less accumulated depreciation for:					
Buildings	35,123,551	(3,195,585)	1,923,028	-	33,850,994
Equipment	14,426,429	-	1,518,069	754,238	15,190,260
Infrastructure	69,381,800	-	5,965,472	-	75,347,272
Total accumulated depreciation	<u>118,931,780</u>	<u>(3,195,585)</u>	<u>9,406,569</u>	<u>754,238</u>	<u>124,388,526</u>
Total capital assets, being depreciated, net	<u>211,691,346</u>	<u>(9,517,905)</u>	<u>7,973,885</u>	<u>74,546</u>	<u>210,072,780</u>
Governmental activities capital assets, net	<u>\$ 275,341,860</u>	<u>\$ (22,974,341)</u>	<u>\$ 19,863,900</u>	<u>\$ 18,024,004</u>	<u>\$ 254,207,415</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land and land improvements	\$ 855,473	\$ 2,518,664	\$ 401,744	\$ 19,472	\$ 3,756,409
Construction in progress	17,377,326	-	9,736,870	13,963,520	13,150,676
Total capital assets, not being depreciated	<u>18,232,799</u>	<u>2,518,664</u>	<u>10,138,614</u>	<u>13,982,992</u>	<u>16,907,085</u>
Capital assets, being depreciated:					
Buildings	33,943,140	23,651,262	491,253	-	58,085,655
Equipment	70,266,446	-	3,705,762	396,481	73,575,727
Infrastructure	125,632,774	-	13,016,687	-	138,649,461
Total capital assets, being depreciated	<u>229,842,360</u>	<u>23,651,262</u>	<u>17,213,702</u>	<u>396,481</u>	<u>270,310,843</u>
Less accumulated depreciation for:					
Buildings	16,128,154	3,195,585	1,267,792	-	20,591,531
Equipment	51,207,273	-	3,438,349	892,268	53,753,354
Infrastructure	33,329,418	-	2,313,214	-	35,642,632
Total accumulated depreciation	<u>100,664,845</u>	<u>3,195,585</u>	<u>7,019,355</u>	<u>892,268</u>	<u>109,987,517</u>
Total capital assets, being depreciated, net	<u>129,177,515</u>	<u>20,455,677</u>	<u>10,194,347</u>	<u>(495,787)</u>	<u>160,323,326</u>
Business-type activities capital assets, net	<u>\$ 147,410,314</u>	<u>\$ 22,974,341</u>	<u>\$ 20,332,961</u>	<u>\$ 13,487,205</u>	<u>\$ 177,230,411</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

6. CAPITAL ASSETS (continued)

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

Governmental activities:		
General government	\$	1,649,279
Public safety		674,146
Public works, including depreciation of general infrastructure assets		6,206,990
Culture and recreation		827,138
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets.		<u>49,016</u>
Total depreciation expense - governmental activities	\$	<u>9,406,569</u>
Business-type activities:		
Water	\$	1,184,478
Gas		1,060,245
Sewer		755,676
Stormwater		266,931
Steam #1		762,927
Steam #2		2,371,833
Parking		471,342
Golf		<u>145,923</u>
Total depreciation expense - business-type activities	\$	<u>7,019,355</u>

Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 6,455,446	\$ 463,424	\$ -	\$ 6,918,870
Construction in progress	<u>29,396,118</u>	<u>10,138,887</u>	<u>30,165,482</u>	<u>9,369,523</u>
Total capital assets, not being depreciated	<u>35,851,564</u>	<u>10,602,311</u>	<u>30,165,482</u>	<u>16,288,393</u>
Capital assets, being depreciated:				
Buildings	95,850,381	6,761,625	652,652	101,959,354
Equipment	44,778,900	6,744,980	5,527,357	45,996,523
Infrastructure	41,843,617	25,050,388	-	66,894,005
Other	<u>405,464</u>	<u>16,552</u>	<u>-</u>	<u>422,016</u>
Total capital assets being depreciated	<u>182,878,362</u>	<u>38,573,545</u>	<u>6,180,009</u>	<u>215,271,898</u>
Less accumulated depreciation for:				
Buildings	45,158,203	2,786,087	385,417	47,558,873
Equipment	31,549,539	2,951,833	5,526,941	28,974,431
Infrastructure	25,417,678	3,178,277	-	28,595,955
Other	<u>294,182</u>	<u>19,410</u>	<u>-</u>	<u>313,592</u>
Total accumulated depreciation	<u>102,419,602</u>	<u>8,935,607</u>	<u>5,912,358</u>	<u>105,442,851</u>
Total capital assets, being depreciated, net	<u>80,458,760</u>	<u>29,637,938</u>	<u>267,651</u>	<u>109,829,047</u>
Component unit capital assets, net	\$ <u>116,310,324</u>	\$ <u>40,240,249</u>	\$ <u>30,433,133</u>	\$ <u>126,117,440</u>

Depreciation expense was charged to component units as follows:

Duluth Airport Authority	\$	3,865,686
Duluth Entertainment and Convention Center Authority		2,046,569
Duluth Transit Authority		2,616,413
Spirit Mountain Recreation Area Authority		<u>406,939</u>
Total Depreciation expense - component units	\$	<u>8,935,607</u>

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007**

7. COMMITMENTS
CONSTRUCTION COMMITMENTS

At December 31, 2007, the City had construction commitments of approximately \$6,273,853 for various projects and street improvements. The Duluth Airport Authority component unit had construction commitments of \$3,585,355 for airport improvements. Funding for these future expenditures or expenses will be available from federal and state grants, municipal state aid construction funds, tax levies, bond proceeds, and special assessments.

8. RISK MANAGEMENT

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

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

The self-insurance for workers' compensation covers up to \$800,000 per single loss occurrence. At that point, the City is covered for losses by the Workers' Compensation Reinsurance Association, an organization created by Minnesota statutes in 1979 to implement a mandatory program of reinsurance for workers' compensation liability risks in the State of Minnesota for losses occurring on or after October 1, 1979. The Association provides full indemnification for the City for claims arising under Minnesota Statutes Ch. 176, in excess of the \$800,000 retention limit.

The accrued liability for workers' compensation is estimated by the benefits administrator at the time an injury or illness is reported. Interest cost is not included in the estimate. The estimated liability for general liability matters is accrued if the City determines settlement is probable, based on a case-by-case evaluation. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims incurred but not reported have been considered in the sense that management's experience has shown that they do not affect the predictions. An actuary was not used in determining the liabilities, but actuarial guidelines were used. The estimated liability for claims payable at year end is present valued at 5%. In addition, the City Attorney estimated settlements to be \$274,362 for various claims and cases which he considered reasonably possible losses to the City. Considerable prejudgment interest liability is not considered by the City Attorney in making his liability estimate. The amount of these estimated liabilities is not reflected in the financial statements. Changes in the balances of the Self-Insurance Fund's liability during 2006 and 2007 were as follows:

	<u>Liability</u> <u>January 1</u>	<u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>Liability</u> <u>December 31</u>
2006	1,679,976	307,111	940,048	1,047,039
2007	1,047,039	1,687,779	1,393,662	1,341,156

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

8. RISK MANAGEMENT (continued)

The Group Health Fund, an internal service fund, was established for the payment of employee medical and dental claims. The City pays Delta Dental Plan of Minnesota and Blue Cross Blue Shield of Minnesota an administrative fee to process dental and medical claims, respectively. The City assumes all risk, except that which is covered by a medical stop-loss policy purchased from Blue Cross Blue Shield of Minnesota. The stop-loss policy has an individual limit of \$250,000 and an aggregate limit of 125% of projected claims for the year. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have occurred but have not been reported. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the balances of the Group Health Fund's liability during 2006 and 2007 were as follows:

	<u>Liability January 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Liability December 31</u>
2006	1,319,941	16,474,470	16,013,028	1,781,383
2007	1,781,383	14,869,158	15,328,794	1,321,747

9. LEASE OBLIGATIONS
OPERATING LEASES

The City and its component units are committed under various operating leases for small tracts of land or pipe right-of-way, parking facilities, and equipment. The following is a summary of the approximate operating lease expense for 2007:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Component Units</u>
Police Garage	\$ 15,356	\$ -
Land & Right-of-way	39,823	-
Buildings	343,833	-
Equipment	583,367	4,252
Total Expense	<u>\$ 982,379</u>	<u>\$ 4,252</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, 2007:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2008	\$ 53,634
2009	53,367
2010	63,463
2011	80,904
2012	80,904
2013-2017	404,520
2018-2022	188,805
2023-2027	76,780
2028-2032	61,424
Total minimum payments required	<u>\$ 1,063,801</u>

Component unit subleases of noncancelable operating leases provide for future minimum rentals to be received totaling \$527,936 at December 31, 2007.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

9. LEASE OBLIGATIONS (continued)
CAPITAL LEASES

Capitalized leases for the City of Duluth and its component units at December 31, 2007, consist of the following capital assets shown at original cost as summarized below:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Buildings	\$ 750,000	\$ -	\$ 2,586,987
Equipment	-	466,136	445,739
Total	750,000	466,136	3,032,726
Less: Accumulated amortization	(341,667)	(83,904)	(862,429)
Total Expense	<u>\$ 408,333</u>	<u>\$ 382,232</u>	<u>\$ 2,170,297</u>

Noncancelable Operating Leases

Minimum future lease payments are:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
2008	\$ 51,324	\$ 100,848	\$ 307,806
2009	51,324	100,848	383,998
2010	51,324	100,722	355,322
2011	51,324	-	271,152
2012	25,664	-	271,151
2013-2017	-	-	1,076,169
Total minimum lease payments	230,960	302,418	2,665,598
Less: Imputed interest	(37,960)	(20,349)	(515,996)
Present value of minimum lease payments	<u>\$ 193,000</u>	<u>\$ 282,069</u>	<u>\$ 2,149,602</u>

10. SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2007 follows:

	<u>Balance 01/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/07</u>
Governmental Activities:				
Loans Payable	\$ 781,397	\$ -	\$ 317,934	\$ 463,463
Tax and Aid Certificates	-	17,000,000	17,000,000	-
Total Governmental Activities Short-term Debt	<u>\$ 781,397</u>	<u>\$ 17,000,000</u>	<u>\$ 17,317,934</u>	<u>\$ 463,463</u>

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

General Obligation Tax and Aid Anticipation Certificates were issued to fund governmental activities in anticipation of collection of taxes levied and state aids receivable for the City's General Fund. The obligations were general obligations of the City for which the City pledged its full faith and taxing power. The certificates matured on December 30, 2007.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Long-term liability activity for the year ended December 31, 2007 follows:

	Balance 01/01/07	Transfers	Additions	Deletions	Balance 12/31/07	Due Within One Year
Governmental Activities:						
Bonds Payable:						
General Obligation Bonds	\$ 32,439,200	\$ (10,919,200)	\$ 5,000,000	\$ 7,018,000	\$ 19,502,000	\$ 2,397,000
General Obligation Bonds - Tax Increment	6,380,800	(4,630,800)	-	1,727,000	23,000	23,000
General Obligation - Tax Abatement	310,000	-	-	-	310,000	-
Tax Increment Revenue Bonds	2,543,488	-	-	1,303,486	1,240,002	1,065,002
Lease Revenue Bonds	1,640,000	-	1,380,000	1,770,000	1,250,000	125,000
Special Assessment Debt with Government Commitment	53,600,000	-	2,285,000	3,825,000	52,060,000	5,105,000
General Obligation Certificates	4,395,000	-	1,985,000	1,110,000	5,270,000	1,070,000
Add deferred amounts:						
For Bond Premium	331,118	-	269,593	102,908	497,803	-
Tax Increment Revenue Notes	645,043	-	-	315,043	330,000	120,000
Public Facilities Authority Note	301,000	-	-	24,000	277,000	24,000
Greater Minnesota Housing Fund Note	200,000	-	-	-	200,000	-
Revenue Notes	3,221,000	-	-	85,000	3,136,000	55,000
Tax Increment Revenue Pledge	6,260,000	-	-	6,260,000	-	-
Revenue Pledge	8,945,000	-	-	8,945,000	-	-
Capital Leases Payable	227,160	-	-	34,161	192,999	37,540
Compensated Absences	3,559,015	-	2,560,022	2,965,815	3,153,222	2,900,000
Claims and Judgments	2,828,422	-	16,556,937	16,722,456	2,662,903	1,524,578
Net Other Post Employment Benefits Payable	-	-	731,195	-	731,195	-
PERA Police and Fire Pension Liability	9,767,082	-	-	2,993,994	6,773,088	3,248,483
Total Governmental Activity Long-Term Liabilities	\$ 137,593,328	\$ (15,550,000)	\$ 30,767,747	\$ 55,201,863	\$ 97,609,212	\$ 17,694,603
Business-Type Activities:						
Bonds Payable:						
Revenue Bonds	\$ 800,000	\$ -	\$ -	\$ 125,000	\$ 675,000	\$ 125,000
Revenue and General Obligation Bonds	46,815,000	15,550,000	4,395,000	6,165,000	60,595,000	4,005,000
Less deferred amounts:						
For Issuance Discounts	(411,312)	-	25,667	(126,810)	(258,835)	-
General Obligation Notes	3,517,301	-	1,686,940	258,301	4,945,940	265,000
Capital Leases Payable	368,994	-	-	86,925	282,069	100,848
Loans	25,329	-	-	7,544	17,785	5,271
Net Other Post Employment Benefits Payable	-	-	930,041	-	930,041	-
Compensated Absences	907,011	-	645,988	734,670	818,329	700,000
Total Business-Type Activity Long-Term Liabilities	\$ 52,022,323	\$ 15,550,000	\$ 7,683,636	\$ 7,250,630	\$ 68,005,329	\$ 5,201,119
Component Unit Activities:						
Duluth Entertainment and Convention Center Authority						
Bonds Payable						
General Obligation Bonds	\$ 3,565,000	\$ -	\$ -	\$ 655,000	\$ 2,910,000	\$ 685,000
Less deferred amounts:						
For Issuance Discounts	(11,349)	-	-	(3,722)	(7,627)	-
On Refunding	(421,565)	-	-	(85,752)	(335,813)	-
Capital Leases	1,157,090	-	843,000	135,521	1,864,569	102,699
Compensated Absences	171,809	-	96,221	109,305	158,725	91,439
Net Other Post Employment Benefits Payable	-	-	176,825	-	176,825	-
Duluth Transit Authority						
Compensated Absences	480,313	-	500,557	480,313	500,557	500,557
Duluth Airport Authority						
Notes Payable	497,379	-	-	-	497,379	-
Loans Payable	375,556	-	-	26,667	348,889	26,667
Compensated Absences	57,234	-	63,419	57,234	63,419	63,419
Deferred Revenue	134,433	-	-	38,094	96,339	-
Net Other Post Employment Benefits Payable	-	-	158,824	-	158,824	-
Spirit Mountain Recreation Authority						
Revenue Bond Payable	1,334,618	-	-	166,798	1,167,820	174,388
Capital Leases	379,730	-	-	94,697	285,033	98,288
Due to Primary Government	181,515	-	-	45,500	136,015	45,500
Compensated Absences	51,576	-	65,844	51,576	65,844	65,844
Total Component Unit Activities Long-Term Liabilities	\$ 7,953,339	\$ -	\$ 1,904,690	\$ 1,771,231	\$ 8,086,798	\$ 1,853,801

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007**

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

Governmental Activities Long-Term Debt

General Obligation Bonds and Certificate Covenants

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

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

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

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

Year Ending December 31	General Obligation Bonds		General Obligation Tax Increment		General Obligation Certificates		General Obligation Tax Abatement	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2008	\$ 685,973	\$ 2,397,000	\$ 374	\$ 23,000	\$ 166,933	\$ 1,070,000	\$ 12,230	\$ -
2009	657,238	2,980,000	-	-	156,697	1,220,000	12,230	-
2010	540,071	3,025,000	-	-	109,625	985,000	12,230	-
2011	429,791	2,500,000	-	-	69,613	770,000	11,780	25,000
2012	337,308	2,030,000	-	-	37,703	795,000	10,880	25,000
2013-2017	650,172	6,325,000	-	-	10,749	430,000	40,133	135,000
2018-2022	15,544	245,000	-	-	-	-	10,983	125,000
Total	\$ 3,316,097	\$ 19,502,000	\$ 374	\$ 23,000	\$ 551,320	\$ 5,270,000	\$ 110,466	\$ 310,000

Greater Minnesota Housing Notes

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

Tax Increment Revenue Bond and Notes

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

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

Year Ending December 31	Duluth Economic Development Tax Increment Revenue Bonds		Duluth Economic Development Tax Increment Revenue Notes	
	Interest	Principal	Interest	Principal
2008	\$ 625,548	\$ 1,065,002	\$ 18,253	\$ 120,000
2009	12,400	40,000	10,545	50,000
2010	9,000	45,000	7,553	55,000
2011	5,400	45,000	4,418	55,000
2012	1,800	45,000	1,425	50,000
Total	\$ 654,148	\$ 1,240,002	\$ 42,194	\$ 330,000

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Governmental Activities Long-Term Debt (continued)

Lease Revenue Bond

During 1995, \$2,720,000 lease revenue bonds were issued for the development of a community center facility. The \$1,250,000 outstanding bonds are limited to lease revenue and are not a general obligation of the City.

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

Year Ending December 31	Lease Revenue Bonds	
	Interest	Principal
2008	\$ 50,000	\$ 125,000
2009	45,000	130,000
2010	39,800	135,000
2011	34,400	145,000
2012	28,600	150,000
2013-2017	39,200	565,000
Total	\$ 237,000	\$ 1,250,000

United States Department of Housing and Urban Development Revenue Notes

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

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

Year Ending December 31	United States Dept. of Housing and Urban Development Revenue Notes	
	Interest	Principal
2008	\$ 176,339	\$ 55,000
2009	173,583	55,000
2010	170,855	60,000
2011	167,861	60,000
2012	164,849	65,000
2013-2017	777,272	195,000
2018-2022	751,352	75,000
2023-2027	438,668	2,571,000
Total	\$ 2,820,779	\$ 3,136,000

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

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

The City has a contingent liability against its full faith and credit on \$52,060,000 of special assessment bonds. The general credit of the City is obligated only to the extent that collections from special assessments and parking revenues are insufficient to retire outstanding bonds.

General Obligation Public Facilities Authority Notes

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

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

Year Ending December 31	Special Assessment Bonds		G.O. Revenue Notes Public Facilities Authority	
	Interest	Principal	Interest	Principal
2008	\$ 1,962,812	\$ 5,105,000	\$ 2,770	\$ 24,000
2009	1,808,794	5,100,000	2,530	24,000
2010	1,614,259	5,305,000	2,290	24,000
2011	1,418,511	4,825,000	2,050	25,000
2012	1,221,568	5,020,000	1,800	25,000
2013-2017	3,505,400	18,555,000	5,220	128,000
2018-2022	645,643	7,950,000	270	27,000
2023-2027	4,250	200,000	-	-
Total	<u>\$ 12,181,237</u>	<u>\$ 52,060,000</u>	<u>\$ 16,930</u>	<u>\$ 277,000</u>

Other Debt

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

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

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

The City has reported in its long-term debt, revenue pledges made to the State of Minnesota for repayment of certain State issued revenue bonds. The State bonds were issued to finance the construction of an aircraft maintenance facility at Duluth International Airport. The facility is owned by DEDA and was leased to Northwest Airlines (NWA).

NWA filed for bankruptcy on September 14, 2005. On May 21, 2007, a settlement agreement between NWA and various debtors including the State of Minnesota, the City of Duluth and DEDA, was approved by the United States Bankruptcy Court. The settlement agreement gave the State of Minnesota general unsecured claims in NWA in amounts sufficient to allow the State to redeem all outstanding debt. The redemption of debt by the State of Minnesota eliminated the revenue pledges made by the City and DEDA. The impact of this redemption, net of reserve funds, resulted in a net gain of \$12,708,044. The facility will continue to be owned by DEDA, free of debt obligations, which will allow DEDA to remarket the property.

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007**

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

Business-type Activities Long-Term Debt

Revenue and General Obligation Bonds

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

Revenue Bonds

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

General Obligation Public Facilities Authority Revenue Notes

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

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

Year Ending December 31	Revenue and General Obligation Bonds		Revenue Bonds		G.O. Revenue Notes Public Facilities Authority	
	Interest	Principal	Interest	Principal	Interest	Principal
2008	\$ 2,463,881	\$ 4,005,000	\$ 23,185	\$ 125,000	\$ 73,228	\$ 265,000
2009	2,370,836	4,165,000	19,435	130,000	86,726	329,108
2010	2,209,897	4,155,000	15,210	135,000	80,010	393,289
2011	2,047,794	4,025,000	10,620	140,000	72,496	401,115
2012	1,881,133	4,160,000	5,510	145,000	64,801	408,767
2013-2017	6,610,412	22,115,000	-	-	202,676	2,163,659
2018-2022	2,485,908	13,795,000	-	-	30,231	985,002
2023-2027	441,076	4,175,000	-	-	-	-
Total	<u>\$ 20,510,937</u>	<u>\$ 60,595,000</u>	<u>\$ 73,960</u>	<u>\$ 675,000</u>	<u>\$ 610,168</u>	<u>\$ 4,945,940</u>

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

Component Unit Long-Term Debt

Spirit Mountain Recreation Area Authority

Revenue Bonds

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

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007**

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

Component Unit Long-Term Debt

Spirit Mountain Recreation Area Authority (continued)

The annual requirements to service the debt follow:

Year Ending April 30	Interest	Principal
2008	\$ 50,612	\$ 174,388
2009	42,676	182,324
2010	34,379	190,620
2011	25,705	199,295
2012	16,636	208,365
2013-2017	7,154	212,828
Total	<u>\$ 177,162</u>	<u>\$ 1,167,820</u>

Duluth Entertainment and Convention Center Authority

General Obligation Bonds

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

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

Year Ending December 31	General Obligation Refunding Revenue Bonds	
	Interest	Principal
2008	\$ 118,875	\$ 685,000
2009	91,475	710,000
2010	63,075	740,000
2011	32,550	775,000
Total	<u>\$ 305,975</u>	<u>\$ 2,910,000</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Component Unit Long-Term Debt (continued)

Duluth Airport Authority

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

The annual requirements to service the debt follow:

Year Ending December 31	Airport Facility Revenue Note	
	Interest	Principal
2008	\$ 75,000	\$ -
2009	52,830	22,170
2010	41,327	33,673
2011	38,281	36,719
2012	34,960	40,040
2013-2017	113,455	261,545
2018-2022	9,268	103,232
Total	<u>\$ 365,121</u>	<u>\$ 497,379</u>

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

11. LONG-TERM DEBT (continued)
DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS
December 31, 2007

	Issue Date	Amount Outstanding	Total
Governmental Activities:			
General Obligation Bonds Payable -			
Duluth Transit Authority	09-01-97	\$ 65,000	
Street Overlay (60%) Refunding	05-01-98	75,000	
West Michigan Street Improvements	12-01-98	960,000	
Great Lakes Aquarium	12-01-99	925,000	
Bayfront Festival Park	04-01-01	1,620,000	
Duluth Transit Authority	09-01-01	300,000	
Airport Improvement G.O. Bonds	02-01-02	2,700,000	
Leif Erickson Park Tax Increment (80%) Refunding	09-01-02	92,000	
Duluth Entertainment & Convention Center Authority Refunding	03-01-03	1,085,000	
Bayfront Festival Park	12-01-03	280,000	
G. O. Improvement	03-01-04	640,000	
Airpark Improvement	09-01-04	850,000	
Capital Improvement	06-01-05	1,135,000	
Lake Superior Center Refunding	12-19-05	1,640,000	
Zoo Refunding Issue	12-19-05	1,240,000	
Capital Improvement	09-07-06	895,000	
Capital Improvement	12-13-07	1,240,000	
Duluth Entertainment & Convention Center Authority Refunding	12-13-07	<u>3,760,000</u>	
Total General Obligation Bonds Payable			\$ 19,502,000
General Obligation Tax Increment			
Leif Erickson Park Tax Increment Refunding (20%)	09-01-02	<u>23,000</u>	
Total General Obligation - Tax Increment Bonds Payable			23,000
General Obligation Tax Abatement			
Lake Walk Homes Tax Abatement Bonds	10-01-05	<u>310,000</u>	
Total General Obligation - Tax Abatement Bonds Payable			310,000
Revenue Bonds Payable -			
Tax Increment Revenue Bonds -			
Cirrus Tax Increment Revenue	03-01-94	215,000	
Tax Increment Revenue Refunding	04-15-98	311,192	
Tax Increment Revenue Refunding	05-04-99	713,810	
Lease Revenue Bond	02-07-07	<u>1,250,000</u>	
Total Revenue Bonds Payable			2,490,002
Special Assessment Debt with Government Commitment	25 issues	52,060,000	52,060,000
General Long-Term Debt Certificates Payable:			
General Obligation Certificates Payable -	5 issues	5,270,000	<u>5,270,000</u>
Total Governmental Activities Debt			<u>79,655,002</u>
Business-type Activities Debt:			
Revenue Bonds Payable:			
Golf Fund	1 issue	<u>675,000</u>	\$ 675,000
Revenue and General Obligation Bonds Payable:			
Parking Fund	3 issues	15,295,000	
Water Fund	6 issues	5,060,000	
Gas Fund	5 issues	13,021,000	
Steam District #1	6 issues	8,145,000	
Sewer Fund	11 issues	16,249,000	
Stormwater Fund	2 issues	<u>2,825,000</u>	
Total Revenue and General Obligation Bonds Payable			<u>60,595,000</u>
Total Business-type Activities Debt			<u>61,270,000</u>
Total Bonds Payable			<u>\$ 140,925,002</u> (continued)

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

11. LONG-TERM DEBT
DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS (continued)
December 31, 2007

	Issue Date	Amount Outstanding	Total
Deductions Allowable:			
Bayfront Festival Park	04-01-01	1,620,000	
Airport Improvement G.O. Bonds	02-01-02	2,700,000	
Airpark Improvement	09-01-04	850,000	
Leif Erickson Park Tax Increment Refunding (20%)	09-01-02	23,000	
Lake Walk Homes Tax Abatement Bonds	10-01-05	310,000	
Cirrus Tax Increment Revenue	03-01-94	215,000	
Tax Increment Revenue Refunding	04-15-98	311,192	
Tax Increment Revenue Refunding	05-04-99	713,810	
Lease Revenue Bond	05-01-95	1,250,000	
Special Assessment		52,060,000	
Golf Fund		675,000	
Parking Fund		15,295,000	
Water Fund		5,060,000	
Gas Fund		13,021,000	
Steam District #1		8,145,000	
Sewer Fund		16,249,000	
Stormwater Fund		2,825,000	
Total Deductions Allowable			<u>121,323,002</u>
Net Debt			<u>\$ 19,602,000</u>
Legal Debt Margin for Duluth			
Taxable Market Value (\$ 5,197,633,600 X 2%)			<u>\$ 103,952,672</u>

Overlapping Debt to Duluth

Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$ 26,270,000	93.30%	\$ 24,509,910
Independent School District 704	11,595,000	6.20%	718,890
St. Louis County	44,430,000	37.90%	16,838,970
Western Lake Superior Sanitary District	59,410,747	74.09%	44,017,422
			<u>\$ 86,085,192</u>

REFUNDING BOND ISSUES

Current Refunding Bonds

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

In 2007 Duluth Economic Development Authority issued \$1,380,000 in Lease Revenue Refunding Bonds with the obligations to be paid solely from lease payments under a lease from the City of Duluth or from funds held by Wells Fargo, National Association, as trustee pursuant to the indenture. The transaction resulted in a net present value savings of \$460,253 and a \$535,290 reduction in future debt service payments.

In 2007 the City issued \$3,760,000 General Obligation Duluth Entertainment and Convention Center Improvement Refunding Bonds with the obligations to be paid primarily by sales tax revenues. The transaction resulted in a net present value savings of \$84,409 and a reduction in future debt service payments of \$91,948.

The City also issued \$2,275,000 in Utility Revenue and General Obligation Bonds to be paid from Sewer and Water revenues. The transaction resulted in a net present value savings of \$129,735 and a reduction in future debt service payments of \$148,627.

All current refunded debt is fully defeased.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

11. LONG-TERM DEBT
REFUNDING BOND ISSUES

Current Refunding Bonds (continued)

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

<u>Series</u>	<u>Date</u>	<u>Issue</u>	<u>Balance</u>
1999A	02/1/99	Duluth Entertainment and Convention Center – General Obligation bond	\$ 3,895,000
1999F	12/1/99	Sewer General Obligation and Revenue	1,090,000
2000B	12/1/00	Water and Sewer General Obligation and Revenue	1,450,000

All other current refunded bonds have been paid in full.

Advance Refunding Bonds

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

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

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

All other advance refunded bonds have been paid in full.

Crossover Advance Refunding Bonds

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

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

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

	Issue Date	Issue Amount	Balance
Governmental Activities:			
Current Refunding Bonds:			
Tax Increment Revenue Bond	05-04-99	\$ 8,001,533	\$ 713,810
General Obligation Tax Increment	09-01-02	635,000	115,000
General Obligation Improvement	09-01-02	1,080,000	170,000
Zoo General Obligation	12-19-05	1,485,000	1,240,000
General Obligation Improvement	12-19-05	3,020,000	2,515,000
Street Improvement	12-19-06	2,395,000	2,395,000
Street Improvement	12-19-06	3,445,000	3,445,000
Art Space Refunding Bond	02-07-07	1,380,000	1,250,000
Duluth Entertainment and Convention Center Authority Parking	12-13-07	3,760,000	3,760,000
Advance Refunding Bonds:			
Tax Increment Revenue Bond	04-15-98	4,149,906	311,192
Duluth Entertainment and Convention Center Authority	03-01-03	2,405,000	1,085,000
Street Improvement (1994)	03-01-03	818,000	359,300
Street Improvement (1995)	03-01-03	3,118,400	1,369,500
General Obligation and Improvement	03-01-03	583,600	256,200
Lake Superior Center General Obligation	12-19-05	1,765,000	1,640,000
Street Improvement	12-19-06	3,190,000	3,190,000
Crossover Advance Refunding Bonds:			
General Obligation Improvement	05-01-98	<u>2,660,000</u>	<u>125,000</u>
Total Governmental Activities		<u>\$ 43,891,439</u>	<u>\$ 23,940,002</u>
Business-type Activities:			
Current Refunding Bonds:			
Golf Course	12-04-04	\$ 1,040,000	\$ 675,000
Water Utility Revenue and G.O.	12-13-07	950,000	950,000
Sewer Utility Revenue and G.O.	12-13-07	1,325,000	1,325,000
Advance Refunding Bonds:			
Water Utility Revenue and G.O.	09-01-97	2,455,000	295,000
Water Utility Revenue and G.O.	03-01-03	625,000	280,000
Sewer Utility Revenue and G.O.	03-01-03	1,240,000	565,000
Crossover Advance Refunding Bonds:			
Sewer Utility Revenue and G.O.	05-01-98	<u>530,000</u>	<u>75,000</u>
Total Business-type Activities		<u>\$ 8,165,000</u>	<u>\$ 4,165,000</u>
Component Unit Activities:			
Duluth Entertainment and Convention Center Authority			
Advance Refunding:			
General Obligation DECC Refunding	04-01-01	<u>\$ 6,970,000</u>	<u>\$ 2,910,000</u>
		Total	<u>\$ 31,015,002</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Bonds, certificates, and notes payable at December 31, 2007, are comprised of the following individual issues:

	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding
BONDS AND CERTIFICATES BY ISSUE					
Governmental Activities:					
General Obligation Bonds Payable -					
General Obligation					
Duluth Transit Authority	4.55 to 4.85%	02/01; 08/01	09-01-97	02-01-08	\$ 525,000 \$ 65,000
Street Overlay (60%) Refunding	4.10 to 4.55%	02/01; 08/01	05-01-98	02-01-08	639,000 75,000
West Michigan Street Improvements	3.40 to 4.70%	02/01; 08/01	12-01-98	02-01-14	1,745,000 960,000
Great Lakes Aquarium	4.50 to 4.88%	02/01; 08/01	12-01-99	02-01-10	2,475,000 925,000
Bayfront Festival Park	3.50 to 4.25%	02/01; 08/01	04-01-01	02-01-12	3,135,000 1,620,000
Duluth Transit Authority	2.65 to 4.10%	02/01; 08/01	09-01-01	02-01-11	615,000 300,000
Airport Improvement	4.00 to 6.25%	02/01; 08/01	02-01-02	02-01-17	3,400,000 2,700,000
Leif Erickson Park Tax Increment Refunding (80%)	2.00 to 3.25%	02/01; 08/01	09-01-02	02-01-08	508,000 92,000
Duluth Entertainment & Convention Center Author. Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	2,405,000 1,085,000
Bayfront Festival Park Improvement	2.00 to 3.60%	02/01; 08/01	12-01-03	02-01-12	425,000 280,000
Improvement	2.00 to 3.40%	02/01; 08/01	03-01-04	02-01-14	800,000 640,000
Airpark Improvement	2.00 to 4.20%	02/01; 08/01	09-01-04	02-01-20	945,000 850,000
Capital Improvement	2.80 to 3.70%	02/01; 08/01	06-01-05	02-01-15	1,255,000 1,135,000
Lake Superior Center Refunding	3.25 to 4.00%	02/01; 08/01	12-19-05	02-01-17	1,765,000 1,640,000
Zoo Refunding Issue	3.20 to 4.00%	02/01; 08/01	12-19-05	02-01-12	1,485,000 1,240,000
Capital Improvement	4.00%	02/01; 08/01	09-07-06	02-01-16	895,000 895,000
Capital Improvement	4.00%	02/01; 08/01	12-13-07	02-01-17	1,240,000 1,240,000
Duluth Entertainment & Convention Center Author. Refunding	4.00%	02/01; 08/01	12-13-07	02-01-14	3,760,000 3,760,000
Total General Obligation				\$ 28,017,000	\$ 19,502,000
General Obligation -Tax Increment					
Leif Erickson Park Tax Increment Refunding (20%)	2.00 to 3.25%	02/01; 08/01	09-01-02	02-01-08	127,000 23,000
Total General Obligation - Tax Increment				\$ 127,000	\$ 23,000
General Obligation -Tax Abatement					
Lake Walk Homes Tax Abatement Bonds	3.60 to 4.30 %	02/01; 08/01	10-01-05	02-01-21	\$ 310,000 \$ 310,000
Total General Obligation - Tax Abatement				\$ 310,000	\$ 310,000
Total General Obligation Bonds Payable				\$ 28,454,000	\$ 19,835,000
Revenue Bonds Payable -					
Tax Increment Revenue Bonds Payable -					
Cirrus Tax Increment Revenue	7.00 to 8.00%	02/01; 08/01	03-01-94	02-01-12	\$ 645,000 \$ 215,000
Tax Increment Revenue Refunding	3.75 to 4.90%	02/01; 08/01	04-15-98	08-01-08	4,149,906 311,192
Tax Increment Revenue Refunding	4.30 to 5.20%	02/01; 08/01	05-04-99	08-01-08	8,001,533 713,810
Total Tax Increment Revenue Bonds Payable				\$ 12,796,439	\$ 1,240,002
Lease Revenue Bonds Payable -					
Artspace Community Center Refunding	4.00%	02/01; 08/01	02-07-07	08-01-14	1,380,000 1,250,000
Total Revenue Bonds Payable				\$ 14,176,439	\$ 2,490,002
Special Assessment Debt with Government Commitment -					
Street Overlay (40%) Refunding	4.10 to 4.55%	02/01; 08/01	05-01-98	02-01-08	\$ 426,000 \$ 50,000
General Obligation Improvement	3.40 to 4.80%	02/01; 08/01	12-01-98	02-01-15	1,005,000 610,000
Street Improvement	4.00 to 5.00%	02/01; 08/01	06-01-99	02-01-15	6,675,000 3,900,000
General Obligation Improvement	4.50 to 5.25%	02/01; 08/01	12-01-99	02-01-15	1,220,000 765,000
General Obligation Improvement	3.30 to 4.85%	02/01; 08/01	04-01-01	02-01-16	1,405,000 940,000
Street Improvement	3.50 to 4.70%	02/01; 08/01	09-01-01	02-01-17	4,800,000 3,380,000
Street Improvement	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	3,860,000 2,960,000
General Obligation Improvement Refunding	2.25 to 3.15%	02/01; 08/01	09-01-02	02-01-08	1,080,000 170,000
General Obligation Improvement	3.50 to 4.55%	02/01; 08/01	12-01-02	02-01-18	2,220,000 1,755,000
Street Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	3,118,400 1,369,500
Street Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	818,000 359,300
General Obligation Improvement Refunding	2.00 to 3.10%	02/01; 08/01	03-01-03	02-01-10	583,600 256,200
Street Improvement	2.00 to 4.50%	02/01; 08/01	09-01-03	02-01-19	5,035,000 4,205,000
General Obligation Improvement	2.50 to 4.20%	02/01; 08/01	12-01-03	02-01-19	2,010,000 1,695,000
Street Improvement	2.25 to 4.63%	02/01; 08/01	09-01-04	02-01-20	4,785,000 4,265,000
General Obligation Improvement	3.50 to 4.00%	02/01; 08/01	06-01-05	02-01-20	2,275,000 2,150,000
Street Improvement	3.50 to 4.25%	02/01; 08/01	10-01-05	02-01-21	4,260,000 4,060,000
General Obligation Improvement Refunding	4.00%	02/01; 08/01	12-19-05	02-01-08	200,000 105,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-05	02-01-12	2,820,000 2,410,000
General Obligation Improvement	4.00%	02/01; 08/01	09-07-06	02-01-21	1,985,000 1,985,000
Street Improvement	4.00%	02/01; 08/01	09-07-06	02-01-22	3,355,000 3,355,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-06	02-01-12	2,395,000 2,395,000
Street Improvement Refunding	3.75 to 4.00%	02/01; 08/01	12-19-06	02-01-14	3,445,000 3,445,000
Street Improvement Refunding	4.00%	02/01; 08/01	12-19-06	02-01-16	3,190,000 3,190,000
Street Improvement	3.75 to 4.25%	02/01; 08/01	12-13-07	02-01-23	2,285,000 2,285,000
Total Special Assessment Debt with Government Commitment				\$ 65,251,000	\$ 52,060,000

(continued)

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Bonds, certificates, and notes payable at December 31, 2007, are comprised of the following individual issues:

	Interest Rate and Dates		Issue Date	Final Maturity	Authorized and Issued	Outstanding
BONDS AND CERTIFICATES BY ISSUE (continued)						
Governmental Activities (continued):						
General Obligation Certificates Payable -						
Equipment	2.00 to 2.50%	06/19; 12/19	12-19-03	12-19-08	1,200,000	250,000
Equipment	3.00 to 3.25%	06/20; 12/20	02-20-04	12-20-09	1,355,000	560,000
Equipment	4.00%	06/19; 12/19	12-19-05	12-19-10	1,110,000	690,000
Equipment	3.63%	06/19; 12/19	12-19-06	02-01-12	1,785,000	1,785,000
Equipment	4.25 to 5.00%	02/01; 08/01	12-13-07	02-01-13	1,985,000	1,985,000
Total General Obligation Certificates Payable					\$ 7,435,000	\$ 5,270,000
Total Governmental Activities Bonds and Certificates Payable					\$ 115,316,439	\$ 79,655,002
Business-type Activities:						
Revenue Bonds Payable -						
Golf Fund -						
Revenue Recreation Facility Refunding	2.00 to 3.80%	06/01; 12/01	12-04-04	12-01-12	\$ 1,040,000	\$ 675,000
Revenue and General Obligation Bonds Payable -						
Parking Fund -						
Parking Improvement Tax Increment	4.25 to 5.00%	02/01; 08/01	06-01-99	02-01-15	310,000	190,000
Technology Village Parking Ramp Tax Increment	4.25 to 5.00%	02/01; 08/01	06-01-99	02-01-15	3,590,000	2,320,000
Medical District Tax Increment	5.25 to 5.50%	02/01; 08/01	12-16-05	02-01-26	12,785,000	12,785,000
Total Parking Fund					\$ 16,685,000	\$ 15,295,000
Water Fund -						
Water Utility Revenue and General Obligation Refunding	4.00 to 4.80%	02/01; 08/01	09-01-97	02-01-08	\$ 2,455,000	\$ 295,000
Water Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	1,690,000	1,330,000
Water Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	12-01-18	1,385,000	1,085,000
Water Utility Revenue and General Obligation	2.00 to 3.25%	02/01; 08/01	03-01-03	02-01-10	625,000	280,000
Water Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	1,120,000	1,120,000
Water Utility Revenue and General Obligation Refunding	4.00%	02/01; 08/01	12-13-07	02-01-16	950,000	950,000
Total Water Fund					\$ 8,225,000	\$ 5,060,000
Gas Fund -						
Gas Utility Revenue and General Obligation	4.00 to 4.75%	02/01; 08/01	12-01-01	02-01-17	\$ 5,300,000	\$ 3,885,000
Gas Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	2,132,000	1,676,000
Gas Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	02-01-18	1,425,000	1,125,000
Gas Utility Revenue and General Obligation	2.50 to 4.20%	02/01; 08/01	12-01-03	02-01-19	6,090,000	5,145,000
Gas Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	1,190,000	1,190,000
Total Gas Fund					\$ 16,137,000	\$ 13,021,000
Steam District # 1 Fund -						
Steam Utility Revenue and General Obligation	3.40 to 4.30%	02/01; 08/01	12-01-98	02-01-09	\$ 310,000	\$ 70,000
Steam Utility Revenue and General Obligation	5.25 to 5.50%	02/01; 08/01	12-01-00	02-01-11	325,000	150,000
Steam Utility Revenue and General Obligation	4.30 to 4.50%	02/01; 08/01	02-01-02	02-01-12	345,000	195,000
Steam Utility Revenue and General Obligation	2.25 to 4.75%	02/01; 08/01	09-01-03	02-01-23	2,250,000	2,025,000
Steam Utility Revenue and General Obligation	2.80 to 4.15%	02/01; 08/01	06-01-05	02-01-20	1,250,000	1,180,000
Steam Utility Revenue and General Obligation	4.00 to 4.13%	02/01; 08/01	12-19-06	02-01-22	4,525,000	4,525,000
Total Steam District # 1 Fund					\$ 9,005,000	\$ 8,145,000
Sewer Fund -						
Sewer Utility Revenue and General Obligation Refunding	4.15 to 4.55%	02/01; 08/01	05-01-98	02-01-08	\$ 530,000	\$ 75,000
Sewer Utility Revenue and General Obligation	3.40 to 4.30%	02/01; 08/01	12-01-98	02-01-09	1,080,000	255,000
Sewer Utility Revenue and General Obligation	4.00 to 4.75%	02/01; 08/01	12-01-01	02-01-17	1,330,000	970,000
Sewer Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	2,003,000	1,574,000
Sewer Utility Revenue and General Obligation	3.25 to 4.55%	02/01; 08/01	12-01-02	02-01-18	1,825,000	1,435,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.25%	02/01; 08/01	03-01-03	02-01-10	1,240,000	565,000
Sewer Utility Revenue and General Obligation	3.00 to 4.20%	02/01; 08/01	12-01-04	02-01-20	4,045,000	3,630,000
Sewer Utility Revenue and General Obligation	3.50 to 4.30%	02/01; 08/01	12-19-05	02-01-21	3,515,000	3,355,000
Sewer Utility Revenue and General Obligation	3.63 to 4.20%	02/01; 08/01	12-19-06	02-01-22	945,000	945,000
Sewer Utility Revenue and General Obligation	3.75 to 4.25%	02/01; 08/01	12-13-07	02-01-23	2,120,000	2,120,000
Sewer Utility Revenue and General Obligation Refunding	4.00%	02/01; 08/01	12-13-07	02-01-16	1,325,000	1,325,000
Total Sewer Fund					\$ 19,958,000	\$ 16,249,000
Stormwater Fund -						
Stormwater Utility Revenue and General Obligation	2.50 to 4.45%	02/01; 08/01	09-01-02	02-01-18	\$ 1,425,000	\$ 1,120,000
Stormwater Utility Revenue and General Obligation	4.00%	02/01; 08/01	09-07-06	02-01-22	1,705,000	1,705,000
Total Stormwater Fund					\$ 3,130,000	\$ 2,825,000
Total Revenue and General Obligation Bonds Payable					\$ 73,140,000	\$ 60,595,000
Total Business-type Activities Bonds Payable					\$ 74,180,000	\$ 61,270,000
Component Units:						
Spirit Mountain Recreation Area						
Revenue Bonds Payable -						
Spirit Mountain Recreation Area	4.50 to 4.50%	06/01; 12/01	03-31-03	12-01-12	\$ 1,646,750	\$ 1,167,820
Duluth Entertainment and Convention Center Authority						
General Obligation Bonds Payable -						
Duluth Entertainment and Convention Center Refunding	3.50 to 4.20%	06/01; 12/01	04-01-01	12-01-11	\$ 6,970,000	\$ 2,910,000
Total Component Units Bonds Payable					\$ 8,616,750	\$ 4,077,820

(continued)

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Bonds, certificates, and notes payable at December 31, 2007, are comprised of the following individual issues:

	<u>Interest Rate and Dates</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Authorized and Issued</u>	<u>Outstanding</u>
NOTES PAYABLE BY ISSUE					
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	1.00% 02/20; 08/20	07-24-02	08-20-18	\$ 364,195	\$ 277,000
Greater Minnesota Housing Fund Note	None Note 1	11-06-06	11-06-16	200,000	200,000
Total General Obligation				<u>\$ 564,195</u>	<u>\$ 477,000</u>
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	<u>\$ 7,876,000</u>	<u>\$ 3,136,000</u>
Tax Increment Revenue					
Canal Park Tax Increment	8.00% 02/01; 08/01	12-01-91	02-01-08	\$ 325,000	\$ 75,000
Fremont Tax Increment Limited Revenue	5.70% 02/01; 08/01	07-01-97	02-01-12	650,000	255,000
Total Tax Increment Revenue				<u>\$ 975,000</u>	<u>\$ 330,000</u>
Total Governmental Activities				<u>\$ 9,415,195</u>	<u>\$ 3,943,000</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	\$ 682,546
Public Facilities Authority Note*	2.530% 02/20; 08/20	07-23-04	08-20-18	1,971,532	1,538,000
Total Water Fund				<u>\$ 2,841,532</u>	<u>\$ 2,220,546</u>
Sewer Fund -					
Public Facilities Authority Note	2.819% 02/20; 08/20	08-25-03	08-20-18	\$ 100,000	\$ 78,454
Public Facilities Authority Note	1.340% 02/20; 08/20	10-17-03	08-20-18	1,179,115	960,000
Public Facilities Authority Note (Note 2)	1.15% 02/20; 08/20	07-12-07	08-20-22	2,042,350	1,686,940
Total Sewer Fund				<u>\$ 3,321,465</u>	<u>\$ 2,725,394</u>
Total Business-type Activities				<u>\$ 6,162,997</u>	<u>\$ 4,945,940</u>
Component Units:					
Duluth Airport Authority					
Revenue Note	8.85% 06/01;12/01	11-01-05	06-01-19	<u>\$ 497,379</u>	<u>\$ 497,379</u>

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

Note 2: Only \$ 1,686,940 has been drawn on the Public Facilities Authority Note dated 7/12/07.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Due To/From Other Funds results from the time lag between the dates interfund goods or services are provided or reimbursable expenditures occur and when the payment between funds is made. Balances at December 31, 2007 are:

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General	Parking Enterprise	\$ 62
	Steam Enterprise	16,387
	Nonmajor Governmental Funds	5,043,838
	Internal Service Funds	350,791
Community Investment Trust	General	67,163
Permanent Improvement	General	378,764
Parking Enterprise	General	26,178
	Steam Enterprise	683
	Nonmajor Governmental Funds	27,300
	Internal Service Funds	5,304
Water Enterprise	General	2,150
	Permanent Improvement	750,218
	Nonmajor Governmental Funds	467,908
	Internal Service Funds	28,753
Gas Enterprise	General	2,150
	Permanent Improvement	3,796
	Nonmajor Governmental Funds	2,355
	Internal Service Funds	28,113
Sewer Enterprise	General	1,100
	Permanent Improvement	1,016,301
	Nonmajor Governmental Funds	713,820
	Internal Service Funds	10,848
Steam Enterprise	Internal Service Funds	2,918
Nonmajor Governmental Funds	General	1,792,599
	Special Assessment Debt Service	500,000
	Permanent Improvement	126,182
	Parking Enterprise	98,735
	Water Enterprise	24,151
	Gas Enterprise	25,513
	Sewer Enterprise	11,638
	Nonmajor Governmental Funds	6,610,237
	Nonmajor Enterprise Funds	5,976
Internal Service Funds	33	
Nonmajor Enterprise Funds	General	1,100
	Permanent Improvement	482,945
	Nonmajor Governmental Funds	312,332
	Internal Service Funds	8,990
Internal Service Funds	General	400,841
	Steam Enterprise	33,602
	Nonmajor Governmental Funds	6,609
	Nonmajor Enterprise Funds	3,786
	Internal Service Funds	16,597
		<u>\$ 19,408,766</u>
Due from other funds, reported in	Balance Sheet - Governmental Funds	18,735,886
	Statement of Net Assets- Proprietary Funds:	
	Business-type Activities - Enterprise Funds	220,533
	Governmental Activities- Internal Service Funds	452,347
	Total	<u>\$ 19,408,766</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

Due To/From primary government and component units results from the time lag between the dates goods or services are provided and when payment is made. Balances as shown below are reported on the Government-wide Statement of Net Assets. Balances are at December 31, 2007, with the exception of the Spirit Mountain Recreation Authority, whose fiscal year ended April 30, 2007.

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government: General Fund	Component Unit: Duluth Entertainment and Convention Center Authority	\$ 21,101
	Spirit Mountain Recreation Area Authority	104,626
	Duluth Airport Authority	30,900
Internal Service Funds	Spirit Mountain Recreation Area Authority	<u>71,586</u>
Total Due from Component Units		<u>\$ 228,213</u>
Due to Primary Government: Current Liability		\$ 188,501
Non-Current Liability		<u>90,515</u>
Total Due to Primary Government		279,016
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2007		(227,015)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2007		<u>176,212</u>
		<u>\$ 228,213</u>
Component Unit: Duluth Entertainment and Convention Center Authority	Primary Government: Nonmajor Governmental Funds	<u>\$ 109,344</u>
Total Due from Primary Government		<u>\$ 109,344</u>
Total Due to Component Units		<u>\$ 109,344</u>

INTERFUND LOAN RECEIVABLES/PAYABLES

These balances are a result of temporary interfund financing at year-end. Balances at December 31, 2007 are:

<u>Receivable Fund</u>	<u>Amount</u>
General	\$ 2,449,427
Street Improvement Debt Service	<u>1,797,452</u>
Total	<u>\$ 4,246,879</u>
 <u>Payable Fund</u>	
Permanent Improvement Capital Projects	\$ 2,838,129
Steam Enterprise	271,081
Nonmajor Governmental Funds	404,039
Nonmajor Enterprise Funds	<u>733,630</u>
Total	<u>\$ 4,246,879</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

The City reports transfers between many of its funds to move revenues from the fund in which they are collected to the fund required to expend them, including: payments in lieu of taxes, debt service payments, participation in projects, reimbursement of expenditures, and revenue recognition for investment earnings in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Interfund transfers for the year ended December 31, 2007 are as follows:

<u>Transfer to, reported in fund:</u>	<u>Transfer from, reported in fund:</u>	<u>Amount</u>
General	Community Investment Trust	\$ 3,232,163
	Permanent Improvement	75,829
	Parking Enterprise	1,246,684
	Water Enterprise	169,388
	Gas Enterprise	3,651,017
	Sewer Enterprise	188,130
	Steam Enterprise	90,000
	Nonmajor Governmental Funds	3,115,958
	Nonmajor Enterprise Funds	198,115
	Internal Service Funds	428,339
Special Assessment Debt Service	Nonmajor Governmental Funds	500,000
Permanent Improvement	Water Enterprise	546,962
	Gas Enterprise	3,796
	Sewer Enterprise	13,388
	Nonmajor Governmental Funds	502,992
	Nonmajor Enterprise Funds	103,302
Parking Enterprise	General	367,655
	Nonmajor Governmental Funds	1,836,452
Nonmajor Governmental Funds	General	5,871,465
	Community Investment Trust	600,000
	Gas Enterprise	75,000
	Nonmajor Governmental Funds	9,087,709
		<u>\$ 31,904,344</u>
Transfers out, reported in	Statement of Revenues, Expenditures, and Changes in Fund Balance:	
	Governmental Funds	\$ 25,190,223
	Statement of Revenues, Expenses, and Changes in Fund Net Assets:	
	Business-type Activities - Enterprise Funds	6,285,782
	Governmental Activities - Internal Service Funds	428,339
		<u>6,714,121</u>
	Total	<u>\$ 31,904,344</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

13. PENSION PLANS
PLAN DESCRIPTION

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

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

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

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

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

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

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

13. PENSION PLANS (continued)
FUNDING POLICY

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

	<u>2007 Statutory Rates</u>		<u>2008 Statutory Rates</u>	
	<u>Employees</u>	<u>Employer</u>	<u>Employees</u>	<u>Employer</u>
Public Employees Retirement Fund				
Basic Members	9.10%	11.78%	9.10%	11.78%
Coordinated Members	5.75%	6.25%	6.00%	6.50%
Public Employees Police and Fire Fund	7.80%	11.70%	8.60%	12.90%

The City's contributions for the years ending December 31, 2007, 2006, and 2005 for the Public Employees Retirement Fund and Public Employees Police and Fire Fund were:
(Dollar amounts in Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Public Employees Retirement Fund	\$ 1,854	\$ 1,862	\$ 1,743
Public Employees Police and Fire Fund	<u>5,929</u>	<u>5,750</u>	<u>5,486</u>
Totals	<u>\$ 7,783</u>	<u>\$ 7,612</u>	<u>\$ 7,229</u>

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

COMPONENT UNITS' PENSION INFORMATION

Qualified employees of the Duluth Entertainment and Convention Center Authority, Duluth Airport Authority, and Spirit Mountain Recreation Area Authority belong to the Public Employees Retirement Association of Minnesota (PERA). Contributions were made by the above component units to PERA's Coordinated and Basic Plans in amounts required by state statutes. The PERA Coordinated and Basic Plans are the same pension plans available to City employees. Detailed information concerning each component unit's pension plan is presented in its publicly-available 2007 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 2007 annual report.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

14. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

In 2007, the City prospectively implemented Governmental Accounting Standards Board Statement No. 43 (GASB 43), *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, and Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

PLAN DESCRIPTION

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

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

As of June 1, 2007, there were 809 retirees receiving health benefits from the City's health plan and 806 active employees covered under the plan.

FUNDING POLICY

The City of Duluth has historically funded these liabilities on a pay-as-you go basis. Union contracts govern the premiums contributed by the City and the retirees. For eligible retirees, the City pays a portion of the premium ranging from 25%-100% depending on the years of service. Retirees pay the remaining portion of the premium. Premiums are paid to the Group Health Internal Service Fund which accounts for the activity of the plan. Premiums are intended to cover the cost of providing benefits to retirees on a pay-as-you-go basis. For the year ended December 31, 2007, the City contributed \$8,183,927 and retirees contributed \$59,971.

In July 2007, the City established an OPEB irrevocable trust and began prefunding a portion of the OPEB liability. Contributions of \$13,700,000 were made to the irrevocable trust in 2007.

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007**

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

ANNUAL OPEB COST AND NET OPEB OBLIGATION

The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for 2007, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution (ARC)	\$23,742,663
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB Cost	<u>23,742,663</u>
Claims paid on behalf of retirees	(8,381,427)
Contributions to irrevocable trust	<u>(13,700,000)</u>
Increase in net OPEB obligation	1,661,236
Net OPEB, January 1	-
Net OPEB, December 31	<u><u>\$ 1,661,236</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2007	\$23,742,663	\$22,081,427	93.00%	\$1,661,236

FUNDING STATUS AND FUNDING PROGRESS

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

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

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

TRUST FUND

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

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

DEFINED CONTRIBUTION OPEB PLAN

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

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

15. SEGMENT INFORMATION

The City issued revenue bonds for each of the following non-major enterprise funds: the Stormwater Utility, which operates the stormwater sewer collection system; and the Golf Fund, which operates the city's two municipal 27-hole golf courses. Summary financial information for each of these funds for fiscal year ending December 31, 2007 is presented below.

	<u>Stormwater</u>	<u>Golf</u>
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	\$ 1,906,328	\$ 282,220
Due from other funds	5,976	3,786
Capital assets	11,177,574	2,406,447
Noncurrent assets	<u>48,191</u>	<u>28,767</u>
Total assets	<u>13,138,069</u>	<u>2,721,220</u>
Liabilities		
Current liabilities	472,879	971,410
Due to other funds	803,762	1,605
Noncurrent liabilities	<u>2,745,881</u>	<u>741,668</u>
Total liabilities	<u>4,022,522</u>	<u>1,714,683</u>
Net assets		
Invested in capital assets, net of related debt	8,390,282	1,449,377
Restricted for special accounts		108,417
Unrestricted	<u>725,265</u>	<u>(551,257)</u>
Total net assets	<u>\$ 9,115,547</u>	<u>\$ 1,006,537</u>

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

Operating revenues (expenses)		
Charges (pledged against bonds)	\$ 3,898,648	\$ 1,887,737
Depreciation expense	(266,931)	(145,923)
Other operating expenses	<u>(2,501,932)</u>	<u>(1,675,892)</u>
Operating income	1,129,785	65,922
Nonoperating revenues (expenses)		
Investment earnings	93,186	8,244
Intergovernmental	17,877	-
Gain (Loss) on sale or disposition of capital assets	(1,516)	-
Interest expense	(112,410)	(65,980)
Capital contributions	-	-
Transfers out	<u>(301,417)</u>	<u>-</u>
Change in net assets	825,505	8,186
Beginning net assets	<u>8,290,042</u>	<u>998,351</u>
Ending net assets	<u>\$ 9,115,547</u>	<u>\$ 1,006,537</u>

CONDENSED STATEMENT OF CASH FLOWS

Net Cash provided (used) by		
Operating activities	\$ 1,451,195	\$ 100,026
Noncapital financing activities	(170,534)	143,996
Capital and related financing activities	(1,100,817)	(244,022)
Investing activities	<u>93,186</u>	<u>-</u>
Net increase (decrease)	273,030	-
Beginning cash and cash equivalents	<u>1,478,360</u>	<u>-</u>
Ending cash and cash equivalents	<u>\$ 1,751,390</u>	<u>\$ -</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

16. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES
LAKE SUPERIOR CENTER

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

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

LITIGATION

The City of Duluth is negotiating a consent decree to settle an administrative enforcement action of the Environmental Protection Agency for sewage overflows over the past many years that have violated the Clean Water Act. The proposed consent decree currently includes a penalty to the City and Western Lake Superior Sanitary District in the amount of \$450,000. The City has estimated its share of the penalty to be \$225,000 which is reported as a liability in the Self Insurance Internal Service Fund.

The proposed consent decree also requires the City to make certain improvements to prevent future sewage overflows. The City has consented to these improvements which will be made over a number of years. The improvements are estimated to cost \$64 million and are expected to be financed by federal grants, state grants, and local sources.

TAX INCREMENT DISTRICTS

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

FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS

The City has received significant financial assistance from numerous federal governmental agencies in the form of grants and entitlements. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material effect on the City's financial position at December 31, 2007.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

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

Control of the collaborative is vested in a Board of Directors. The City has four members on the Board. Financing is provided by state and federal grants, appropriations from the Collaborative members, and miscellaneous revenues. St. Louis County is the fiscal agent for this organization through its Duluth Area Family Services Collaborative Agency Fund. Separate financial information can be obtained from the St. Louis County Auditor's Office. A summary of the financial information of the Collaborative for the fiscal year ended December 31, 2007, is:

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

RELATED ORGANIZATION

The Duluth Housing and Redevelopment Authority is a legally separate organization from the City of Duluth with its own rights and powers. Although the Mayor of the City of Duluth appoints all Authority Board members, there is no financial accountability necessary for including this organization as a component unit of the City of Duluth. Related party transactions are limited to payments by the City on various contracts for services entered into with the Authority. The City made payments on various contracts totaling \$1,355,968 to the Duluth Housing and Redevelopment Authority in 2007.

**CITY OF DULUTH, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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

The Duluth Economic Development Authority is committed to provide tax increment assistance pursuant to development agreements for housing projects. The assistance is provided in the form of an annual tax rebate to developers. The annual tax rebate is contingent upon payment of annual property taxes by the developer. The assistance for each project is limited in amount based on both the scope of the project and the life of the tax increment district. The tax increment assistance does not result in debt proceeds and does not meet the definition of debt. A summary of the maximum tax increment assistance to be provided as of December 31, 2007, follows:

- Augusta Building - \$268,321
- Fifth Street Redevelopment - \$551,539
- Garfield Business Park LLC - \$611,069
- Hampton Inn - \$158,960
- Inn on the Lake - \$128,210
- Ramsey Townhouses - \$1,485,000
- Sherman Associates Hotel/Condominium - \$5,000,000
- Spirit Bay - \$129,042
- Accessible Space, Inc. - annual payment not to exceed 100% of captured tax increment. The maximum tax increment financing available is \$149,999.
- Fitgers on the Lake - annual payment not to exceed \$16,000 of captured tax increment
- Irving School Project - annual payment not to exceed 100% of captured tax increment
- Jefferson Square - annual payment not to exceed 20% of captured tax increment

**CITY OF DULUTH, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2007**

16. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)
CONDUIT DEBT OBLIGATIONS

The City and Duluth Economic Development Authority have issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed through a series of loan agreements and are payable solely from the revenues of the entities. Neither the City, the Authority, nor the State are obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. Bonds issued and outstanding as of December 31, 2007, are as follows:

<u>Entity</u>	<u>Series</u>	<u>Issued</u>	<u>Principal Outstanding</u>
St. Mary's Medical Center	2004	140,400,000	136,585,000
	1993C	45,795,000	30,275,000
Miller Dwan Medical Center	1997	20,000,000	14,400,000
ECUMEN	1998	11,750,000	4,135,000
Aftenro Home	2006	2,620,000	2,578,372
Residential Services	2000B	576,421	339,821
	2000C	330,919	204,340
Center for Alcohol & Drug Treatment	2000A	2,600,000	2,080,898
St. Luke's Hospital	2002	55,000,000	51,525,000
Merritt School LLC	2004	660,000	599,179

17. SUBSEQUENT EVENTS
TAX AND AID ANTICIPATION CERTIFICATES

Pursuant to the authority contained in Sections 55 through 59 of the Charter, the City sold \$18,500,000 of General Obligation Tax and Aid Anticipation Certificates dated February 20, 2008. The taxes levied in 2007 and collectible in 2008 are pledged for the payment of these certificates due December 31, 2008. The proceeds of the sale will be used to improve the cash flow requirements of the General Fund during 2008.

LEASE-PURCHASE AGREEMENT

Pursuant to Minnesota Statutes, Chapter 465.71, the City entered into an equipment lease-purchase agreement, dated March 28, 2008, for financing an automated meter reading system for the City's Utility Funds in the amount of \$9,564,617. Lease Payments will be made from Utility Fund operating revenues.

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Required Supplementary Information

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

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

Employer contributions to the trust do not include retiree medical claims of \$8,381,427 paid directly by the City.

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

CITY OF DULUTH
 SCHEDULE OF FUNDING PROGRESS
 OTHER POST-EMPLOYMENT BENEFITS PLAN
 DECEMBER 31, 2007

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

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

Combining and Individual Fund Information

Governmental Funds

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Post Employment Benefits – to account for monies transferred into an irrevocable trust for funding the City's liability for other post employment benefits.

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

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (continued)

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

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

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

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

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

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

DEBT SERVICE FUNDS

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

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

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

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

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

CAPITAL PROJECTS FUNDS

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

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

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

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

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

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

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2007**

	Special Revenue Funds				
	Home Investment Partnership Program	Community Development	Workforce Development	Senior Employment	Senior Nutrition
ASSETS					
Cash and cash equivalents	\$ -	\$ 401,071	\$ 327,308	\$ -	\$ 39,386
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	-	8,009	7,505	8,629	21,444
Assessments	-	-	-	-	-
Loans	195,773	2,649,241	-	-	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	235,212	574	287	29,156
Interfund loan receivable	-	-	-	-	-
Due from other governments	124,008	662,852	224,620	61,734	42,693
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	<u>\$ 319,781</u>	<u>\$ 3,956,385</u>	<u>\$ 560,007</u>	<u>\$ 70,650</u>	<u>\$ 132,679</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 12,730	\$ 20,483	\$ -	\$ 492
Contracts payable	85,318	498,164	5,000	-	53,354
Due to other funds	19,798	7,764	365	574	-
Due to component units	-	-	-	-	-
Interfund loan payable	9,800	-	-	64,493	-
Loans payable	-	-	-	-	-
Due to other governments	-	7,789	8,905	-	-
Accrued salaries payable	-	8,883	24,179	5,583	2,700
Deferred revenue	204,865	2,818,043	7,171	-	-
Total liabilities	<u>319,781</u>	<u>3,353,373</u>	<u>66,103</u>	<u>70,650</u>	<u>56,546</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	420,544	-	-	-
Special accounts	-	-	465,849	-	76,133
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	182,468	28,055	-	-
Capital project funds	-	-	-	-	-
Total fund balances	<u>-</u>	<u>603,012</u>	<u>493,904</u>	<u>-</u>	<u>76,133</u>
Total liabilities and fund balances	<u>\$ 319,781</u>	<u>\$ 3,956,385</u>	<u>\$ 560,007</u>	<u>\$ 70,650</u>	<u>\$ 132,679</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2007**

	Special Revenue Funds				
	Special Projects	Police Grant Programs	Housing Investment	GMHF Revolving Fund	Recovery Loan Program
ASSETS					
Cash and cash equivalents	\$ 345,808	\$ -	\$ 396,758	\$ 200,000	\$ 185,494
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	26,673	-	-	-	-
Assessments	-	-	-	-	-
Loans	-	-	803,242	-	610,652
Grants	-	209,073	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	13,675	-	-	622,000
Interfund loan receivable	-	-	-	-	-
Due from other governments	34,770	-	-	-	-
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	<u>\$ 407,251</u>	<u>\$ 222,748</u>	<u>\$ 1,200,000</u>	<u>\$ 200,000</u>	<u>\$ 1,418,146</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 48,278	\$ 6,834	\$ -	\$ -	\$ 6,221
Contracts payable	760	20,343	-	-	-
Due to other funds	-	68,625	-	-	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	21,084	-	-	-
Loans payable	-	-	-	-	-
Due to other governments	704	49,592	-	-	429,083
Accrued salaries payable	-	-	-	-	-
Deferred revenue	-	127,461	803,242	-	187,382
Total liabilities	<u>49,742</u>	<u>293,939</u>	<u>803,242</u>	<u>-</u>	<u>622,686</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	-
Debt service	-	-	-	-	-
Special accounts	-	17,278	-	200,000	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	357,509	-	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	(88,469)	396,758	-	795,460
Capital project funds	-	-	-	-	-
Total fund balances	<u>357,509</u>	<u>(71,191)</u>	<u>396,758</u>	<u>200,000</u>	<u>795,460</u>
Total liabilities and fund balances	<u>\$ 407,251</u>	<u>\$ 222,748</u>	<u>\$ 1,200,000</u>	<u>\$ 200,000</u>	<u>\$ 1,418,146</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2007**

	Special Revenue Funds				
	Bayfront Festival Park	Library Special Accounts	Capital Equipment	Economic Development	Energy Management
ASSETS					
Cash and cash equivalents	\$ 50,409	\$ 1,119,438	\$ 817,241	\$ -	\$ 234,888
Receivables, net:					
Taxes	-	-	-	-	-
Accounts	300	-	-	-	-
Assessments	-	-	-	-	-
Loans	-	-	-	48,306	-
Grants	-	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	-	-	-	218,300	5,061
Interfund loan receivable	-	-	-	-	-
Due from other governments	-	-	-	608,149	-
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	<u>\$ 50,709</u>	<u>\$ 1,119,438</u>	<u>\$ 817,241</u>	<u>\$ 874,755</u>	<u>\$ 239,949</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 600	\$ 12,410	\$ 152,598	\$ 609,699	\$ -
Contracts payable	-	-	-	12,215	-
Due to other funds	-	-	-	450	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	149,013	-
Loans payable	-	-	-	-	-
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	-	-	1,427
Deferred revenue	-	-	-	48,306	-
Total liabilities	<u>600</u>	<u>12,410</u>	<u>152,598</u>	<u>819,683</u>	<u>1,427</u>
Fund balances:					
Reserved for:					
Encumbrances	-	-	109,046	-	-
Debt service	-	-	-	-	-
Special accounts	-	-	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	1,107,028	-	-	-
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	50,109	-	555,597	55,072	238,522
Capital project funds	-	-	-	-	-
Total fund balances	<u>50,109</u>	<u>1,107,028</u>	<u>664,643</u>	<u>55,072</u>	<u>238,522</u>
Total liabilities and fund balances	<u>\$ 50,709</u>	<u>\$ 1,119,438</u>	<u>\$ 817,241</u>	<u>\$ 874,755</u>	<u>\$ 239,949</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2007**

	Special Revenue Funds				
	Tourism Tax	Public Facility and Programs	DEDA Operating	DEDA NWA Maint. Facility	DEDA Loan Programs
ASSETS					
Cash and cash equivalents	\$ 1,018,920	\$ 110,821	\$ 619,946	\$ 617,544	\$ 3,898,382
Receivables, net:					
Taxes	431,921	237	-	-	-
Accounts	-	-	9,601	-	-
Assessments	-	-	-	-	-
Loans	-	-	-	-	2,619,013
Grants	-	-	-	-	-
Deposits	-	-	-	-	250,000
Due from other funds	-	-	100,000	640,000	-
Interfund loan receivable	-	-	-	-	-
Due from other governments	-	-	-	-	-
Land held for resale	-	-	192,500	-	-
Prepays	-	-	-	-	-
Total assets	<u>\$ 1,450,841</u>	<u>\$ 111,058</u>	<u>\$ 922,047</u>	<u>\$ 1,257,544</u>	<u>\$ 6,767,395</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 6,379	\$ 9	\$ -
Contracts payable	53,595	-	5,336	26,729	-
Due to other funds	4,602	-	814,500	764,661	54,042
Due to component units	109,344	-	-	-	-
Interfund loan payable	-	-	-	-	-
Loans payable	-	-	463,463	-	-
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	-	-	2,447	-	-
Total liabilities	<u>167,541</u>	<u>-</u>	<u>1,292,125</u>	<u>791,399</u>	<u>54,042</u>
Fund balances:					
Reserved for:					
Encumbrances	15,834	-	120,071	-	-
Debt service	1,028,225	-	-	-	44,031
Special accounts	93,215	-	-	-	2,593,823
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	750,000
Debt service funds	-	-	-	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	146,026	111,058	(490,149)	466,145	3,325,499
Capital project funds	-	-	-	-	-
Total fund balances	<u>1,283,300</u>	<u>111,058</u>	<u>(370,078)</u>	<u>466,145</u>	<u>6,713,353</u>
Total liabilities and fund balances	<u>\$ 1,450,841</u>	<u>\$ 111,058</u>	<u>\$ 922,047</u>	<u>\$ 1,257,544</u>	<u>\$ 6,767,395</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2007**

	Debt Service Funds				Capital Project Fund
	General Obligation	Street Improvement Debt Service	Transit Bond	DEDA Debt Service	Special Assessment
ASSETS					
Cash and cash equivalents	\$ 4,244,712	\$ 3,032,969	\$ 283,693	\$ 6,404,601	\$ 497,639
Receivables, net:					
Taxes	163,606	-	6,372	371,554	-
Accounts	174	-	-	3,733	-
Assessments	-	3,894,979	-	-	-
Loans	-	-	-	16,941	-
Grants	535,000	-	-	-	-
Deposits	-	-	-	-	-
Due from other funds	27,300	4,994,718	-	54,042	384,436
Interfund loan receivable	-	1,797,452	-	-	-
Due from other governments	-	-	-	-	406,090
Land held for resale	-	-	-	-	-
Prepays	-	-	-	-	-
Total assets	\$ 4,970,792	\$ 13,720,118	\$ 290,065	\$ 6,850,871	\$ 1,288,165
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 14,855	\$ -	\$ -	\$ -	\$ -
Contracts payable	-	-	-	30,152	25,674
Due to other funds	500,000	-	-	5,381,993	320,068
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	-
Loans payable	-	-	-	-	-
Due to other governments	-	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Deferred revenue	626,621	3,891,836	3,723	339,225	-
Total liabilities	1,141,476	3,891,836	3,723	5,751,370	345,742
Fund balances:					
Reserved for:					
Encumbrances	-	-	-	-	64,596
Debt service	3,560,673	-	142,482	1,099,501	-
Special accounts	-	-	-	-	-
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	268,643	9,828,282	143,860	-	-
Capital project funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	-	-	-	-
Capital project funds	-	-	-	-	877,827
Total fund balances	3,829,316	9,828,282	286,342	1,099,501	942,423
Total liabilities and fund balances	\$ 4,970,792	\$ 13,720,118	\$ 290,065	\$ 6,850,871	\$ 1,288,165

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007**

	Capital Project Funds				Total Nonmajor Governmental Funds
	Street Improvement Program	Capital Improvements	Medical District Expansion	DEDA Capital Projects	
ASSETS					
Cash and cash equivalents	\$ -	\$ 2,086,688	\$ 3,122,547	\$ 1,443,174	\$ 31,499,437
Receivables, net:					
Taxes	-	-	-	-	973,690
Accounts	400	-	-	3,173	89,641
Assessments	-	-	-	-	3,894,979
Loans	-	-	-	1,941,454	8,884,622
Grants	-	-	-	-	744,073
Deposits	-	-	-	-	250,000
Due from other funds	1,048,370	110,996	-	4,700,272	13,184,399
Interfund loan receivable	-	-	-	-	1,797,452
Due from other governments	-	371,973	-	323,488	2,860,377
Land held for resale	-	-	-	-	192,500
Prepays	-	-	-	630,307	630,307
Total assets	\$ 1,048,770	\$ 2,569,657	\$ 3,122,547	\$ 9,041,868	\$ 65,001,477
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 8,933	\$ 10,995	\$ 192,585	\$ 31,000	\$ 1,135,101
Contracts payable	334,979	196,420	2,837,785	74,050	4,259,874
Due to other funds	862,381	76,941	-	318,300	9,195,064
Due to component units	-	-	-	-	109,344
Interfund loan payable	159,649	-	-	-	404,039
Loans payable	-	-	-	-	463,463
Due to other governments	-	-	-	-	496,073
Accrued salaries payable	-	-	-	-	42,772
Deferred revenue	-	175,000	-	1,982,760	11,218,082
Total liabilities	1,365,942	459,356	3,030,370	2,406,110	27,323,812
Fund balances:					
Reserved for:					
Encumbrances	338,850	905,737	92,177	1,115,353	2,761,664
Debt service	-	-	-	-	6,295,456
Special accounts	-	-	-	685,201	4,131,499
Unreserved:					
Designated for, reported in:					
Special revenue funds	-	-	-	-	2,214,537
Debt service funds	-	-	-	-	10,240,785
Capital project funds	-	-	-	2,137,003	2,137,003
Undesignated, reported in:					
Special revenue funds	-	-	-	-	5,772,151
Capital project funds	(656,022)	1,204,564	-	2,698,201	4,124,570
Total fund balances	(317,172)	2,110,301	92,177	6,635,758	37,677,665
Total liabilities and fund balances	\$ 1,048,770	\$ 2,569,657	\$ 3,122,547	\$ 9,041,868	\$ 65,001,477

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Funds				
	Home Investment Partnership Program	Community Development	Workforce Development	Senior Employment	Senior Nutrition
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	492,558	2,856,081	1,915,250	358,635	260,620
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	-	10,899	-	-	855
Miscellaneous revenues	-	255,785	25,056	-	242,739
Total revenues	492,558	3,122,765	1,940,306	358,635	504,214
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	492,558	2,735,440	1,943,747	358,635	517,987
Debt service:					
Principal retirement	-	85,000	-	-	-
Interest and fiscal fees	-	159,190	-	-	-
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	492,558	2,979,630	1,943,747	358,635	517,987
Excess (deficiency) of revenues over expenditures	-	143,135	(3,441)	-	(13,773)
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	157,963	-	-	29,156
Transfers out	-	(29,354)	-	-	-
Total other financing sources (uses)	-	128,609	-	-	29,156
Net change in fund balance	-	271,744	(3,441)	-	15,383
Fund balance - January 1, 2007	-	331,268	497,345	-	60,750
Fund balance - December 31, 2007	\$ -	\$ 603,012	\$ 493,904	\$ -	\$ 76,133

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Funds				
	Special Projects	Police Grant Programs	Housing Investment	GMHF Revolving Fund	Recovery Loan Program
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	330,098	655,636	-	-	500,000
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	-	456	-	-	11
Miscellaneous revenues	303,719	87,146	-	-	67,722
Total revenues	633,817	743,238	-	-	567,733
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	117,456	454,180	-	-	-
Culture and recreation	217,363	-	-	-	-
Urban and economic development	251,602	-	278,728	-	503,023
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay	-	46,792	-	-	-
Total expenditures	586,421	500,972	278,728	-	503,023
Excess (deficiency) of revenues over expenditures	47,396	242,266	(278,728)	-	64,710
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	-	600,000	-	-
Transfers out	(24,367)	(318,374)	-	-	-
Total other financing sources (uses)	(24,367)	(318,374)	600,000	-	-
Net change in fund balance	23,029	(76,108)	321,272	-	64,710
Fund balance - January 1, 2007	334,480	4,917	75,486	200,000	730,750
Fund balance - December 31, 2007	<u>\$ 357,509</u>	<u>\$ (71,191)</u>	<u>\$ 396,758</u>	<u>\$ 200,000</u>	<u>\$ 795,460</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Funds				
	Bayfront Festival Park	Library Special Accounts	Capital Equipment	Post Employment Benefits	Economic Development
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	608,149
Charges for services	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	463	9,848	9,328	-	-
Miscellaneous revenues	51,200	61,370	-	-	6,090
Total revenues	<u>51,663</u>	<u>71,218</u>	<u>9,328</u>	<u>-</u>	<u>614,239</u>
EXPENDITURES					
Current:					
General government	-	-	-	390,117	-
Public safety	-	-	-	-	-
Culture and recreation	59,634	31,693	-	-	-
Urban and economic development	-	-	-	-	623,846
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	-	29,446	-	-
Capital outlay	-	29,205	2,611,618	-	218,300
Total expenditures	<u>59,634</u>	<u>60,898</u>	<u>2,641,064</u>	<u>390,117</u>	<u>842,146</u>
Excess (deficiency) of revenues over expenditures	<u>(7,971)</u>	<u>10,320</u>	<u>(2,631,736)</u>	<u>(390,117)</u>	<u>(227,907)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	1,985,000	-	-
Premium on issuance of bonds	-	-	75,329	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	-	-	-	218,300
Transfers out	-	-	(81,797)	-	(450)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,978,532</u>	<u>-</u>	<u>217,850</u>
Net change in fund balance	<u>(7,971)</u>	<u>10,320</u>	<u>(653,204)</u>	<u>(390,117)</u>	<u>(10,057)</u>
Fund balance - January 1, 2007	<u>58,080</u>	<u>1,096,708</u>	<u>1,317,847</u>	<u>390,117</u>	<u>65,129</u>
Fund balance - December 31, 2007	<u>\$ 50,109</u>	<u>\$ 1,107,028</u>	<u>\$ 664,643</u>	<u>\$ -</u>	<u>\$ 55,072</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Funds				
	Energy Management	Tourism Tax	Public Facility and Programs	DEDA Operating	DEDA NWA Maint. Facility
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	5,903,535	-	-	-
Other taxes	-	-	13,743	-	-
Intergovernmental revenues	-	-	-	317,934	-
Charges for services	-	-	-	175,718	-
Special assessments	-	-	-	-	-
Investment income	-	100,063	1,211	6,529	38,650
Miscellaneous revenues	2,691	664	-	350,077	1,216,071
Total revenues	<u>2,691</u>	<u>6,004,262</u>	<u>14,954</u>	<u>850,258</u>	<u>1,254,721</u>
EXPENDITURES					
Current:					
General government	68,416	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	3,284,973	-	493,657	115,777
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Revenue pledge	-	-	-	-	2,966,875
Bond issuance costs	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	<u>68,416</u>	<u>3,284,973</u>	<u>-</u>	<u>493,657</u>	<u>3,082,652</u>
Excess (deficiency) of revenues over expenditures	<u>(65,725)</u>	<u>2,719,289</u>	<u>14,954</u>	<u>356,601</u>	<u>(1,827,931)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	80,270	-	-	194,860	1,077,500
Transfers out	-	(2,836,106)	-	(112,500)	(794,978)
Total other financing sources (uses)	<u>80,270</u>	<u>(2,836,106)</u>	<u>-</u>	<u>82,360</u>	<u>282,522</u>
Net change in fund balance	14,545	(116,817)	14,954	438,961	(1,545,409)
Fund balance - January 1, 2007	223,977	1,400,117	96,104	(809,039)	2,011,554
Fund balance - December 31, 2007	<u>\$ 238,522</u>	<u>\$ 1,283,300</u>	<u>\$ 111,058</u>	<u>\$ (370,078)</u>	<u>\$ 466,145</u>

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Fund	Debt Service Funds			
	DEDA Loan Programs	General Obligation	Street Improvement Debt Service	Transit Bond	DEDA Debt Service
REVENUES					
Taxes:					
Property taxes	\$ -	\$ 3,936,099	\$ -	\$ 142,958	\$ 6,758,248
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	-	394,281	-	14,329	82,678
Charges for services	-	-	-	-	-
Special assessments	-	-	1,120,879	-	-
Investment income	156,224	84,157	252,373	-	205,133
Miscellaneous revenues	67,740	656,699	-	-	84,525
Total revenues	223,964	5,071,236	1,373,252	157,287	7,130,584
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	17,500	-	-	-	57,322
Debt service:					
Principal retirement	-	5,380,000	2,557,400	130,000	1,618,529
Interest and fiscal fees	-	1,610,518	1,467,791	18,156	986,342
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	61,732	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	17,500	7,052,250	4,025,191	148,156	2,662,193
Excess (deficiency) of revenues over expenditures	206,464	(1,981,014)	(2,651,939)	9,131	4,468,391
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	3,760,000	-	-	-
Premium on issuance of bonds	-	140,665	-	-	-
Payment to refunded bond escrow agent	-	(4,436,094)	-	-	-
Transfers in	-	2,701,525	5,261,342	-	54,042
Transfers out	(166,963)	(2,241,101)	(193,941)	-	(6,797,813)
Total other financing sources (uses)	(166,963)	(75,005)	5,067,401	-	(6,743,771)
Net change in fund balance	39,501	(2,056,019)	2,415,462	9,131	(2,275,380)
Fund balance - January 1, 2007	6,673,852	5,885,335	7,412,820	277,211	3,374,881
Fund balance - December 31, 2007	\$ 6,713,353	\$ 3,829,316	\$ 9,828,282	\$ 286,342	\$ 1,099,501

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Capital Project Funds				
	Special Assessment	Street Improvement Program	Capital Improvements	Medical District Expansion	DEDA Capital Projects
REVENUES					
Taxes:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Intergovernmental revenues	406,090	-	211,713	780,000	221,488
Charges for services	-	-	-	-	50,491
Special assessments	-	-	-	-	-
Investment income	6,812	-	-	143,590	100,042
Miscellaneous revenues	-	750	37,007	-	79,672
Total revenues	<u>412,902</u>	<u>750</u>	<u>248,720</u>	<u>923,590</u>	<u>451,693</u>
EXPENDITURES					
Current:					
General government	-	-	3,719	-	-
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	-	-	2,004,873	437,809
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	1,192	-	1,953	-	-
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	34,968	19,613	-	-
Capital outlay	<u>113,615</u>	<u>2,071,885</u>	<u>1,177,148</u>	<u>609,040</u>	<u>53,239</u>
Total expenditures	<u>114,807</u>	<u>2,106,853</u>	<u>1,202,433</u>	<u>2,613,913</u>	<u>491,048</u>
Excess (deficiency) of revenues over expenditures	<u>298,095</u>	<u>(2,106,103)</u>	<u>(953,713)</u>	<u>(1,690,323)</u>	<u>(39,355)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	2,285,000	1,240,000	-	-
Premium on issuance of bonds	-	11,673	30,286	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	11,904	41,488	508,542	-	4,697,282
Transfers out	<u>(629,161)</u>	<u>(29,473)</u>	<u>(95,567)</u>	<u>(143,590)</u>	<u>(547,576)</u>
Total other financing sources (uses)	<u>(617,257)</u>	<u>2,308,688</u>	<u>1,683,261</u>	<u>(143,590)</u>	<u>4,149,706</u>
Net change in fund balance	(319,162)	202,585	729,548	(1,833,913)	4,110,351
Fund balance - January 1, 2007	<u>1,261,585</u>	<u>(519,757)</u>	<u>1,380,753</u>	<u>1,926,090</u>	<u>2,525,407</u>
Fund balance - December 31, 2007	<u>\$ 942,423</u>	<u>\$ (317,172)</u>	<u>\$ 2,110,301</u>	<u>\$ 92,177</u>	<u>\$ 6,635,758</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Total Nonmajor Governmental Funds</u>
REVENUES	
Taxes:	
Property taxes	\$ 10,837,305
Sales taxes	5,903,535
Other taxes	13,743
Intergovernmental revenues	10,405,540
Charges for services	226,209
Special assessments	1,120,879
Investment income	1,126,644
Miscellaneous revenues	<u>3,596,723</u>
Total revenues	<u>33,230,578</u>
EXPENDITURES	
Current:	
General government	462,252
Public safety	571,636
Culture and recreation	308,690
Urban and economic development	14,117,477
Debt service:	
Principal retirement	9,770,929
Interest and fiscal fees	4,245,142
Revenue pledge	2,966,875
Bond issuance costs	145,759
Capital outlay	<u>6,930,842</u>
Total expenditures	<u>39,519,602</u>
Excess (deficiency) of revenues over expenditures	<u>(6,289,024)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of bonds	9,270,000
Premium on issuance of bonds	257,953
Payment to refunded bond escrow agent	(4,436,094)
Transfers in	15,634,174
Transfers out	<u>(15,043,111)</u>
Total other financing sources (uses)	<u>5,682,922</u>
Net change in fund balance	(606,102)
Fund balance - January 1, 2007	<u>38,283,767</u>
Fund balance - December 31, 2007	<u>\$ 37,677,665</u>

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Taxes:				
General property -				
Current	\$ 7,036,300	\$ 7,036,300	\$ 6,346,781	\$ (689,519)
Delinquent	150,000	150,000	152,562	2,562
Mobile home	36,000	36,000	29,323	(6,677)
Forfeited tax sale apportionment	65,000	65,000	158,935	93,935
Franchise	1,774,000	1,774,000	1,803,561	29,561
Sales taxes	11,400,000	11,650,000	11,606,342	(43,658)
Charitable gambling	90,000	90,000	74,930	(15,070)
Other	-	-	4	4
Total Taxes	<u>20,551,300</u>	<u>20,801,300</u>	<u>20,172,438</u>	<u>(628,862)</u>
Licenses and Permits:				
Liquor and non-intoxicating liquor	352,500	352,500	376,387	23,887
Health	20,000	20,000	19,853	(147)
Police protective	21,900	21,900	23,207	1,307
Amusement	16,500	16,500	22,579	6,079
Manufacturing and merchandising	39,300	39,300	45,046	5,746
Other	627,000	627,000	624,655	(2,345)
Total Licenses and Permits	<u>1,077,200</u>	<u>1,077,200</u>	<u>1,111,727</u>	<u>34,527</u>
Intergovernmental revenues:				
Shared revenues -				
Local government aid	27,840,200	27,840,200	27,840,176	(24)
PERA aid	125,000	125,000	124,428	(572)
Amortization aid	3,824,200	3,824,200	2,102,686	(1,721,514)
Insurance premium	1,974,100	1,974,100	1,657,797	(316,303)
State grants -				
Snowmobile trail	20,000	20,000	21,206	1,206
Lake Superior Zoo	135,000	135,000	135,000	-
Police training reimbursement	50,000	50,000	54,267	4,267
HAZMAT regional response team	-	34,626	33,727	(899)
Market value credit aid	-	-	652,532	652,532
MSA maintenance allotment	1,129,500	1,129,500	1,121,679	(7,821)
Federal grants -				
Election assistance for individuals with disabilities	-	959	959	-
Fair housing enforcement	-	120,000	120,000	-
Bulletproof vest partnership program	-	5,904	6,568	664
Highway safety - operation nite cap	-	-	5,436	5,436
Organized Crime Drug Enforcement Task Force	-	-	12,798	12,798
Drunk driving prevention - safe and sober	10,000	10,000	4,900	(5,100)
Other grants -				
St. Louis County	129,400	216,900	218,517	1,617
Payments in lieu of taxes -				
Housing and Redevelopment Authority	35,000	35,000	31,477	(3,523)
Independent School District #709	210,000	210,000	262,145	52,145
WLSSD	30,000	30,000	23,929	(6,071)
Total Intergovernmental Revenues	<u>35,512,400</u>	<u>35,761,389</u>	<u>34,430,227</u>	<u>(1,331,162)</u>

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<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	12,600	8,400
Police	77,500	77,500	84,119	6,619
Parks and recreation	536,800	567,551	458,942	(108,609)
Engineering	500,000	500,000	458,764	(41,236)
Building inspection services	2,054,900	2,054,900	1,637,038	(417,862)
MIS services	7,000	7,000	2,215	(4,785)
Grant administration services	35,000	35,000	40,354	5,354
Hydrant maintenance services	30,000	30,000	30,000	-
Assessment fees	159,200	159,200	112,345	(46,855)
Parking meters	550,000	550,000	-	(550,000)
Municipal parking lots	236,200	236,200	-	(236,200)
Tech village parking ramp	455,000	455,000	-	(455,000)
Casino parking ramp	575,000	575,000	-	(575,000)
Other services	6,600	6,600	361	(6,239)
Departmental sales -				
Copier and microfilm prints	22,800	22,800	17,923	(4,877)
Print and plan sales	13,000	13,000	15,600	2,600
Book sales	200	200	150	(50)
Miscellaneous sales and services	87,600	91,038	96,509	5,471
Share of general expenses -				
Duluth Airport Authority	43,400	43,400	30,900	(12,500)
Water and Gas	1,235,200	1,235,200	1,235,200	-
Sewer	440,800	440,800	440,800	-
Stormwater	183,700	183,700	183,700	-
Steam District #1	13,000	13,000	13,600	600
Duluth Entertainment & Convention Center	17,700	17,700	17,700	-
Duluth Transit Authority	17,000	17,000	17,000	-
Golf	43,900	43,900	46,000	2,100
Duluth Economic Development Authority	218,000	218,000	239,650	21,650
Fleet Services	60,300	60,300	65,000	4,700
Group Health	163,200	163,200	163,200	-
Self Insurance	309,000	309,000	309,000	-
Spirit Mountain Recreation Area Authority	40,700	40,700	40,200	(500)
Total Charges for Services	<u>8,136,900</u>	<u>8,171,089</u>	<u>5,768,870</u>	<u>(2,402,219)</u>
Fines and Forfeits:				
Library fines	102,000	102,000	90,038	(11,962)
Parking fines	410,000	410,000	551,900	141,900
Court fees	390,000	390,000	414,860	24,860
License penalties	6,000	6,000	8,275	2,275
Felony forfeitures	-	18,623	21,231	2,608
Total Fines and Forfeits	<u>908,000</u>	<u>926,623</u>	<u>1,086,304</u>	<u>159,681</u>
Special Assessments	<u>414,000</u>	<u>414,000</u>	<u>404,899</u>	<u>(9,101)</u>
Investment Income	<u>2,450,000</u>	<u>2,450,000</u>	<u>(1,137,118)</u>	<u>(3,587,118)</u>

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES-ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Miscellaneous Revenues:				
Commission and concessions	13,500	13,500	15,883	2,383
Payments in lieu of taxes	16,000	16,000	16,086	86
Police auction proceeds	-	-	3,697	3,697
Rent and lease	89,200	89,200	90,154	954
Damage claims	3,000	54,249	61,301	7,052
Sale of equipment	80,000	80,000	113,651	33,651
Sale of land	30,000	30,000	122,157	92,157
Sale of scrap	1,500	1,500	3,689	2,189
Surcharge retainage	1,200	1,200	1,218	18
Refunds and reimbursements	519,100	407,133	149,617	(257,516)
Gifts and donations	3,000	21,077	36,627	15,550
Total Miscellaneous Revenues	<u>756,500</u>	<u>713,859</u>	<u>614,080</u>	<u>(99,779)</u>
Total Revenues	<u>69,806,300</u>	<u>70,315,460</u>	<u>62,451,427</u>	<u>(7,864,033)</u>
Other Financing Sources:				
Issuance of bonds	-	1,352,742	1,380,000	27,258
Premium on issuance of bonds	-	-	11,641	11,641
Operating transfers in:				
Special Projects	-	-	24,367	24,367
Duluth Police Grant Programs	50,000	50,000	318,374	268,374
Community Investment Trust	3,511,000	3,511,000	3,232,163	(278,837)
Tourism Taxes	1,109,000	1,129,000	1,198,665	69,665
G O Debt Service	-	-	84,157	84,157
Street Improvement Debt Service	-	-	193,941	193,941
Permanent Improvement	-	-	75,829	75,829
Medical District Expansion	-	-	143,590	143,590
Parking	-	-	1,246,684	1,246,684
Water	-	-	169,388	169,388
Gas	3,852,400	3,852,400	3,651,017	(201,383)
Sewer	-	-	188,130	188,130
Stormwater	120,000	120,000	198,115	78,115
Steam	90,000	90,000	90,000	-
Medical Health	-	-	246,961	246,961
Employee Vacation Compensation	-	-	181,378	181,378
DEDA Debt Service	-	-	163,820	163,820
DEDA Capital Projects	-	-	81,145	81,145
Northwest Maintenance Facility	-	-	794,978	794,978
DEDA Building Renovation Loans	-	-	112,921	112,921
Total Other Financing Sources	<u>8,732,400</u>	<u>10,105,142</u>	<u>13,787,264</u>	<u>3,682,122</u>
Total Revenues and Other Financing Sources	<u>\$ 78,538,700</u>	<u>\$ 80,420,602</u>	<u>\$ 76,238,691</u>	<u>\$ (4,181,911)</u>
Reconciliation:				
Original budget as approved by Duluth City Council		\$ 78,538,700		
Adjustments made in accordance with budget ordinance provisions:				
Grants, gifts, and donations		175,099		
Ordinance allowable		1,706,803		
Total adjustments		<u>1,881,902</u>		
Modified budget as reported above		<u>\$ 80,420,602</u>		

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
GENERAL GOVERNMENT:							
Legislative and Executive							
City Council							
Personal services - salaries	\$ 90,000	\$ 90,000		\$ 89,964	\$ -	\$ 89,964	\$ 36
Personal services - benefits	12,500	9,500		9,006	-	9,006	494
Other expenditures	46,000	44,500		41,420	-	41,420	3,080
Total City Council	148,500	144,000	1	140,390	-	140,390	3,610
Mayor's Office							
Personal services - salaries	194,200	209,900		209,831	-	209,831	69
Personal services - benefits	58,200	58,200		56,599	-	56,599	1,601
Other expenditures	10,000	16,000		14,294	-	14,294	1,706
Total Mayor's Office	262,400	284,100	1	280,724	-	280,724	3,376
Administrative Assistant							
Personal services - salaries	302,000	335,400		335,324	-	335,324	76
Personal services - benefits	76,400	62,400		61,535	-	61,535	865
Other expenditures	8,300	8,300		7,493	-	7,493	807
Total Administrative Assistant	386,700	406,100	1	404,352	-	404,352	1,748
City Attorney							
Personal services - salaries	1,071,200	1,097,200		1,096,787	-	1,096,787	413
Personal services - benefits	266,100	293,200		293,104	-	293,104	96
Other expenditures	25,500	39,500		39,044	-	39,044	456
Capital outlay	8,000	5,650		5,601	-	5,601	49
Total City Attorney	1,370,800	1,435,550	1	1,434,536	-	1,434,536	1,014
Human Rights Office							
Personal services - salaries	106,500	124,900		124,805	-	124,805	95
Personal services - benefits	34,300	25,300		23,260	-	23,260	2,040
Other expenditures	12,200	17,200		13,460	-	13,460	3,740
Total Human Rights Office	153,000	167,400	1,3	161,525	-	161,525	5,875
Total Legislative and Executive	2,321,400	2,437,150		2,421,527	-	2,421,527	15,623
Administrative Services							
Human Resources							
Personal services - salaries	486,000	526,500		519,006	-	519,006	7,494
Personal services - benefits	137,900	147,900		146,449	-	146,449	1,451
Other expenditures	32,000	47,000		45,551	-	45,551	1,449
Total Human Resources	655,900	721,400	1	711,006	-	711,006	10,394
City Clerk							
Personal services - salaries	383,400	383,400		383,360	-	383,360	40
Personal services - benefits	112,800	113,600		113,476	-	113,476	124
Other expenditures	50,000	67,000		66,446	-	66,446	554
Total City Clerk	546,200	564,000	1	563,282	-	563,282	718
Management Information Systems							
Personal services - salaries	1,035,200	973,400		874,644	-	874,644	98,756
Personal services - benefits	283,100	260,600		248,595	-	248,595	12,005
Other expenditures	222,000	245,000		240,754	-	240,754	4,246
Total Management Information Systems	1,540,300	1,479,000	1	1,363,993	-	1,363,993	115,007

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
GENERAL GOVERNMENT: (continued)							
Administrative Services (continued)							
Facilities Management							
Personal services - salaries	1,305,700	1,022,800		987,286	-	987,286	35,514
Personal services - benefits	396,500	300,600		284,164	-	284,164	16,436
Other expenditures	2,878,100	2,587,800		2,582,979	-	2,582,979	4,821
Total Facilities Management	4,580,300	3,911,200	1	3,854,429	-	3,854,429	56,771
Architect's Office							
Personal services - salaries	164,600	81,700		81,621	-	81,621	79
Personal services - benefits	37,900	22,900		18,271	-	18,271	4,629
Other expenditures	7,000	7,000		3,834	-	3,834	3,166
Total Architect's Office	209,500	111,600	1	103,726	-	103,726	7,874
Total Administrative Services	7,532,200	6,787,200		6,596,436	-	6,596,436	190,764
Department of Finance							
Finance Administration							
Personal services - salaries	252,800	277,800		269,297	-	269,297	8,503
Personal services - benefits	57,600	67,700		67,642	-	67,642	58
Other expenditures	8,000	8,000		5,610	-	5,610	2,390
Total Finance Administration	318,400	353,500	1	342,549	-	342,549	10,951
City Assessor's Office							
Personal services - salaries	603,600	573,600		573,576	-	573,576	24
Personal services - benefits	174,000	174,000		166,867	-	166,867	7,133
Other expenditures	25,400	25,400		23,595	-	23,595	1,805
Total City Assessor's Office	803,000	773,000	1	764,038	-	764,038	8,962
City Auditor's Office							
Personal services - salaries	828,700	823,880		800,994	-	800,994	22,886
Personal services - benefits	229,100	228,100		213,606	-	213,606	14,494
Other expenditures	76,000	78,000		77,049	-	77,049	951
Total City Auditor's Office	1,133,800	1,129,980	1	1,091,649	-	1,091,649	38,331
Purchasing Office							
Personal services - salaries	170,800	117,800		115,439	-	115,439	2,361
Personal services - benefits	55,200	40,200		38,719	-	38,719	1,481
Other expenditures	9,000	11,000		8,744	-	8,744	2,256
Total Purchasing Office	235,000	169,000	1	162,902	-	162,902	6,098
City Treasurer's Office							
Personal services - salaries	303,300	320,300		289,655	-	289,655	30,645
Personal services - benefits	79,000	79,000		72,302	-	72,302	6,698
Other expenditures	11,500	11,500		7,971	-	7,971	3,529
Total City Treasurer's Office	393,800	410,800	1	369,928	-	369,928	40,872
Total Department of Finance	2,884,000	2,836,280		2,731,066	-	2,731,066	105,214
TOTAL GENERAL GOVERNMENT	12,737,600	12,060,630		11,749,029	-	11,749,029	311,601

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
PUBLIC SAFETY:							
Fire Department							
Fire Administration							
Personal services - salaries	286,300	298,500		298,428	-	298,428	72
Personal services - benefits	116,500	121,500		121,161	-	121,161	339
Other expenditures	41,900	47,040		46,539	-	46,539	501
Total Fire Administration	444,700	467,040	1,2	466,128	-	466,128	912
Firefighting Operations							
Personal services - salaries	8,263,800	8,398,187		8,361,015	-	8,361,015	37,172
Personal services - benefits	5,162,400	5,239,400		5,239,280	-	5,239,280	120
Other expenditures	422,500	567,268		564,554	-	564,554	2,714
Total Firefighting Operations	13,848,700	14,204,855	1,2,4	14,164,849	-	14,164,849	40,006
Fire Prevention and Training							
Personal services - salaries	233,600	226,600		181,933	-	181,933	44,667
Personal services - benefits	135,400	135,400		130,846	-	130,846	4,554
Other expenditures	23,600	24,924		18,707	-	18,707	6,217
Total Fire Prevention and Training	392,600	386,924	1,2	331,486	-	331,486	55,438
Building Inspection							
Personal services - salaries	1,301,100	1,269,100		1,253,941	-	1,253,941	15,159
Personal services - benefits	403,900	403,900		387,497	-	387,497	16,403
Other expenditures	152,800	182,507		138,181	-	138,181	44,326
Total Building Inspection	1,857,800	1,855,507	1,2	1,779,619	-	1,779,619	75,888
Hazardous Materials (HAZMAT)							
Other expenditures	-	8,856		6,238	-	6,238	2,618
Total Hazardous Materials (HAZMAT)	-	8,856	1,2,3	6,238	-	6,238	2,618
Total Fire Department	16,543,800	16,923,182		16,748,320	-	16,748,320	174,862
Police Department							
Police Administration							
Personal services - salaries	783,300	1,787,700		1,787,683	-	1,787,683	17
Personal services - benefits	252,300	543,500		543,482	-	543,482	18
Other expenditures	1,018,000	1,156,000		1,153,252	-	1,153,252	2,748
Total Police Administration	2,053,600	3,487,200	1	3,484,417	-	3,484,417	2,783
Police Patrol							
Personal services - salaries	8,045,700	7,113,600		7,093,821	-	7,093,821	19,779
Personal services - benefits	2,863,600	2,623,900		2,602,528	-	2,602,528	21,372
Other expenditures	63,900	118,304		96,817	-	96,817	21,487
Total Police Patrol	10,973,200	9,855,804	1,3	9,793,166	-	9,793,166	62,638
Police Investigative							
Personal services - salaries	2,269,800	2,028,700		2,028,581	-	2,028,581	119
Personal services - benefits	778,700	628,900		626,924	-	626,924	1,976
Other expenditures	33,500	-		-	-	-	-
Total Police Investigative	3,082,000	2,657,600	1	2,655,505	-	2,655,505	2,095
Police Special Accounts							
Other expenditures	-	73,082		47,282	-	47,282	25,800
Total Police Special Accounts	-	73,082	2,4	47,282	-	47,282	25,800
Total Police Department	16,108,800	16,073,686		15,980,370	-	15,980,370	93,316
TOTAL PUBLIC SAFETY	32,652,600	32,996,868		32,728,690	-	32,728,690	268,178

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
PUBLIC WORKS:							
Public Works and Utilities							
Public Works Director's Office							
Personal services - salaries	34,600	35,900		35,899	-	35,899	1
Personal services - benefits	8,500	8,000		7,753	-	7,753	247
Other expenditures	2,300	2,300		243	-	243	2,057
Total Public Works Director's Office	45,400	46,200	1	43,895	-	43,895	2,305
Maintenance Operations							
Personal services - salaries	3,072,500	3,195,500		3,193,701	-	3,193,701	1,799
Personal services - benefits	897,600	909,600		908,362	-	908,362	1,238
Other expenditures	3,205,600	3,668,400		3,660,754	-	3,660,754	7,646
Total Maintenance Operations	7,175,700	7,773,500	1,3	7,762,817	-	7,762,817	10,683
Engineering							
Personal services - salaries	1,656,600	1,711,600		1,672,951	-	1,672,951	38,649
Personal services - benefits	484,600	484,600		477,044	-	477,044	7,556
Other expenditures	228,100	335,249		334,753	-	334,753	496
Total Engineering	2,369,300	2,531,449	1,4	2,484,748	-	2,484,748	46,701
Total Public Works and Utilities	9,590,400	10,351,149		10,291,460	-	10,291,460	59,689
TOTAL PUBLIC WORKS	9,590,400	10,351,149		10,291,460	-	10,291,460	59,689
CULTURE AND RECREATION:							
Library Department							
Library Services							
Personal services - salaries	2,687,400	2,415,433		2,331,223	-	2,331,223	84,210
Personal services - benefits	821,400	821,400		687,130	-	687,130	134,270
Other expenditures	118,300	118,300		116,795	-	116,795	1,505
Capital outlay	285,000	299,581		299,581	-	299,581	-
Total Library Services	3,912,100	3,654,714	1,3	3,434,729	-	3,434,729	219,985
Library Buildings and Equipment							
Personal services - salaries	163,800	166,800		160,663	-	160,663	6,137
Personal services - benefits	60,900	60,900		58,612	-	58,612	2,288
Other expenditures	23,100	23,100		19,380	-	19,380	3,720
Total Library Buildings and Equipment	247,800	250,800	1	238,655	-	238,655	12,145
Total Library Department	4,159,900	3,905,514		3,673,384	-	3,673,384	232,130
Parks and Recreation Department							
Recreation and Senior Services							
Personal services - salaries	1,091,600	1,196,600		1,159,646	-	1,159,646	36,954
Personal services - benefits	290,500	270,000		267,021	-	267,021	2,979
Other expenditures	184,200	187,696		125,867	-	125,867	61,829
Total Recreation and Senior Services	1,566,300	1,654,296	1,3	1,552,534	-	1,552,534	101,762
Lake Superior Zoo							
Personal services - salaries	580,200	552,200		538,332	-	538,332	13,868
Personal services - benefits	188,100	181,100		167,986	-	167,986	13,114
Other expenditures	320,000	395,751		376,177	-	376,177	19,574
Total Lake Superior Zoo	1,088,300	1,129,051	1,4	1,082,495	-	1,082,495	46,556
Total Parks and Recreation Department	2,654,600	2,783,347		2,635,029	-	2,635,029	148,318
TOTAL CULTURE AND RECREATION	6,814,500	6,688,861		6,308,413	-	6,308,413	380,448

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
URBAN AND ECONOMIC DEVELOPMENT:							
Planning and Development							
Personal services - salaries	361,400	320,900		312,958	-	312,958	7,942
Personal services - benefits	99,000	96,500		82,756	-	82,756	13,744
Other expenditures	130,000	130,000		17,958	-	17,958	112,042
Total Planning and Development	590,400	547,400	1	413,672	-	413,672	133,728
TOTAL URBAN AND ECONOMIC DEVELOPMENT	590,400	547,400		413,672	-	413,672	133,728
TRANSFERS AND OTHER FUNCTIONS:							
Airbus construction	875,000	437,500	1	437,500	-	437,500	-
Auditing services	108,600	108,600		108,342	-	108,342	258
Business improvement district	500,000	475,100	1	475,094	-	475,094	6
Capital improvements/lease purchase	248,200	510,123	2	478,093	-	478,093	32,030
Capital maintenance/lease purchase	860,000	1,451,475	1,2,3	1,013,024	-	1,013,024	438,451
Civil defense	12,000	10,635	1	8,041	-	8,041	2,594
Federal programs	55,000	55,000		29,156	-	29,156	25,844
Flexible benefits	13,000	12,985	1	12,385	-	12,385	600
Parking improvement debt	32,100	-	1	-	-	-	-
Public access television	187,000	187,000		178,000	-	178,000	9,000
Retiree insurance	6,127,200	6,778,580	1	6,778,573	-	6,778,573	7
Issuance of bonds	-	1,391,641	2,4	1,391,641	-	1,391,641	-
Premium on issuance of bonds	-	59,577	2	59,577	-	59,577	-
Self insurance	1,300,000	1,300,000		1,300,000	-	1,300,000	-
State sales tax administration	-	250,000	4	224,784	-	224,784	25,216
Street improvement program	5,261,100	5,261,100		4,994,718	-	4,994,718	266,382
Transfers and accruals	100,000	-	1	-	-	-	-
Incremental Meter Revenue	-	367,655	2	367,655	-	367,655	-
Other functions	474,000	421,550	1	330,671	-	330,671	90,879
TOTAL TRANSFERS AND OTHER FUNCTIONS	16,153,200	19,078,521		18,187,254	-	18,187,254	891,267
TOTAL EXPENDITURES AND ENCUMBRANCES	\$ 78,538,700	\$ 81,723,429		\$ 79,678,518	\$ -	\$ 79,678,518	\$ 2,044,911
RECONCILIATION:							
Original budget as approved by Duluth City Council		\$ 78,538,700					
Adjustments made in accordance with Budget Ordinance							
Note 1		-					Departmental transfers made in accordance with budget ordinance
Note 2		1,302,827					Encumbrance, contract, reserve, or designation carryovers from prior year
Note 3		175,099					Grants, gifts, and donations in accordance with budget ordinance
Note 4		1,706,803					Other allowable additions made in accordance with budget ordinance
Total adjustments		3,184,729					
Modified budget as reported above		\$ 81,723,429					

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Personal Services Salaries</u>	<u>Personal Services Benefits</u>	<u>Other Expenditures</u>	<u>Capital Outlay</u>	<u>Transfers</u>	<u>Total Actual</u>
GENERAL GOVERNMENT:						
Legislative and Executive						
City Council	\$ 89,964	\$ 9,006	\$ 41,420	\$ -	\$ -	\$ 140,390
Mayor	209,831	56,599	14,294	-	-	280,724
Administrative Assistant	335,324	61,535	7,493	-	-	404,352
City Attorney	1,096,787	293,104	39,044	5,601	-	1,434,536
Human Rights	124,805	23,260	13,460	-	-	161,525
Total Legislative and Executive	1,856,711	443,504	115,711	5,601	-	2,421,527
Department of Administrative Services						
Human Resources	519,006	146,449	45,551	-	-	711,006
City Clerk	383,360	113,476	66,446	-	-	563,282
Management Information Systems	874,644	248,595	250,903	67,897	-	1,442,039
Facilities Management	987,286	284,164	2,577,710	256,050	-	4,105,210
Architect	81,621	18,271	3,834	-	-	103,726
Other functions	-	617,762	1,958,665	6,000	-	2,582,427
Total Administrative Services	2,845,917	1,428,717	4,903,109	329,947	-	9,507,690
Department of Finance						
Finance Administration	269,297	67,642	5,610	-	-	342,549
Assessor	573,576	166,867	23,595	-	-	764,038
Auditor	800,994	213,606	185,391	-	-	1,199,991
Purchasing	115,439	38,719	8,744	-	-	162,902
Treasurer	289,655	72,302	7,971	-	-	369,928
Total Department of Finance	2,048,961	559,136	231,311	-	-	2,839,408
Benefits						
Flexible Benefits	-	12,385	-	-	-	12,385
Retiree Insurance	-	6,778,573	-	-	-	6,778,573
Total Benefits	-	6,790,958	-	-	-	6,790,958
TOTAL GENERAL GOVERNMENT	6,751,589	9,222,315	5,250,131	335,548	-	21,559,583
PUBLIC SAFETY:						
Fire Department						
Fire Administration	298,429	121,161	46,539	-	-	466,129
Firefighting Operations	8,361,015	5,239,280	564,553	-	-	14,164,848
Fire Prevention	181,933	130,846	18,707	-	-	331,486
Building Inspection	1,253,941	387,497	138,181	-	-	1,779,619
HAZMAT	-	-	6,238	-	-	6,238
Total Fire	10,095,318	5,878,784	774,218	-	-	16,748,320
Police Department						
Administration	1,787,683	543,482	1,164,427	-	-	3,495,592
Police Patrol	7,093,821	2,602,528	96,817	-	-	9,793,166
Police Investigative	2,028,581	626,924	-	-	-	2,655,505
Special Accounts	-	-	47,282	-	-	47,282
Total Police	10,910,085	3,772,934	1,308,526	-	-	15,991,545
Civil Defense	-	-	8,041	-	-	8,041
TOTAL PUBLIC SAFETY	21,005,403	9,651,718	2,090,785	-	-	32,747,906

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Personal Services Salaries</u>	<u>Personal Services Benefits</u>	<u>Other Expenditures</u>	<u>Capital Outlay</u>	<u>Transfers</u>	<u>Total Actual</u>
PUBLIC WORKS:						
Public Works Department						
Director's Office	35,899	7,753	243	-	-	43,895
Maintenance Division	3,193,701	908,362	3,734,090	16,610	-	7,852,763
Engineering	1,672,951	477,044	334,753	-	-	2,484,748
Total Public Works Department	<u>4,902,551</u>	<u>1,393,159</u>	<u>4,069,086</u>	<u>16,610</u>	<u>-</u>	<u>10,381,406</u>
TOTAL PUBLIC WORKS	<u>4,902,551</u>	<u>1,393,159</u>	<u>4,069,086</u>	<u>16,610</u>	<u>-</u>	<u>10,381,406</u>
CULTURE AND RECREATION:						
Library Department						
Library Services	2,331,223	687,130	130,415	299,581	-	3,448,349
Buildings and Equipment	160,663	58,612	19,380	-	-	238,655
Total Library Department	<u>2,491,886</u>	<u>745,742</u>	<u>149,795</u>	<u>299,581</u>	<u>-</u>	<u>3,687,004</u>
Parks and Recreation Department						
Recreation and Senior Services	1,159,646	267,021	125,867	85,487	-	1,638,021
Lake Superior Zoo	538,332	167,986	376,177	-	-	1,082,495
Total Parks and Recreation	<u>1,697,978</u>	<u>435,007</u>	<u>502,044</u>	<u>85,487</u>	<u>-</u>	<u>2,720,516</u>
TOTAL CULTURE AND RECREATION	<u>4,189,864</u>	<u>1,180,749</u>	<u>651,839</u>	<u>385,068</u>	<u>-</u>	<u>6,407,520</u>
URBAN AND ECONOMIC DEVELOPMENT						
Planning and Development						
Urban Development	312,958	82,756	17,958	-	-	413,672
Total Planning and Development	<u>312,958</u>	<u>82,756</u>	<u>17,958</u>	<u>-</u>	<u>-</u>	<u>413,672</u>
TOTAL URBAN AND ECONOMIC DEVELOPMENT	<u>312,958</u>	<u>82,756</u>	<u>17,958</u>	<u>-</u>	<u>-</u>	<u>413,672</u>
TRANSFERS:						
Energy Management	-	-	-	-	5,270	5,270
Senior Nutrition	-	-	-	-	29,156	29,156
Street Improvement Debt Service	-	-	-	-	4,994,718	4,994,718
Capital Improvements	-	-	-	-	404,821	404,821
Parking Fund	-	-	-	-	367,655	367,655
DEDA Northwest Maintenance Facility	-	-	-	-	437,500	437,500
TOTAL TRANSFERS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,239,120</u>	<u>6,239,120</u>
DEBT SERVICE:						
Capital Lease Obligation - Principal	-	-	-	391,923	-	391,923
Capital Lease Obligation - Interest	-	-	-	86,170	-	86,170
Bond issuance costs	-	-	-	59,577	-	59,577
Payment to refunded bond escrow agent	-	-	-	1,391,641	-	1,391,641
TOTAL DEBT SERVICE	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,929,311</u>	<u>-</u>	<u>1,929,311</u>
TOTAL EXPENDITURES/TRANSFERS OUT	<u>\$ 37,162,365</u>	<u>\$ 21,530,697</u>	<u>\$ 12,079,799</u>	<u>\$ 2,666,537</u>	<u>\$ 6,239,120</u>	<u>\$ 79,678,518</u>

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Proprietary Funds

NON-MAJOR PROPRIETARY FUNDS

ENTERPRISE FUNDS

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

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

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

INTERNAL SERVICE FUNDS

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

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

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

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

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

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Stormwater	Golf	Total Nonmajor Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,751,390	\$ -	\$ 1,751,390
Restricted assets held by trustee	-	110,349	110,349
Accounts receivable, net	18,287	20,144	38,431
Due from other funds	5,976	3,786	9,762
Due from other governments	136,651	-	136,651
Inventories	-	67,303	67,303
Prepays	-	84,424	84,424
Total current assets	<u>1,912,304</u>	<u>286,006</u>	<u>2,198,310</u>
Noncurrent assets:			
Issuance costs	33,191	28,767	61,958
Planning and development costs	15,000	-	15,000
Capital assets, net	<u>11,177,574</u>	<u>2,406,447</u>	<u>13,584,021</u>
Total noncurrent assets	<u>11,225,765</u>	<u>2,435,214</u>	<u>13,660,979</u>
Total assets	<u>13,138,069</u>	<u>2,721,220</u>	<u>15,859,289</u>
LIABILITIES			
Current liabilities:			
Accounts payable	20,848	1,335	22,183
Contracts payable	84,745	-	84,745
Leases payable	-	90,402	90,402
Due to other funds	803,762	1,605	805,367
Interfund loan payable	-	733,630	733,630
Due to other governments	129	-	129
Accrued interest payable	46,811	4,717	51,528
Accrued salaries payable	24,617	-	24,617
Unearned revenue	127,729	16,326	144,055
Revenue bonds payable	168,000	125,000	293,000
Total current liabilities	<u>1,276,641</u>	<u>973,015</u>	<u>2,249,656</u>
Noncurrent liabilities:			
Compensated absences	73,869	-	73,869
Leases payable	-	191,668	191,668
Net other postemployment benefits payable	19,529	-	19,529
Revenue bonds payable	2,657,000	550,000	3,207,000
Less unamortized bond discount	(4,517)	-	(4,517)
Total noncurrent liabilities	<u>2,745,881</u>	<u>741,668</u>	<u>3,487,549</u>
Total liabilities	<u>4,022,522</u>	<u>1,714,683</u>	<u>5,737,205</u>
NET ASSETS			
Invested in capital assets, net of related debt	8,390,282	1,449,377	9,839,659
Restricted for special accounts	-	108,417	108,417
Unrestricted	<u>725,265</u>	<u>(551,257)</u>	<u>174,008</u>
Total net assets	<u>\$ 9,115,547</u>	<u>\$ 1,006,537</u>	<u>\$ 10,122,084</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Stormwater</u>	<u>Golf</u>	<u>Total Nonmajor Enterprise Funds</u>
OPERATING REVENUES			
Sales	\$ -	\$ 489,206	\$ 489,206
Charges for services	3,886,938	1,390,397	5,277,335
Miscellaneous revenues	11,710	8,134	19,844
Total operating revenues	<u>3,898,648</u>	<u>1,887,737</u>	<u>5,786,385</u>
OPERATING EXPENSES			
Cost of sales and services	-	274,590	274,590
Personal services	1,675,490	136,817	1,812,307
Supplies	161,377	150,087	311,464
Utilities	18,757	100,812	119,569
Other services and charges	613,951	1,007,735	1,621,686
Amortization	32,357	5,851	38,208
Depreciation	266,931	145,923	412,854
Total operating expenses	<u>2,768,863</u>	<u>1,821,815</u>	<u>4,590,678</u>
Operating income	<u>1,129,785</u>	<u>65,922</u>	<u>1,195,707</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	93,186	8,244	101,430
Intergovernmental revenue	17,877	-	17,877
Gain (Loss) on sale or disposition of capital assets	(1,516)	-	(1,516)
Interest expense	(112,410)	(65,980)	(178,390)
Total non-operating revenue (expenses)	<u>(2,863)</u>	<u>(57,736)</u>	<u>(60,599)</u>
Income before transfers	1,126,922	8,186	1,135,108
Transfers out	(301,417)	-	(301,417)
Change in net assets	825,505	8,186	833,691
Total net assets - January 1, 2007	<u>8,290,042</u>	<u>998,351</u>	<u>9,288,393</u>
Total net assets - December 31, 2007	<u>\$ 9,115,547</u>	<u>\$ 1,006,537</u>	<u>\$ 10,122,084</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Stormwater	Golf	Total Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 3,964,962	\$ 1,873,386	\$ 5,838,348
Cash paid to suppliers	(831,889)	(1,605,781)	(2,437,670)
Cash paid to employees	(1,682,019)	(173,113)	(1,855,132)
Other operating revenues	141	5,534	5,675
Net cash provided (used) by operating activities	<u>1,451,195</u>	<u>100,026</u>	<u>1,551,221</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(261,277)	-	(261,277)
Operating grants	90,743	-	90,743
Interfund financing	-	143,996	143,996
Net cash provided (used) by noncapital financing activities	<u>(170,534)</u>	<u>143,996</u>	<u>(26,538)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on bonds, notes and capitalized leases	(80,000)	(86,923)	(166,923)
Interest paid on bonds, notes and capitalized leases	(106,728)	(13,924)	(120,652)
Transfer to trustee debt service account	-	(143,175)	(143,175)
Sale of capital assets	2,311	-	2,311
Acquisition or construction of capital assets	(916,400)	-	(916,400)
Net cash provided (used) by capital and related financing activities	<u>(1,100,817)</u>	<u>(244,022)</u>	<u>(1,344,839)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment interest	93,186	-	93,186
Net increase (decrease) in cash and cash equivalents	273,030	-	273,030
Cash and cash equivalents - January 1, 2007	1,478,360	-	1,478,360
Cash and cash equivalents - December 31, 2007	<u>\$ 1,751,390</u>	<u>\$ -</u>	<u>\$ 1,751,390</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Net operating income (loss)	\$ 1,129,785	\$ 65,922	\$ 1,195,707
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	299,288	151,774	451,062
Change in assets and liabilities:			
Decrease (increase) in receivables	(7,004)	(12,603)	(19,607)
Decrease (increase) in inventory	-	(610)	(610)
Decrease (increase) in prepaid items	-	(65,576)	(65,576)
Increase (decrease) in payables	(25,462)	(38,881)	(64,343)
Increase (decrease) in deferred revenues	54,588	-	54,588
Total adjustments	<u>321,410</u>	<u>34,104</u>	<u>355,514</u>
Net cash provided (used) by operating activities	<u>\$ 1,451,195</u>	<u>\$ 100,026</u>	<u>\$ 1,551,221</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Golf			
The trustee debt service account paid \$125,000 and \$26,435 for principal and interest payments, respectively, and earned \$8,244 in interest.			

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,478,086	\$ 6,961,851	\$ 233,612	\$ 3,398,366	\$ 12,071,915
Accounts receivable, net	800	25,190	-	-	25,990
Due from other funds	-	22,937	424,202	5,208	452,347
Due from component units	71,586	-	-	-	71,586
Due from other governments	77,096	-	-	-	77,096
Inventories	-	-	207,931	-	207,931
Total current assets	1,627,568	7,009,978	865,745	3,403,574	12,906,865
Capital assets, net	-	-	485,156	-	485,156
Total assets	1,627,568	7,009,978	1,350,901	3,403,574	13,392,021
LIABILITIES					
Current liabilities:					
Accounts payable	306	-	225,326	-	225,632
Contracts payable	33,918	-	-	-	33,918
Claims payable	202,831	1,321,747	-	-	1,524,578
Leases payable	-	-	37,540	-	37,540
Due to other funds	24,953	-	37,388	399,094	461,435
Due to other governments	35,932	-	252	-	36,184
Accrued interest payable	-	-	2,413	-	2,413
Accrued salaries payable	-	-	23,152	-	23,152
Unearned revenue	-	26,890	-	-	26,890
Total current liabilities	297,940	1,348,637	326,071	399,094	2,371,742
Noncurrent liabilities:					
Claims payable	1,138,325	-	-	-	1,138,325
Compensated absences	-	-	148,742	3,004,480	3,153,222
Leases payable	-	-	155,459	-	155,459
Total noncurrent liabilities	1,138,325	-	304,201	3,004,480	4,447,006
Total liabilities	1,436,265	1,348,637	630,272	3,403,574	6,818,748
NET ASSETS					
Invested in capital assets, net of related debt	-	-	292,157	-	292,157
Unrestricted	191,303	5,661,341	428,472	-	6,281,116
Total net assets	\$ 191,303	\$ 5,661,341	\$ 720,629	\$ -	\$ 6,573,273

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
OPERATING REVENUES					
Sales	\$ -	\$ -	\$ 2,022,360	\$ -	\$ 2,022,360
Charges for services	2,561,552	17,832,177	1,648,651	3,004,480	25,046,860
Miscellaneous revenues	274,495	442,830	2,135	-	719,460
Total operating revenues	<u>2,836,047</u>	<u>18,275,007</u>	<u>3,673,146</u>	<u>3,004,480</u>	<u>27,788,680</u>
OPERATING EXPENSES					
Cost of sales and services	-	-	1,767,321	-	1,767,321
Personal services	283,023	1,000,000	1,096,464	3,004,480	5,383,967
Supplies	-	-	65,864	-	65,864
Other services and charges	683,904	1,584,643	296,051	-	2,564,598
Depreciation	-	-	49,016	-	49,016
Medical and insurance	1,110,639	15,112,173	-	-	16,222,812
Total operating expenses	<u>2,077,566</u>	<u>17,696,816</u>	<u>3,274,716</u>	<u>3,004,480</u>	<u>26,053,578</u>
Operating income	<u>758,481</u>	<u>578,191</u>	<u>398,430</u>	<u>-</u>	<u>1,735,102</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	-	323,162	-	181,378	504,540
Intergovernmental revenue	-	-	5,836	-	5,836
Interest expense	-	-	(17,339)	-	(17,339)
Total non-operating revenue (expenses)	<u>-</u>	<u>323,162</u>	<u>(11,503)</u>	<u>181,378</u>	<u>493,037</u>
Income before transfers	758,481	901,353	386,927	181,378	2,228,139
Transfers out	-	(246,961)	-	(181,378)	(428,339)
Change in net assets	758,481	654,392	386,927	-	1,799,800
Total net assets - January 1, 2007	<u>(567,178)</u>	<u>5,006,949</u>	<u>333,702</u>	<u>-</u>	<u>4,773,473</u>
Total net assets - December 31, 2007	<u>\$ 191,303</u>	<u>\$ 5,661,341</u>	<u>\$ 720,629</u>	<u>\$ -</u>	<u>\$ 6,573,273</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES – INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Self Insurance	Group Health	Fleet Services	Employee Vacation Compensation	Total Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 2,785,328	\$ 18,599,266	\$ 3,705,807	\$ 3,398,808	\$ 28,489,209
Cash paid to suppliers	(2,290,318)	(18,165,154)	(2,006,228)	-	(22,461,700)
Cash paid to employees	-	-	(1,083,677)	(3,409,605)	(4,493,282)
Other operating revenues	-	-	2,135	-	2,135
Net cash provided (used) by operating activities	495,010	434,112	618,037	(10,797)	1,536,362
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	-	(246,961)	-	-	(246,961)
Operating grants	-	-	5,836	-	5,836
Interfund financing	-	-	(338,051)	(181,378)	(519,429)
Net cash provided (used) by noncapital	-	(246,961)	(332,215)	(181,378)	(760,554)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on bonds, notes and capitalized leases	-	-	(34,160)	-	(34,160)
Interest paid on bonds, notes and capitalized leases	-	-	(18,050)	-	(18,050)
Net cash provided (used) by capital and related financing activities	-	-	(52,210)	-	(52,210)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment interest	-	323,162	-	181,378	504,540
Net increase (decrease) in cash and cash equivalents	495,010	510,313	233,612	(10,797)	1,228,138
Cash and cash equivalents - January 1, 2007	983,076	6,451,538	-	3,409,163	10,843,777
Cash and cash equivalents - December 31, 2007	\$ 1,478,086	\$ 6,961,851	\$ 233,612	\$ 3,398,366	\$ 12,071,915
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	\$ 758,481	\$ 578,191	\$ 398,430	\$ -	\$ 1,735,102
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	-	-	49,016	-	49,016
Change in assets and liabilities:					
Decrease (increase) in receivables	(50,719)	315,503	34,797	490,098	789,679
Decrease (increase) in inventory	-	-	(50)	-	(50)
Increase (decrease) in payables	(212,752)	(468,338)	135,844	(500,895)	(1,046,141)
Increase (decrease) in deferred revenues	-	8,756	-	-	8,756
Total adjustments	(263,471)	(144,079)	219,607	(10,797)	(198,740)
Net cash provided (used) by operating activities	\$ 495,010	\$ 434,112	\$ 618,037	\$ (10,797)	\$ 1,536,362

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Fiduciary Funds

FIDUCIARY FUNDS

AGENCY FUNDS

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

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

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

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

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

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 DECEMBER 31, 2007**

	<u>Balance 01/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/07</u>
<u>DULUTH 1200 FUND</u>				
ASSETS				
Cash and cash equivalents	\$ 1,442,140	\$ 1,391,755	\$ 1,020,858	\$ 1,813,037
Loans receivable	2,087,962	836,972	1,201,044	1,723,890
Other assets	349,462	1,695	1,925	349,232
Total assets	<u>\$ 3,879,564</u>	<u>\$ 2,230,422</u>	<u>\$ 2,223,827</u>	<u>\$ 3,886,159</u>
LIABILITIES				
Accounts payable	\$ 7,017	\$ 19,475	\$ 25,522	\$ 970
Due to agency	3,872,547	60,012	47,370	3,885,189
Total liabilities	<u>\$ 3,879,564</u>	<u>\$ 79,487</u>	<u>\$ 72,892</u>	<u>\$ 3,886,159</u>
<u>DULUTH PUBLIC ARTS</u>				
ASSETS				
Cash and cash equivalents	\$ 21,858	\$ 58,462	\$ 65,079	\$ 15,241
Accounts receivable	-	2,310	-	2,310
Due from other governments	2,500	-	2,500	-
Total assets	<u>\$ 24,358</u>	<u>\$ 60,772</u>	<u>\$ 67,579</u>	<u>\$ 17,551</u>
LIABILITIES				
Accounts payable	\$ 794	\$ 64,283	\$ 65,075	\$ 2
Due to agency	23,564	58,222	64,237	17,549
Total liabilities	<u>\$ 24,358</u>	<u>\$ 122,505</u>	<u>\$ 129,312</u>	<u>\$ 17,551</u>
<u>SISTER CITIES COMMISSION</u>				
ASSETS				
Cash and cash equivalents	\$ 4,987	\$ 32,833	\$ 37,820	\$ -
Due from other governments	2,833	-	2,833	-
Total assets	<u>\$ 7,820</u>	<u>\$ 32,833</u>	<u>\$ 40,653</u>	<u>\$ -</u>
LIABILITIES				
Accounts payable	\$ -	\$ 21,286	\$ 21,286	\$ -
Due to agency	7,820	13,466	21,286	-
Total liabilities	<u>\$ 7,820</u>	<u>\$ 34,752</u>	<u>\$ 42,572</u>	<u>\$ -</u>

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 DECEMBER 31, 2007**

	<u>Balance 01/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/07</u>
<u>SEAWAY PORT AUTHORITY</u>				
ASSETS				
Cash and cash equivalents	\$ 39,358	\$ 407,089	\$ 403,172	\$ 43,275
Taxes receivable	502	93,504	84,727	9,279
Total assets	<u>\$ 39,860</u>	<u>\$ 500,593</u>	<u>\$ 487,899</u>	<u>\$ 52,554</u>
LIABILITIES				
Due to other governments	<u>\$ 39,860</u>	<u>\$ 903,704</u>	<u>\$ 891,010</u>	<u>\$ 52,554</u>
 <u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 1,508,343	\$ 1,890,139	\$ 1,526,929	\$ 1,871,553
Accounts receivable	-	2,310	-	2,310
Taxes receivable	502	93,504	84,727	9,279
Loans receivable	2,087,962	836,972	1,201,044	1,723,890
Due from other governments	5,333	-	5,333	-
Other assets	349,462	1,695	1,925	349,232
Total assets	<u>\$ 3,951,602</u>	<u>\$ 2,824,620</u>	<u>\$ 2,819,958</u>	<u>\$ 3,956,264</u>
LIABILITIES				
Accounts payable	\$ 7,811	\$ 105,044	\$ 111,883	\$ 972
Due to other governments	39,860	903,704	891,010	52,554
Due to agency	3,903,931	131,700	132,893	3,902,738
Total liabilities	<u>\$ 3,951,602</u>	<u>\$ 1,140,448</u>	<u>\$ 1,135,786</u>	<u>\$ 3,956,264</u>

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Supplementary Information

**CITY OF DULUTH, MINNESOTA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY SOURCE*
 DECEMBER 31, 2007**

Governmental funds capital assets:

Land	\$ 22,479,598
Buildings and structures	73,192,399
Equipment	22,301,882
Infrastructure	237,978,293
Construction in Progress	<u>21,655,037</u>

Total governmental funds capital assets \$ 377,607,209

Investments in governmental funds capital assets by source:

General fund	\$ 15,149,343
Special revenue fund	21,981,630
Capital projects fund	338,605,346
Donations	<u>1,870,890</u>

Total governmental funds capital assets \$ 377,607,209

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

**CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY*
DECEMBER 31, 2007**

Function and Activity	Land	Buildings and Structures	Equipment	Infrastructure	Construction in Progress	Total
General Government						
Legislative and Executive	\$ -	\$ -	22,960	\$ -	\$ -	22,960
Planning and Development	3,069,648	27,164,440	2,695,248	-	-	32,929,336
Finance	-	-	274,842	-	-	274,842
Administrative Services	-	-	1,333,272	-	-	1,333,272
Facilities Management	1,948,142	11,563,982	578,003	9,504,427	-	23,594,554
Total General Government	5,017,790	38,728,422	4,904,325	9,504,427	-	58,154,964
Public Safety						
Police	2,000	441,213	3,334,558	-	1,596,030	5,373,801
Fire	83,006	2,559,291	5,148,665	-	-	7,790,962
Total Public Safety	85,006	3,000,504	8,483,223	-	1,596,030	13,164,763
Public Works						
Street and Park Maintenance	5,200,050	2,454,630	6,780,886	227,226,492	18,856,437	260,518,495
Engineering	-	-	1,141,634	-	-	1,141,634
Total Public Works	5,200,050	2,454,630	7,922,520	227,226,492	18,856,437	261,660,129
Culture and Recreation						
Libraries	51,585	7,545,988	381,226	-	-	7,978,799
Parks and Recreation	12,125,167	21,462,855	610,588	1,247,374	1,202,570	36,648,554
Total Culture and Recreation	12,176,752	29,008,843	991,814	1,247,374	1,202,570	44,627,353
Total Governmental Funds Capital Assets	\$ 22,479,598	\$ 73,192,399	\$ 22,301,882	\$ 237,978,293	\$ 21,655,037	\$ 377,607,209

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

**CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY*
DECEMBER 31, 2007**

	Governmental Funds Capital Assets				Governmental Funds Capital Assets
	01/01/07	Transfers	Additions	Deductions	12/31/07
Function and Activity					
General Government					
Legislative and Executive	\$ 22,960	\$ -	\$ -	\$ -	\$ 22,960
Planning and Development	32,929,336	-	-	-	32,929,336
Finance	1,289,868	(1,029,500)	29,727	15,253	274,842
Administrative Services	1,075,986	-	257,286	-	1,333,272
Facilities Management	48,278,583	(23,532,373)	1,622,850	2,774,506	23,594,554
Total General Government	83,596,733	(24,561,873)	1,909,863	2,789,759	58,154,964
Public Safety					
Police	5,010,451	-	836,014	472,664	5,373,801
Fire	7,313,040	-	509,764	31,842	7,790,962
Total Public Safety	12,323,491	-	1,345,778	504,506	13,164,763
Public Works					
Street and Park Maintenance	250,615,877	-	25,238,938	15,336,320	260,518,495
Engineering	1,020,777	-	244,097	123,240	1,141,634
Total Public Works	251,636,654	-	25,483,035	15,459,560	261,660,129
Culture and Recreation					
Libraries	9,586,852	(1,608,053)	-	-	7,978,799
Parks and Recreation	36,141,178	-	663,684	156,308	36,648,554
Total Culture and Recreation	45,728,030	(1,608,053)	663,684	156,308	44,627,353
Total Governmental Funds Capital Assets	\$ 393,284,908	\$ (26,169,926)	\$ 29,402,360	\$ 18,910,133	\$ 377,607,209

* 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

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2007**

	Issued	Issue Date	Final Maturity	Jan 1 Balance
Governmental Activities:				
General Obligation Bonds Payable -				
General Obligation				
Duluth Transit Authority	\$ 525,000	09/01/97	02/01/08	\$ 125,000
Street Overlay (60%) Refunding	639,000	05/01/98	02/01/08	150,000
West Michigan Street Improvements	1,745,000	12/01/98	02/01/14	1,075,000
Duluth Entertainment and Convention Center Authority	8,000,000	02/01/99	08/01/14	4,865,000
Great Lakes Aquarium	2,475,000	12/01/99	02/01/10	1,210,000
Bayfront Festival Park	3,135,000	04/01/01	02/01/11	1,880,000
Duluth Transit Authority	615,000	09/01/01	02/01/11	370,000
Airport Improvement	3,400,000	02/01/02	02/01/17	2,890,000
Leif Erickson Park Tax Increment (80%) Refunding	508,000	09/01/02	02/01/08	180,000
Duluth Entertainment and Convention Center Authority Refunding	2,405,000	03/01/03	02/01/10	1,425,000
Bayfront Festival Park Improvement	425,000	12/01/03	02/01/12	330,000
Improvement	800,000	03/01/04	02/01/14	720,000
Airpark Improvement	945,000	09/01/04	02/01/20	900,000
Capital Improvement	1,255,000	06/01/05	02/01/15	1,255,000
Lake Superior Center Refunding	1,765,000	12/19/05	02/01/17	1,765,000
Zoo Refunding Issue	1,485,000	12/19/05	02/01/12	1,485,000
Capital Improvement	895,000	09/07/06	02/01/16	895,000
Capital Improvement	1,240,000	12/13/07	02/01/17	-
Duluth Entertainment and Convention Center Authority Refunding	3,760,000	12/13/07	02/01/14	-
Total General Obligation				\$ 21,520,000
General Obligation - Tax Increment				
Canal Park Tax Increment Refunding	\$ 3,040,000	09/01/97	02/01/08	\$ 550,000
Great Lakes Aquarium Tax Increment	4,530,000	05/01/99	02/01/08	1,155,000
Leif Erickson Park Tax Increment (20%) Refunding	127,000	09/01/02	02/01/08	45,000
Total General Obligation Tax Increment				\$ 1,750,000
General Obligation - Tax Abatement				
Lake Walk Homes Tax Abatement Bonds	\$ 310,000	10/01/05	02/01/21	\$ 310,000
Total General Obligation Bonds Payable				\$ 23,580,000
Revenue Bonds Payable -				
Tax Increment Revenue Bonds Payable -				
Cirrus Tax Increment Revenue	\$ 645,000	03/01/94	02/01/12	\$ 255,000
Tax Increment Revenue Refunding	4,149,906	04/15/98	08/01/08	695,400
Tax Increment Revenue Refunding	8,001,533	05/04/99	08/01/08	1,593,088
Total Tax Increment Revenue Bonds Payable				\$ 2,543,488
Lease Revenue Bonds Payable -				
Artspace Community Center	\$ 2,720,000	05/01/95	08/01/14	\$ 1,640,000
Artspace Community Center Refunding	1,380,000	02/07/07	08/01/14	-
Total Lease Revenue Bonds Payable				\$ 1,640,000
Total Revenue Bonds Payable				\$ 4,183,488
Special Assessment Debt with Government Commitment -				
Street Overlay (40%) Refunding	\$ 426,000	05/01/98	02/01/08	\$ 100,000
General Obligation Improvement Refunding	1,595,000	05/01/98	02/01/07	280,000
General Obligation Improvement	1,005,000	12/01/98	02/01/15	675,000
Street Improvement	6,675,000	06/01/99	02/01/15	4,295,000
General Obligation Improvement	1,220,000	12/01/99	02/01/15	840,000
General Obligation Improvement	1,405,000	04/01/01	02/01/16	1,025,000
Street Improvement	4,800,000	09/01/01	02/01/16	3,655,000
Street Improvement	3,860,000	09/01/02	02/01/18	3,170,000
General Obligation Improvement Refunding	1,080,000	09/01/02	02/01/08	345,000
General Obligation Improvement	2,220,000	12/01/02	02/01/18	1,880,000
Street Improvement Refunding	3,118,400	03/01/03	02/01/10	1,811,100
Street Improvement Refunding	818,000	03/01/03	02/01/10	475,100
General Obligation Improvement Refunding	583,600	03/01/03	02/01/10	338,800
Street Improvement	5,035,000	09/01/03	02/01/19	4,475,000
General Obligation Improvement	2,010,000	12/01/03	02/01/19	1,805,000
Street Improvement	4,785,000	09/01/04	02/01/20	4,505,000
General Obligation Improvement	2,275,000	06/01/05	02/01/20	2,275,000
Street Improvement	4,260,000	10/01/05	02/01/21	4,260,000
General Obligation Improvement Refunding	200,000	12/19/05	02/01/08	200,000
Street Improvement Refunding	2,820,000	12/19/05	02/01/12	2,820,000
General Obligation Improvement	1,985,000	09/07/06	02/01/21	1,985,000
Street Improvement	3,355,000	09/07/06	02/01/22	3,355,000
Street Improvement Refunding	2,395,000	12/19/06	02/01/12	2,395,000
Street Improvement Refunding	3,445,000	12/19/06	02/01/14	3,445,000
Street Improvement Refunding	3,190,000	12/19/06	02/01/16	3,190,000
Street Improvement	2,285,000	12/13/07	02/01/23	-
Total Special Assessment Debt with Government Commitment				\$ 53,600,000

(Continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2007**

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2008</u>	<u>Interest Due in 2008</u>
Governmental Activities:					
General Obligation Bonds Payable -					
General Obligation					
Duluth Transit Authority	\$ -	\$ 60,000	\$ 65,000	\$ 65,000	\$ 1,576
Street Overlay (60%) Refunding	-	75,000	75,000	75,000	1,706
West Michigan Street Improvements	-	115,000	960,000	120,000	39,980
Duluth Entertainment and Convention Center Authority	-	4,865,000	-	-	-
Great Lakes Aquarium	-	285,000	925,000	295,000	37,645
Bayfront Festival Park	-	260,000	1,620,000	350,000	59,406
Duluth Transit Authority	-	70,000	300,000	70,000	10,499
Airport Improvement	-	190,000	2,700,000	200,000	155,528
Leif Erickson Park Tax Increment (80%) Refunding	-	88,000	92,000	92,000	1,495
Duluth Entertainment and Convention Center Authority Refunding	-	340,000	1,085,000	355,000	27,151
Bayfront Festival Park Improvement	-	50,000	280,000	50,000	8,180
Improvement	-	80,000	640,000	85,000	16,958
Airpark Improvement	-	50,000	850,000	50,000	30,903
Capital Improvement	-	120,000	1,135,000	125,000	35,855
Lake Superior Center Refunding	-	125,000	1,640,000	135,000	59,041
Zoo Refunding Issue	-	245,000	1,240,000	245,000	39,286
Capital Improvement	-	-	895,000	85,000	34,100
Capital Improvement	1,240,000	-	1,240,000	-	31,413
Duluth Entertainment and Convention Center Authority Refunding	3,760,000	-	3,760,000	-	95,253
Total General Obligation	\$ 5,000,000	\$ 7,018,000	\$ 19,502,000	\$ 2,397,000	\$ 685,975
General Obligation - Tax Increment					
Canal Park Tax Increment Refunding	\$ -	\$ 550,000	\$ -	\$ -	\$ -
Great Lakes Aquarium Tax Increment	-	1,155,000	-	-	-
Leif Erickson Park Tax Increment (20%) Refunding	-	22,000	23,000	23,000	374
Total General Obligation Tax Increment	\$ -	\$ 1,727,000	\$ 23,000	\$ 23,000	\$ 374
General Obligation - Tax Abatement					
Lake Walk Homes Tax Abatement Bonds	\$ -	\$ -	\$ 310,000	\$ -	\$ 12,230
Total General Obligation Bonds Payable	\$ 5,000,000	\$ 8,745,000	\$ 19,835,000	\$ 2,420,000	\$ 698,579
Revenue Bonds Payable -					
Tax Increment Revenue Bonds Payable -					
Cirrus Tax Increment Revenue	\$ -	\$ 40,000	\$ 215,000	\$ 40,000	\$ 15,550
Tax Increment Revenue Refunding	-	384,208	311,192	311,192	193,808
Tax Increment Revenue Refunding	-	879,278	713,810	713,810	416,190
Total Tax Increment Revenue Bonds Payable	\$ -	\$ 1,303,486	\$ 1,240,002	\$ 1,065,002	\$ 625,548
Lease Revenue Bonds Payable -					
Artspace Community Center	\$ -	\$ 1,640,000	\$ -	\$ -	\$ -
Artspace Community Center Refunding	1,380,000	130,000	1,250,000	125,000	50,000
Total Lease Revenue Bonds Payable	\$ 1,380,000	\$ 1,770,000	\$ 1,250,000	\$ 125,000	\$ 50,000
Total Revenue Bonds Payable	\$ 1,380,000	\$ 3,073,486	\$ 2,490,002	\$ 1,190,002	\$ 675,548
Special Assessment Debt with Government Commitment -					
Street Overlay (40%) Refunding	\$ -	\$ 50,000	\$ 50,000	\$ 50,000	\$ 1,138
General Obligation Improvement Refunding	-	280,000	-	-	-
General Obligation Improvement	-	65,000	610,000	70,000	25,748
Street Improvement	-	395,000	3,900,000	415,000	179,384
General Obligation Improvement	-	75,000	765,000	80,000	36,938
General Obligation Improvement	-	85,000	940,000	85,000	40,240
Street Improvement	-	275,000	3,380,000	285,000	139,295
Street Improvement	-	210,000	2,960,000	215,000	112,733
General Obligation Improvement Refunding	-	175,000	170,000	170,000	2,678
General Obligation Improvement	-	125,000	1,755,000	130,000	70,753
Street Improvement Refunding	-	441,600	1,369,500	448,500	34,263
Street Improvement Refunding	-	115,800	359,300	117,600	8,990
General Obligation Improvement Refunding	-	82,600	256,200	83,900	6,410
Street Improvement	-	270,000	4,205,000	280,000	158,837
General Obligation Improvement	-	110,000	1,695,000	115,000	61,240
Street Improvement	-	240,000	4,265,000	250,000	158,986
General Obligation Improvement	-	125,000	2,150,000	130,000	79,488
Street Improvement	-	200,000	4,060,000	225,000	155,477
General Obligation Improvement Refunding	-	95,000	105,000	105,000	2,100
Street Improvement Refunding	-	410,000	2,410,000	445,000	87,500
General Obligation Improvement	-	-	1,985,000	105,000	77,300
Street Improvement	-	-	3,355,000	150,000	131,200
Street Improvement Refunding	-	-	2,395,000	430,000	87,200
Street Improvement Refunding	-	-	3,445,000	420,000	126,550
Street Improvement Refunding	-	-	3,190,000	300,000	121,600
Street Improvement	2,285,000	-	2,285,000	-	56,770
Total Special Assessment Debt with Government Commitment	\$ 2,285,000	\$ 3,825,000	\$ 52,060,000	\$ 5,105,000	\$ 1,962,818

(Continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2007**

	<u>Issued</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan 1 Balance</u>
Governmental Activities (Continued):				
General Obligation Certificates Payable -				
Equipment	\$ 1,780,000	12/19/02	12/19/07	\$ 380,000
Equipment	1,200,000	12/19/03	12/19/08	495,000
Equipment	1,355,000	12/20/04	12/20/09	830,000
Equipment	1,110,000	12/19/05	12/19/10	905,000
Equipment	1,785,000	12/19/06	02/01/12	1,785,000
Equipment	1,985,000	12/13/07	02/01/13	-
Total General Obligation Certificates Payable				\$ 4,395,000
Total Governmental Activities Bonds and Certificates Payable				\$ 85,758,488
Business-type Activities:				
Revenue Bonds Payable -				
Golf Fund -				
Revenue Recreation Facility Refunding	\$ 1,040,000	12/14/04	12/01/12	\$ 800,000
Revenue and General Obligation Bonds Payable-				
Parking Fund -				
Parking Improvement Tax Increment	\$ 310,000	06/01/99	02/01/15	\$ 210,000
Technology Village Parking Ramp Tax Increment	3,590,000	06/01/99	02/01/15	2,555,000
Medical District	12,785,000	12/16/05	02/01/26	12,785,000
Total Parking Fund				\$ 15,550,000
Water Fund -				
Water Utility Revenue and General Obligation Refunding	\$ 2,455,000	09/01/97	02/01/08	\$ 575,000
Water Utility Revenue and General Obligation Refunding	1,955,000	05/01/98	02/01/07	355,000
Water Utility Revenue and General Obligation	1,530,000	12/01/00	12/01/16	1,145,000
Water Utility Revenue and General Obligation	1,690,000	09/01/02	02/01/18	1,424,000
Water Utility Revenue and General Obligation	1,385,000	12/01/02	02/01/18	1,165,000
Water Utility Revenue and General Obligation Refunding	625,000	03/01/03	02/01/10	370,000
Water Utility Revenue and General Obligation	1,120,000	12/19/06	12/01/22	1,120,000
Water Utility Revenue and General Obligation Refunding	950,000	12/13/07	02/01/16	-
Total Water Fund				\$ 6,154,000
Gas Fund -				
Gas Utility Revenue and General Obligation	\$ 5,300,000	12/01/01	02/01/17	\$ 4,195,000
Gas Utility Revenue and General Obligation	2,132,000	09/01/02	02/01/18	1,795,000
Gas Utility Revenue and General Obligation	1,425,000	12/01/02	02/01/18	1,205,000
Gas Utility Revenue and General Obligation	6,090,000	12/01/03	02/01/19	5,480,000
Gas Utility Revenue and General Obligation	1,190,000	12/19/06	02/01/22	1,190,000
Total Gas Fund				\$ 13,865,000
Steam District #1 Fund -				
Steam Utility Revenue and General Obligation	\$ 310,000	12/01/98	02/01/09	\$ 105,000
Steam Utility Revenue and General Obligation	325,000	12/01/00	12/01/11	185,000
Steam Utility Revenue and General Obligation	345,000	12/01/02	02/01/12	230,000
Steam Utility Revenue and General Obligation	2,250,000	09/01/03	02/01/23	2,115,000
Steam Utility Revenue and General Obligation	1,250,000	06/01/05	02/01/20	1,250,000
Steam Utility Revenue and General Obligation	4,525,000	12/19/06	02/01/22	4,525,000
Total Steam District # 1 Fund				\$ 8,410,000
Sewer Fund -				
Sewer Utility Revenue and General Obligation Refunding	\$ 530,000	05/01/98	02/01/08	\$ 150,000
Sewer Utility Revenue and General Obligation	1,080,000	12/01/98	02/01/09	375,000
Sewer Utility Revenue and General Obligation	1,745,000	12/01/99	12/01/15	1,200,000
Sewer Utility Revenue and General Obligation	570,000	12/01/00	02/01/16	430,000
Sewer Utility Revenue and General Obligation	1,330,000	12/01/01	02/01/17	1,050,000
Sewer Utility Revenue and General Obligation	2,003,000	09/01/02	02/01/18	1,686,000
Sewer Utility Revenue and General Obligation	1,825,000	12/01/02	02/01/18	1,540,000
Sewer Utility Revenue and General Obligation Refunding	1,240,000	03/01/03	02/01/10	740,000
Sewer Utility Revenue and General Obligation	4,045,000	12/01/04	02/01/20	3,850,000
Sewer Utility Revenue and General Obligation	3,515,000	12/19/05	02/01/21	3,515,000
Sewer Utility Revenue and General Obligation	945,000	12/19/06	02/01/22	945,000
Sewer Utility Revenue and General Obligation	2,120,000	12/13/07	02/01/23	-
Sewer Utility Revenue and General Obligation Refunding	1,325,000	12/13/07	02/01/16	-
Total Sewer Fund				\$ 15,481,000
Stormwater Fund:				
Stormwater Utility Revenue	\$ 1,425,000	09/01/02	02/01/18	\$ 1,200,000
Stormwater Utility Revenue	1,705,000	09/07/06	02/01/22	1,705,000
Total Stormwater Fund				\$ 2,905,000
Total Revenue and General Obligation Bonds Payable				\$ 62,365,000
Total Business-type Activities Bonds Payable				\$ 63,165,000
Component Units:				
Spirit Mountain Recreation Area				
Revenue Bonds Payable				
Spirit Mountain Recreation Area	\$ 1,646,750	03/31/03	12/01/12	\$ 1,334,618
Duluth Entertainment and Convention Center Authority				
General Obligation Bonds Payable -				
Duluth Entertainment and Convention Center Refunding	\$ 6,970,000	04/01/01	12/01/11	\$ 3,565,000
Total Component Units Bonds Payable				\$ 4,899,618

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
DECEMBER 31, 2007**

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2008</u>	<u>Interest Due in 2008</u>
Governmental Activities (Continued):					
General Obligation Certificates Payable -					
Equipment	\$ -	\$ 380,000	\$ -	\$ -	\$ -
Equipment	-	245,000	250,000	250,000	6,250
Equipment	-	270,000	560,000	275,000	17,513
Equipment	-	215,000	690,000	220,000	27,600
Equipment	-	-	1,785,000	325,000	58,816
Equipment	1,985,000	-	1,985,000	-	56,755
Total General Obligation Certificates Payable	<u>\$ 1,985,000</u>	<u>\$ 1,110,000</u>	<u>\$ 5,270,000</u>	<u>\$ 1,070,000</u>	<u>\$ 166,934</u>
Total Governmental Activities Bonds and Certificates Payable	<u>\$ 10,650,000</u>	<u>\$ 16,753,486</u>	<u>\$ 79,655,002</u>	<u>\$ 9,785,002</u>	<u>\$ 3,503,879</u>
Business-type Activities:					
Revenue Bonds Payable -					
Golf Fund -					
Revenue Recreation Facility Refunding	\$ -	\$ 125,000	\$ 675,000	\$ 125,000	\$ 23,185
Revenue and General Obligation Bonds Payable-					
Parking Fund -					
Parking Improvement Tax Increment	\$ -	\$ 20,000	\$ 190,000	\$ 20,000	\$ 8,734
Technology Village Parking Ramp Tax Increment	-	235,000	2,320,000	250,000	106,412
Medical District	-	-	12,785,000	410,000	670,925
Total Parking Fund	<u>\$ -</u>	<u>\$ 255,000</u>	<u>\$ 15,295,000</u>	<u>\$ 680,000</u>	<u>\$ 786,071</u>
Water Fund -					
Water Utility Revenue and General Obligation Refunding	\$ -	\$ 280,000	\$ 295,000	\$ 295,000	\$ 7,080
Water Utility Revenue and General Obligation Refunding	-	355,000	-	-	-
Water Utility Revenue and General Obligation	-	1,145,000	-	-	-
Water Utility Revenue and General Obligation	-	94,000	1,330,000	98,000	50,839
Water Utility Revenue and General Obligation	-	80,000	1,085,000	80,000	42,530
Water Utility Revenue and General Obligation Refunding	-	90,000	280,000	90,000	7,175
Water Utility Revenue and General Obligation	-	-	1,120,000	50,000	41,915
Water Utility Revenue and General Obligation Refunding	950,000	-	950,000	-	24,067
Total Water Fund	<u>\$ 950,000</u>	<u>\$ 2,044,000</u>	<u>\$ 5,060,000</u>	<u>\$ 613,000</u>	<u>\$ 173,606</u>
Gas Fund -					
Gas Utility Revenue and General Obligation	\$ -	\$ 310,000	\$ 3,885,000	\$ 325,000	\$ 168,816
Gas Utility Revenue and General Obligation	-	119,000	1,676,000	123,000	64,060
Gas Utility Revenue and General Obligation	-	80,000	1,125,000	85,000	44,078
Gas Utility Revenue and General Obligation	-	335,000	5,145,000	345,000	186,018
Gas Utility Revenue and General Obligation	-	-	1,190,000	55,000	44,514
Total Gas Fund	<u>\$ -</u>	<u>\$ 844,000</u>	<u>\$ 13,021,000</u>	<u>\$ 933,000</u>	<u>\$ 507,486</u>
Steam District #1 Fund -					
Steam Utility Revenue and General Obligation	\$ -	\$ 35,000	\$ 70,000	\$ 35,000	\$ 2,240
Steam Utility Revenue and General Obligation	-	35,000	150,000	35,000	7,288
Steam Utility Revenue and General Obligation	-	35,000	195,000	35,000	7,763
Steam Utility Revenue and General Obligation	-	90,000	2,025,000	90,000	82,063
Steam Utility Revenue and General Obligation	-	70,000	1,180,000	70,000	41,845
Steam Utility Revenue and General Obligation	-	-	4,525,000	210,000	177,294
Total Steam District # 1 Fund	<u>\$ -</u>	<u>\$ 265,000</u>	<u>\$ 8,145,000</u>	<u>\$ 475,000</u>	<u>\$ 318,493</u>
Sewer Fund -					
Sewer Utility Revenue and General Obligation Refunding	\$ -	\$ 75,000	\$ 75,000	\$ 75,000	\$ 1,706
Sewer Utility Revenue and General Obligation	-	120,000	255,000	125,000	8,215
Sewer Utility Revenue and General Obligation	-	1,200,000	-	-	-
Sewer Utility Revenue and General Obligation	-	430,000	-	-	-
Sewer Utility Revenue and General Obligation	-	80,000	970,000	80,000	42,175
Sewer Utility Revenue and General Obligation	-	112,000	1,574,000	116,000	60,152
Sewer Utility Revenue and General Obligation	-	105,000	1,435,000	105,000	56,273
Sewer Utility Revenue and General Obligation Refunding	-	175,000	565,000	180,000	14,513
Sewer Utility Revenue and General Obligation	-	220,000	3,630,000	225,000	135,735
Sewer Utility Revenue and General Obligation	-	160,000	3,355,000	185,000	128,618
Sewer Utility Revenue and General Obligation	-	-	945,000	45,000	35,313
Sewer Utility Revenue and General Obligation	2,120,000	-	2,120,000	-	52,665
Sewer Utility Revenue and General Obligation Refunding	1,325,000	-	1,325,000	-	33,567
Total Sewer Fund	<u>\$ 3,445,000</u>	<u>\$ 2,677,000</u>	<u>\$ 16,249,000</u>	<u>\$ 1,136,000</u>	<u>\$ 568,932</u>
Stormwater Fund:					
Stormwater Utility Revenue	\$ -	\$ 80,000	\$ 1,120,000	\$ 83,000	\$ 42,799
Stormwater Utility Revenue	-	-	1,705,000	85,000	66,500
Total Stormwater Fund	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 2,825,000</u>	<u>\$ 168,000</u>	<u>\$ 109,299</u>
Total Revenue and General Obligation Bonds Payable	<u>\$ 4,395,000</u>	<u>\$ 6,165,000</u>	<u>\$ 60,595,000</u>	<u>\$ 4,005,000</u>	<u>\$ 2,463,887</u>
Total Business-type Activities Bonds Payable	<u>\$ 4,395,000</u>	<u>\$ 6,290,000</u>	<u>\$ 61,270,000</u>	<u>\$ 4,130,000</u>	<u>\$ 2,487,072</u>
Component Units:					
Spirit Mountain Recreation Area					
Revenue Bonds Payable					
Spirit Mountain Recreation Area	\$ -	\$ 166,798	\$ 1,167,820	\$ 174,388	\$ 50,612
Duluth Entertainment and Convention Center Authority					
General Obligation Bonds Payable -					
Duluth Entertainment and Convention Center Refunding	\$ -	\$ 655,000	\$ 2,910,000	\$ 685,000	\$ 118,875
Total Component Units Bonds Payable	<u>\$ -</u>	<u>\$ 821,798</u>	<u>\$ 4,077,820</u>	<u>\$ 859,388</u>	<u>\$ 169,487</u>

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2007**

	<u>Issued</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan. 1 Balance</u>
Governmental Activities:				
General Obligation				
Public Facilities Authority Note	\$ 364,195	08/08/02	08/20/18	\$ 301,000
Greater Minnesota Housing Fund Note	200,000	11/06/06	11/06/16	<u>200,000</u>
Total General Obligation				\$ <u>501,000</u>
Revenue Note				
U.S. Dept. of Housing and Urban Development	\$ 7,876,000	08/01/05	08/01/25	<u>\$ 3,221,000</u>
Tax Increment Revenue				
Canal Park Tax Increment	\$ 325,000	12/01/91	02/01/08	\$ 120,000
Cirrus Tax Increment Taxable	1,041,778	03/06/97	08/01/07	230,043
Fremont Tax Increment Limited Revenue	650,000	07/01/97	02/01/12	<u>295,000</u>
Total Tax Increment Revenue				\$ <u>645,043</u>
Total Governmental Activities				\$ <u>4,367,043</u>
Business-type Activities:				
General Obligation				
Water Fund -				
Public Facilities Authority Note	\$ 870,000	08/25/03	08/20/18	\$ 734,567
Public Facilities Authority Note	1,971,532	07/23/04	08/20/18	<u>1,658,301</u>
Total Water Fund				\$ <u>2,392,868</u>
Sewer Fund -				
Public Facilities Authority Note	\$ 100,000	08/25/03	08/20/18	\$ 84,433
Public Facilities Authority Note	1,179,115	12/12/03	08/20/18	1,040,000
Public Facilities Authority Note (Note 1)	2,042,350	07/12/07	08/20/22	<u>-</u>
Total Sewer Fund				\$ <u>1,124,433</u>
Total Business-type Activities				\$ <u>3,517,301</u>
Component Units:				
Duluth Airport Authority				
Revenue Note	\$ 497,379	11/01/05	06/01/19	<u>\$ 497,379</u>

Note 1: Only \$ 1,686,940 has been drawn on the Public Facilities Authority Note dated 7/12/07.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2007**

	2007			2008	
	Issued	Retired	Principal Outstanding 12/31/2007	Principal Due in 2008	Interest Due in 2008
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	\$ -	\$ 24,000	\$ 277,000	\$ 24,000	\$ 2,770
Greater Minnesota Housing Fund Note	-	-	200,000	-	-
Total General Obligation	\$ -	\$ 24,000	\$ 477,000	\$ 24,000	\$ 2,770
Revenue Note					
U.S. Dept. of Housing and Urban Development	\$ -	\$ 85,000	\$ 3,136,000	\$ 55,000	\$ 176,339
Tax Increment Revenue					
Canal Park Tax Increment	\$ -	\$ 45,000	\$ 75,000	\$ 75,000	\$ 5,000
Cirrus Tax Increment Taxable	-	230,043	-	-	-
Fremont Tax Increment Limited Revenue	-	40,000	255,000	45,000	13,253
Total Tax Increment Revenue	\$ -	\$ 315,043	\$ 330,000	\$ 120,000	\$ 18,253
Total Governmental Activities	\$ -	\$ 424,043	\$ 3,943,000	\$ 199,000	\$ 197,362
Business-type Activities:					
General Obligation					
Water Fund -					
Public Facilities Authority Note	\$ -	\$ 52,021	\$ 682,546	\$ 53,814	\$ 19,241
Public Facilities Authority Note	-	120,301	1,538,000	123,000	38,911
Total Water Fund	\$ -	\$ 172,322	\$ 2,220,546	\$ 176,814	\$ 58,152
Sewer Fund -					
Public Facilities Authority Note	\$ -	\$ 5,979	\$ 78,454	\$ 6,186	\$ 2,212
Public Facilities Authority Note	-	80,000	960,000	82,000	12,864
Public Facilities Authority Note	1,686,940	-	1,686,940	-	-
Total Sewer Fund	\$ 1,686,940	\$ 85,979	\$ 2,725,394	\$ 88,186	\$ 15,076
Total Business-type Activities	\$ 1,686,940	\$ 258,301	\$ 4,945,940	\$ 265,000	\$ 73,228
Component Units:					
Duluth Airport Authority					
Revenue Note	\$ -	\$ -	\$ 497,379	\$ -	\$ 75,000

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUES
YEAR ENDED DECEMBER 31, 2007**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Funds</u>	<u>Totals</u>
SHARED REVENUE:						
State of Minnesota						
Local Government Aid	\$ 27,840,176	\$ -	\$ -	\$ -	\$ -	\$ 27,840,176
PERA Aid	124,428	-	-	-	5,836	130,264
Amortization Aid	2,102,686	-	-	-	-	2,102,686
Insurance Premium	1,657,797	-	-	-	-	1,657,797
TOTAL SHARED REVENUE	31,725,087	-	-	-	5,836	31,730,923
STATE GRANTS:						
State of Minnesota, Department of						
Employment and Economic Development						
Contamination Cleanup and Investigation	-	926,083	-	-	-	926,083
Redevelopment Grant	-	-	-	983,812	-	983,812
Minnesota Investment Fund Grant	-	500,000	-	-	-	500,000
Youth Program	-	31,774	-	-	-	31,774
Job Partnership	-	39,173	-	-	-	39,173
Dislocated Workers	-	235,240	-	-	-	235,240
Unemployment Services and MN Careers	-	3,333	-	-	-	3,333
Employment and Economic Development Total	-	1,735,603	-	983,812	-	2,719,415
Human Services						
Senior Nutrition	-	55,197	-	-	-	55,197
Natural Resources						
Snowmobile Trail	21,206	-	-	-	-	21,206
Superior Hiking Trail	-	14,000	-	-	-	14,000
Lake Superior Zoo	135,000	-	-	-	-	135,000
Lakewalk East Extension	-	-	-	196,973	-	196,973
Natural Resources Total	156,206	14,000	-	196,973	-	367,179
Peace Officers Board						
Post Training Reimbursement	54,267	-	-	-	-	54,267
Public Safety						
Crime Victims Emergency Fund	-	1,500	-	-	-	1,500
Auto Theft Prevention	-	40,737	-	-	-	40,737
Narcotic/Gang Strike Force	-	200,000	-	-	-	200,000
Community Crime Prevention	-	80,713	-	-	-	80,713
HAZMAT Regional Response Team	33,727	-	-	-	-	33,727
Financial Crimes Task Force	-	74,377	-	-	-	74,377
Public Safety Total	33,727	397,327	-	-	-	431,054
Pollution Control Agency						
Miller Creek Implementation Project	-	21,600	-	-	-	21,600
Revenue						
Market Value Credit	652,532	-	491,288	47,408	-	1,191,228
Transportation						
MSA Street Maintenance Allotment	1,121,679	-	-	-	-	1,121,679
MSA Street Construction Allotment	-	-	-	3,017,956	-	3,017,956
Municipal Turnback	-	-	-	344,823	-	344,823
Bridge Bonding	-	-	-	1,976,680	-	1,976,680
Transportation Total	1,121,679	-	-	5,339,459	-	6,461,138
TOTAL STATE GRANTS	2,018,411	2,223,727	491,288	6,567,652	-	11,301,078
OTHER GRANTS:						
St. Louis County						
Job Training Services	-	995,734	-	-	-	995,734
Other	218,517	-	-	-	-	218,517
St. Louis County Total	218,517	995,734	-	-	-	1,214,251
Housing and Redevelopment Authority						
Seaway Port Authority - Helberg Drive	31,477	212,000	-	-	-	243,477
Independent School District #709	-	-	-	544,690	-	544,690
Other	262,145	19,020	-	-	-	281,165
	23,929	-	-	780,000	-	803,929
TOTAL OTHER GRANTS	\$ 536,068	\$ 1,226,754	\$ -	\$ 1,324,690	\$ -	\$ 3,087,512

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUES
YEAR ENDED DECEMBER 31, 2007**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Proprietary Funds</u>	<u>Totals</u>
FEDERAL GRANTS:						
Federal, Department of						
Commerce						
Coastal Zone Management Administration	-	70,000	-	-	-	70,000
Grassy Point Acquisition	-	-	-	14,740	-	14,740
Commerce Total	-	70,000	-	14,740	-	84,740
Environmental Protection Agency						
Brownfield Assessment and Cleanup	-	160,213	-	-	-	160,213
Health and Human Services						
Senior Nutrition Program	-	205,423	-	-	-	205,423
Election Assistance for Individuals with Disabilities	959	-	-	-	-	959
Health and Human Services Total	959	205,423	-	-	-	206,382
Homeland Security						
Homeland Security Grant Program	-	62,785	-	-	-	62,785
State Domestic Preparedness Equipment	-	51,246	-	-	-	51,246
Homeland Security Total	-	114,031	-	-	-	114,031
Housing and Urban Development						
Community Development Block Grant	-	2,534,714	-	-	-	2,534,714
HOME Investment Partnership	-	492,558	-	-	-	492,558
Emergency Shelter	-	109,367	-	-	-	109,367
Fair Housing Enforcement	120,000	-	-	-	-	120,000
Housing and Urban Development Total	120,000	3,136,639	-	-	-	3,256,639
Justice						
Grants to Encourage Arrest Policies	-	22,252	-	-	-	22,252
Bulletproof Vest Partnership Program	6,568	-	-	-	-	6,568
Enforcing Underage Drinking Laws Program	5,436	-	-	-	-	5,436
Organized Crime Drug Enforcement Task Force	12,798	-	-	-	-	12,798
Alcohol Traffic Safety & Drunken Driving	4,900	38,747	-	-	-	43,647
Edward Bryne Memorial Formula Grant	-	147,564	-	-	-	147,564
Justice Total	29,702	208,563	-	-	-	238,265
Labor						
Senior Community Service Employment	-	358,635	-	-	-	358,635
Career Youth	-	1,999	-	-	-	1,999
Incumbent Worker	-	14,800	-	-	-	14,800
Special Allotment	-	5,173	-	-	-	5,173
Dislocated Workers	-	101,063	-	-	-	101,063
Workforce Investment Act	-	467,941	-	-	-	467,941
Labor Total	-	949,611	-	-	-	949,611
Transportation						
Highway Planning and Construction	-	-	-	2,669,749	-	2,669,749
TOTAL FEDERAL GRANTS	150,661	4,844,480	-	2,684,489	-	7,679,630
TOTAL INTERGOVERNMENTAL REVENUE	\$ 34,430,227	\$ 8,294,961	\$ 491,288	\$ 10,576,831	\$ 5,836	\$ 53,799,143

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
DECEMBER 31, 2007**

	Special Revenue Funds			
	Operating	Building Renovation Loan	Old Downtown Loan	District Storefront Loan
ASSETS				
Cash and cash equivalents	619,946	\$ 3,069,566	\$ 248,189	\$ 580,627
Taxes receivable, net	-	-	-	-
Accounts receivable, net	9,601	-	-	-
Loans receivable, net	-	2,166,964	42,253	409,796
Deposits receivable	-	250,000	-	-
Due from other funds	100,000	-	-	-
Due from other governments	-	-	-	-
Prepays	-	-	-	-
Capital assets held for resale	192,500	-	-	-
Total Assets	<u>\$ 922,047</u>	<u>\$ 5,486,530</u>	<u>\$ 290,442</u>	<u>\$ 990,423</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 6,379	\$ -	\$ -	\$ -
Contracts payable	5,336	-	-	-
Loans payable	463,463	-	-	-
Due to other funds	814,500	-	-	54,042
Deferred revenues	2,447	-	-	-
Total Liabilities	<u>1,292,125</u>	<u>-</u>	<u>-</u>	<u>54,042</u>
FUND BALANCES:				
Reserved for:				
Encumbrances	120,071	-	-	-
Debt service	-	-	-	44,031
Noncurrent loans receivable	-	1,958,679	36,052	349,092
Prepaid items	-	-	-	-
Deposits	-	250,000	-	-
Unreserved - designated for capital projects	-	-	-	-
Unreserved - designated for new loan fund	-	750,000	-	-
Unreserved - undesignated, reported in:				
Special revenue funds	(490,149)	2,527,851	254,390	543,258
Capital project funds	-	-	-	-
Total Fund Balances	<u>(370,078)</u>	<u>5,486,530</u>	<u>290,442</u>	<u>936,381</u>
Total Liabilities and Fund Balances	<u>\$ 922,047</u>	<u>\$ 5,486,530</u>	<u>\$ 290,442</u>	<u>\$ 990,423</u>

(continued)

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
DECEMBER 31, 2007**

	Special Revenue Fund			
	Northwest Maintenance Facility	Debt Service	Capital Projects	Total
ASSETS				
Cash and cash equivalents	\$ 617,544	\$ 6,404,601	\$ 1,443,174	\$ 12,983,647
Taxes receivable, net	-	371,554	-	371,554
Accounts receivable, net	-	3,733	3,173	16,507
Loans receivable, net	-	16,941	1,941,454	4,577,408
Deposits receivable	-	-	-	250,000
Due from other funds	640,000	54,042	4,700,272	5,494,314
Due from other governments	-	-	323,488	323,488
Prepays	-	-	630,307	630,307
Capital assets held for resale	-	-	-	192,500
Total Assets	\$ 1,257,544	\$ 6,850,871	\$ 9,041,868	\$ 24,839,725
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 9	\$ -	\$ 31,000	\$ 37,388
Contracts payable	26,729	30,152	74,050	136,267
Loans payable	-	-	-	463,463
Due to other funds	764,661	5,381,993	318,300	7,333,496
Deferred revenues	-	339,225	1,982,760	2,324,432
Total Liabilities	791,399	5,751,370	2,406,110	10,295,046
FUND BALANCES:				
Reserved for:				
Encumbrances	-	-	1,115,353	1,235,424
Debt service	-	1,099,501	-	1,143,532
Noncurrent loans receivable	-	-	54,894	2,398,717
Prepaid items	-	-	630,307	630,307
Deposits	-	-	-	250,000
Unreserved - designated for capital projects	-	-	2,137,003	2,137,003
Unreserved - designated for new loan fund	-	-	-	750,000
Unreserved - undesignated, reported in:				
Special revenue funds	466,145	-	-	3,301,495
Capital project funds	-	-	2,698,201	2,698,201
Total Fund Balances	466,145	1,099,501	6,635,758	14,544,679
Total Liabilities and Fund Balances	\$ 1,257,544	\$ 6,850,871	\$ 9,041,868	\$ 24,839,725

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Funds			
	Operating	Building Renovation	Old Downtown	District Storefront
REVENUES:				
Taxes				
Tax increments	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues				
Market value credit aid	-	-	-	-
State and federal grants	317,934	-	-	-
Charges for services				
Parking meters	165,818	-	-	-
Development fees	9,900	-	-	-
Miscellaneous revenues				
Earnings on investments	6,529	146,825	2,825	6,574
Interest	-	52,933	1,434	13,373
Bond fees	245,213	-	-	-
Land sales	40,553	-	-	-
Developer contributions	-	-	-	-
Other	64,311	-	-	-
Total Revenues	<u>850,258</u>	<u>199,758</u>	<u>4,259</u>	<u>19,947</u>
EXPENDITURES:				
Current				
Urban and economic development				
Other services and charges	453,604	-	-	-
Economic development projects	40,053	-	17,500	-
Capital Outlay				
Urban and economic development				
Improvements other than buildings	-	-	-	-
Debt Service				
Principal retirement	-	-	-	-
Interest and fiscal fees	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>493,657</u>	<u>-</u>	<u>17,500</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>356,601</u>	<u>199,758</u>	<u>(13,241)</u>	<u>19,947</u>
OTHER FINANCING SOURCES/USES:				
Operating transfer in				
DEDA Funds	194,860	-	-	-
General Fund	-	-	-	-
Special Assessment Fund	-	-	-	-
Total Operating Transfer In	<u>194,860</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating transfers out				
DEDA Funds	-	-	-	(54,042)
General Fund	-	(112,921)	-	-
G.O. Debt Service Fund	-	-	-	-
Economic Development Fund	-	-	-	-
Community Development Fund	-	-	-	-
Parking Enterprise Fund	(112,500)	-	-	-
Capital Improvements Fund	-	-	-	-
Total Operating Transfers Out	<u>(112,500)</u>	<u>(112,921)</u>	<u>-</u>	<u>(54,042)</u>
Total Other Financing Sources (Uses)	<u>82,360</u>	<u>(112,921)</u>	<u>-</u>	<u>(54,042)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>438,961</u>	<u>86,837</u>	<u>(13,241)</u>	<u>(34,095)</u>
FUND BALANCES:				
Beginning of the year	(809,039)	5,399,693	303,683	970,476
End of the year	<u>\$ (370,078)</u>	<u>\$ 5,486,530</u>	<u>\$ 290,442</u>	<u>\$ 936,381</u>

(continued)

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue Fund			
	Northwest Maintenance Facility	Debt Service	Capital Projects	Total
REVENUES:				
Taxes				
Tax increments	\$ -	\$ 6,758,248	\$ -	\$ 6,758,248
Intergovernmental revenues				
Market value credit aid	-	82,678	-	82,678
State and federal grants	-	-	221,488	539,422
Charges for services				
Parking meters	-	-	50,491	216,309
Development fees	-	-	-	9,900
Miscellaneous revenues				
Earnings on investments	38,650	205,133	100,042	506,578
Interest	890,493	-	4,450	962,683
Bond fees	-	-	-	245,213
Land sales	-	-	-	40,553
Developer contributions	235,578	75,287	-	310,865
Other	90,000	9,238	75,222	238,771
Total Revenues	<u>1,254,721</u>	<u>7,130,584</u>	<u>451,693</u>	<u>9,911,220</u>
EXPENDITURES:				
Current				
Urban and economic development				
Other services and charges	-	57,322	331,635	842,561
Economic development projects	115,777	-	106,174	279,504
Capital Outlay				
Urban and economic development				
Improvements other than buildings	-	-	53,239	53,239
Debt Service				
Principal retirement	-	1,618,529	-	1,618,529
Interest and fiscal fees	-	707,539	-	707,539
Other	2,966,875	278,803	-	3,245,678
Total Expenditures	<u>3,082,652</u>	<u>2,662,193</u>	<u>491,048</u>	<u>6,747,050</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,827,931)</u>	<u>4,468,391</u>	<u>(39,355)</u>	<u>3,164,170</u>
OTHER FINANCING SOURCES/USES:				
Operating transfer in				
DEDA Funds	640,000	54,042	4,640,268	5,529,170
General Fund	437,500	-	-	437,500
Special Assessment Fund	-	-	57,014	57,014
Total Operating Transfer In	<u>1,077,500</u>	<u>54,042</u>	<u>4,697,282</u>	<u>6,023,684</u>
Operating transfers out				
DEDA Funds	-	(5,280,268)	(194,860)	(5,529,170)
General Fund	(794,978)	(163,820)	(81,145)	(1,152,864)
G.O. Debt Service Fund	-	(920,059)	-	(920,059)
Economic Development Fund	-	-	(218,300)	(218,300)
Community Development Fund	-	(141,658)	-	(141,658)
Parking Enterprise Fund	-	(292,008)	-	(404,508)
Capital Improvements Fund	-	-	(53,271)	(53,271)
Total Operating Transfers Out	<u>(794,978)</u>	<u>(6,797,813)</u>	<u>(547,576)</u>	<u>(8,419,830)</u>
Total Other Financing Sources (Uses)	<u>282,522</u>	<u>(6,743,771)</u>	<u>4,149,706</u>	<u>(2,396,146)</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(1,545,409)</u>	<u>(2,275,380)</u>	<u>4,110,351</u>	<u>768,024</u>
FUND BALANCES:				
Beginning of the year	2,011,554	3,374,881	2,525,407	13,776,655
End of the year	<u>\$ 466,145</u>	<u>\$ 1,099,501</u>	<u>\$ 6,635,758</u>	<u>\$ 14,544,679</u>

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Statistical Section

STATISTICAL SECTION

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

Contents

Financial Trends – Pages 148 -153

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

Revenue Capacity – Pages 154 - 156

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

Debt Capacity – Pages 156 - 160

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

Demographic and Economic Information – Pages 161 - 162

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 163 - 167

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

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

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

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

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

Source: Statement of Net Assets

Unaudited

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

	<u>2002*</u>	<u>2003</u>	<u>2004**</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses						
Governmental activities:						
General government	\$ 19,163,984	\$ 18,164,487	\$ 20,669,584	\$ 21,287,443	\$ 20,902,934	\$ 35,023,700
Public safety	26,045,849	25,163,652	25,285,634	28,069,291	28,480,845	30,350,398
Public works	16,485,742	14,061,511	12,580,602	13,720,883	13,823,001	15,232,820
Culture and recreation	8,541,853	7,493,744	6,385,653	7,400,480	9,107,022	6,851,355
Urban and economic development	13,939,868	11,081,790	14,173,566	23,676,985	12,773,203	13,178,400
Interest	<u>6,855,458</u>	<u>6,046,179</u>	<u>6,917,787</u>	<u>6,749,211</u>	<u>7,427,045</u>	<u>7,762,355</u>
Total governmental activities expenses	<u>91,032,754</u>	<u>82,011,363</u>	<u>86,012,826</u>	<u>100,904,293</u>	<u>92,514,050</u>	<u>108,399,028</u>
Business-type activities:						
Water	9,734,767	8,945,765	8,465,593	9,463,342	9,827,419	10,865,334
Gas	36,290,401	38,806,370	41,883,691	50,491,710	45,278,118	47,107,309
Sewer	15,355,339	15,240,922	14,610,838	13,454,790	14,928,433	15,023,848
Stormwater	2,227,108	2,354,872	2,470,513	2,508,496	2,776,726	2,865,872
Steam district #1	3,399,206	3,597,759	3,893,705	4,085,845	4,628,019	5,367,034
Steam district #2	7,917,186	8,497,270	8,677,762	8,919,977	9,314,893	11,397,738
Golf	1,756,201	1,754,734	1,762,485	1,908,334	1,889,657	1,887,795
Parking	-	-	-	-	-	1,871,344
Total business-type activities expenses	<u>76,680,208</u>	<u>79,197,692</u>	<u>81,764,587</u>	<u>90,832,494</u>	<u>88,643,265</u>	<u>96,386,274</u>
Total primary government expenses	<u>\$ 167,712,962</u>	<u>\$ 161,209,055</u>	<u>\$ 167,777,413</u>	<u>\$ 191,736,787</u>	<u>\$ 181,157,315</u>	<u>\$ 204,785,302</u>
Program Revenues						
Governmental activities:						
Charges for services:						
General government	\$ 4,124,263	\$ 4,307,134	\$ 4,935,952	\$ 1,434,650	\$ 1,804,560	\$ 4,008,714
Public safety	1,956,737	2,040,761	2,555,502	2,394,256	3,305,117	2,451,449
Public works	957,365	670,756	364,600	724,710	1,096,718	353,575
Culture and recreation	578,927	737,820	679,580	856,974	807,245	815,732
Urban and economic development	10,919	68,323	1,914,397	7,300,488	908,279	922,159
Operating grants and contributions	14,328,781	11,580,360	11,944,143	9,884,061	10,469,744	11,209,578
Capital grants and contributions	<u>14,919,934</u>	<u>11,074,089</u>	<u>13,955,413</u>	<u>11,565,853</u>	<u>12,445,080</u>	<u>13,674,386</u>
Total governmental activities program revenues	<u>36,876,926</u>	<u>30,479,243</u>	<u>36,349,587</u>	<u>34,160,992</u>	<u>30,836,743</u>	<u>33,435,593</u>
Business-type activities:						
Charges for services:						
Water	9,598,099	9,732,863	9,884,976	10,315,543	11,025,294	12,166,968
Gas	38,088,753	42,245,487	45,110,428	55,339,940	49,534,016	47,489,082
Sewer	16,498,761	16,872,231	16,639,746	14,347,815	15,507,006	15,771,516
Stormwater	3,106,087	2,904,443	2,924,170	2,982,846	3,098,403	3,916,525
Steam district #1	3,548,873	3,683,243	4,016,386	4,416,123	4,686,723	5,261,495
Steam district #2	5,972,570	6,136,880	6,383,327	6,584,168	6,959,000	8,985,844
Golf	1,482,071	1,570,600	1,732,131	1,699,090	1,893,564	1,887,737
Parking	-	-	-	-	-	2,138,316
Capital grants and contributions	<u>2,965,465</u>	<u>1,762,519</u>	<u>943,565</u>	<u>2,179,046</u>	<u>2,960,981</u>	<u>4,468,083</u>
Total business-type activities program revenues	<u>81,260,679</u>	<u>84,908,266</u>	<u>87,634,729</u>	<u>97,864,571</u>	<u>95,664,987</u>	<u>102,085,566</u>
Total primary government program revenues	<u>\$ 118,137,605</u>	<u>\$ 115,387,509</u>	<u>\$ 123,984,316</u>	<u>\$ 132,025,563</u>	<u>\$ 126,501,730</u>	<u>\$ 135,521,159</u>

(continued)

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

	<u>2002*</u>	<u>2003</u>	<u>2004**</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net (expense)/revenue						
Governmental activities	\$ (54,155,828)	\$ (51,532,120)	\$ (49,663,239)	\$ (66,743,301)	\$ (61,677,307)	\$ (74,963,435)
Business-type activities	<u>4,580,471</u>	<u>5,710,574</u>	<u>5,870,142</u>	<u>7,032,077</u>	<u>7,021,722</u>	<u>5,699,292</u>
Total primary government net expense	<u>\$ (49,575,357)</u>	<u>\$ (45,821,546)</u>	<u>\$ (43,793,097)</u>	<u>\$ (59,711,224)</u>	<u>\$ (54,655,585)</u>	<u>\$ (69,264,143)</u>
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 9,856,199	\$ 9,510,074	\$ 15,478,942	\$ 16,489,656	\$ 15,709,840	\$ 17,452,324
Market value credit aid	-	1,254,477	1,196,015	1,260,395	1,184,399	1,191,228
Sales taxes	15,350,586	14,903,251	15,478,954	15,963,891	16,860,351	17,509,877
Other taxes	1,945,693	1,937,557	1,924,690	1,945,956	2,006,659	2,051,173
Casino shared revenues	5,521,705	5,440,225	5,653,523	5,608,777	5,844,787	6,430,460
Grants and shared revenues not restricted to specific programs	35,095,985	32,840,817	32,502,413	31,443,085	32,249,900	31,725,087
Investment income	3,406,336	1,168,695	2,243,381	2,858,882	5,131,090	4,690,453
Gain on sale or disposition of capital assets	55,325	335,352	-	-	262,367	37,803
Miscellaneous	751,895	570,108	641,584	4,900,055	5,170,612	1,062,999
Special Items	-	-	-	-	-	12,708,044
Transfers	<u>3,742,445</u>	<u>3,214,912</u>	<u>3,695,422</u>	<u>4,070,710</u>	<u>5,616,094</u>	<u>(3,761,041)</u>
Total governmental activities	<u>75,726,169</u>	<u>71,175,468</u>	<u>78,814,924</u>	<u>84,541,407</u>	<u>90,036,099</u>	<u>91,098,407</u>
Business-type activities:						
Investment income	718,578	244,231	485,428	715,342	824,428	878,763
Gain on sale or disposition of capital assets	20,519	33,514	81,140	1,834	30,268	22,127
Transfers	<u>(3,742,445)</u>	<u>(3,214,912)</u>	<u>(3,695,422)</u>	<u>(4,070,710)</u>	<u>(5,616,094)</u>	<u>3,761,041</u>
Total business-type activities	<u>(3,003,348)</u>	<u>(2,937,167)</u>	<u>(3,128,854)</u>	<u>(3,353,534)</u>	<u>(4,761,398)</u>	<u>4,661,931</u>
Total primary government	<u>\$ 72,722,821</u>	<u>\$ 68,238,301</u>	<u>\$ 75,686,070</u>	<u>\$ 81,187,873</u>	<u>\$ 85,274,701</u>	<u>\$ 95,760,338</u>
Change in Net Assets						
Governmental activities	\$ 21,570,341	\$ 19,643,348	\$ 29,151,685	\$ 17,798,106	\$ 28,358,792	\$ 16,134,972
Business-type activities	<u>1,577,123</u>	<u>2,773,407</u>	<u>2,741,288</u>	<u>3,678,543</u>	<u>2,260,324</u>	<u>10,361,223</u>
Total primary government	<u>\$ 23,147,464</u>	<u>\$ 22,416,755</u>	<u>\$ 31,892,973</u>	<u>\$ 21,476,649</u>	<u>\$ 30,619,116</u>	<u>\$ 26,496,195</u>

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

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

Source: Statement of Activities

Unaudited

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

	Fiscal Year				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General fund					
Reserved	\$ 376,609	\$ 371,825	\$ 738,919	\$ 596,978	\$ 523,439
Unreserved	<u>5,069,273</u>	<u>6,483,798</u>	<u>7,327,952</u>	<u>4,918,653</u>	<u>5,531,067</u>
Total general fund	<u>\$ 5,445,882</u>	<u>\$ 6,855,623</u>	<u>\$ 8,066,871</u>	<u>\$ 5,515,631</u>	<u>\$ 6,054,506</u>
All other governmental funds					
Reserved	\$ 8,830,393	\$ 16,968,754	\$ 11,193,204	\$ 10,761,317	\$ 12,536,767
Unreserved, reported in:					
Special revenue funds	20,537,988	25,409,190	31,085,989	36,855,586	41,990,679
Debt service funds	7,351,597	9,722,211	9,925,436	11,776,691	13,471,340
Capital projects funds	<u>2,419,444</u>	<u>1,634,016</u>	<u>1,513,699</u>	<u>34,412</u>	<u>(3,757,026)</u>
Total all other governmental funds	<u>\$ 39,139,422</u>	<u>\$ 53,734,171</u>	<u>\$ 53,718,328</u>	<u>\$ 59,428,006</u>	<u>\$ 64,241,760</u>

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

Source: Balance Sheet & Combining Balance Sheet

Unaudited

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

	Fiscal Year				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002*</u>
Revenues					
Taxes:					
Property Taxes	\$ 10,816,450	\$ 10,963,758	\$ 11,059,701	\$ 11,815,267	\$ 9,955,083
Sales Taxes	12,959,573	14,471,956	14,640,400	15,252,121	15,350,586
Other Taxes	1,400,031	1,438,462	1,652,556	1,737,308	1,945,693
Licenses and permits	478,421	506,255	513,534	624,432	609,550
Intergovernmental revenues	43,136,338	43,225,541	49,733,588	46,273,269	57,166,830
Charges for Services	4,873,979	5,987,971	5,510,166	5,190,480	5,831,871
Fines and forfeits	975,635	1,099,323	1,130,118	1,074,390	947,610
Special assessments	2,028,627	2,647,287	2,338,340	2,384,289	3,530,095
Investment income	-	-	-	-	3,102,648
Miscellaneous revenues	<u>10,763,282</u>	<u>10,411,150</u>	<u>15,202,653</u>	<u>14,449,871</u>	<u>9,010,620</u>
Total revenues	<u>87,432,336</u>	<u>90,751,703</u>	<u>101,781,056</u>	<u>98,801,427</u>	<u>107,450,586</u>
Expenditures					
General government	12,532,047	13,042,360	17,105,024	17,694,117	19,124,773
Public safety	24,663,727	22,051,960	25,772,933	28,683,145	29,423,941
Public works	13,147,744	12,910,980	9,198,817	9,860,405	9,833,899
Culture and recreation	5,143,559	6,384,545	6,338,207	7,392,309	7,395,397
Urban and economic development	9,497,827	9,098,115	8,997,600	9,976,323	12,565,206
Debt Service					
Principal retirement	7,439,149	8,701,607	9,283,026	10,753,925	10,247,366
Interest and fiscal fees	3,736,297	4,261,599	5,082,661	4,685,976	4,599,568
Revenue pledge	-	-	-	-	-
Bond issuance costs	-	-	-	-	48,934
Capital Outlay	<u>19,129,319</u>	<u>27,894,133</u>	<u>28,633,109</u>	<u>17,876,628</u>	<u>23,186,154</u>
Total Expenditures	<u>95,289,669</u>	<u>104,345,299</u>	<u>110,411,377</u>	<u>106,922,828</u>	<u>116,425,238</u>
Excess of revenues over (under) expenditures	<u>(7,857,333)</u>	<u>(13,593,596)</u>	<u>(8,630,321)</u>	<u>(8,121,401)</u>	<u>(8,974,652)</u>
Other financing sources (uses)					
Issuance of bonds	14,190,000	23,435,000	7,395,000	11,030,000	12,975,000
Premium on issuance of bonds	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-
Sale of capital asset	-	-	-	-	55,325
Loan proceeds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	(1,683,463)
Capital leases***	35,045	-	-	-	-
Transfers in	14,084,907	22,853,210	18,135,168	16,479,062	16,410,573
Transfers out	<u>(16,541,545)</u>	<u>(16,690,124)</u>	<u>(15,704,442)</u>	<u>(17,227,936)</u>	<u>(13,430,154)</u>
Total other financing sources (uses)	<u>11,768,407</u>	<u>29,598,086</u>	<u>9,825,726</u>	<u>10,281,126</u>	<u>14,327,281</u>
Net change in fund balances	<u>\$ 3,911,074</u>	<u>\$ 16,004,490</u>	<u>\$ 1,195,405</u>	<u>\$ 2,159,725</u>	<u>\$ 5,352,629</u>
Debt service as a percentage of noncapital expenditures	14.7%	17.0%	17.6%	17.3%	16.0%

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

General Governmental includes Capital Projects Fund.

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

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

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

(continued)

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

	Fiscal Year				
	<u>2003</u>	<u>2004**</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues					
Taxes:					
Property Taxes	\$ 9,259,909	\$ 15,522,334	\$ 16,321,413	\$ 15,469,329	\$ 17,837,011
Sales Taxes	14,903,251	15,478,954	15,963,891	16,860,351	17,509,877
Other Taxes	1,937,557	1,924,690	1,945,956	2,006,659	2,051,173
Licenses and permits	658,314	680,953	853,927	987,464	1,111,727
Intergovernmental revenues	54,781,689	52,057,762	49,263,351	51,467,392	53,793,307
Charges for Services	6,091,850	6,549,128	7,969,577	8,718,615	5,995,079
Fines and forfeits	994,710	1,083,084	1,002,752	905,324	1,086,304
Special assessments	2,671,352	2,735,163	3,237,809	2,964,983	2,941,244
Investment income	1,089,073	2,044,335	2,574,786	4,576,550	3,908,135
Miscellaneous revenues	<u>11,093,844</u>	<u>12,536,138</u>	<u>12,091,312</u>	<u>14,978,054</u>	<u>10,641,263</u>
Total revenues	<u>103,481,549</u>	<u>110,612,541</u>	<u>111,224,774</u>	<u>118,934,721</u>	<u>116,875,120</u>
Expenditures					
General government	19,040,102	19,574,200	19,885,273	21,248,502	32,109,525
Public safety	28,861,649	29,082,948	31,519,654	33,176,998	33,319,542
Public works	9,618,124	9,947,392	9,979,171	10,358,429	11,080,239
Culture and recreation	6,919,311	6,945,317	6,713,232	6,978,630	6,716,210
Urban and economic development	12,005,724	15,511,249	19,828,474	12,694,861	14,531,149
Debt Service					
Principal retirement	11,107,478	13,610,613	16,956,649	15,175,505	11,454,452
Interest and fiscal fees	4,179,881	4,857,973	5,040,518	5,589,857	4,777,420
Revenue pledge	-	-	2,612,545	1,383,363	2,966,875
Bond issuance costs	148,000	180,618	407,773	269,189	205,336
Capital Outlay	<u>18,671,264</u>	<u>17,010,131</u>	<u>23,478,917</u>	<u>30,731,546</u>	<u>13,496,052</u>
Total Expenditures	<u>110,551,533</u>	<u>116,720,441</u>	<u>136,422,206</u>	<u>137,606,880</u>	<u>130,656,800</u>
Excess of revenues over (under) expenditures	<u>(7,069,984)</u>	<u>(6,107,900)</u>	<u>(25,197,432)</u>	<u>(18,672,159)</u>	<u>(13,781,680)</u>
Other financing sources (uses)					
Issuance of bonds	8,670,000	7,885,000	28,265,000	17,050,000	10,650,000
Premium on issuance of bonds	-	159,777	197,367	287,586	269,594
Issuance of refunding bonds	6,925,000	-	-	-	-
Sale of capital asset	335,352	24,000	-	-	-
Loan proceeds	-	-	6,594,000	1,482,000	-
Payment to refunded bond escrow agent	(6,965,522)	-	(7,690,417)	(10,626,155)	(5,827,735)
Capital leases***	-	-	-	-	-
Transfers in	12,769,347	18,584,108	19,413,529	28,843,364	29,700,237
Transfers out	<u>(9,554,435)</u>	<u>(14,773,286)</u>	<u>(15,162,675)</u>	<u>(22,889,485)</u>	<u>(25,190,223)</u>
Total other financing sources (uses)	<u>12,179,742</u>	<u>11,879,599</u>	<u>31,616,804</u>	<u>14,147,310</u>	<u>9,601,873</u>
Net change in fund balances	<u>\$ 5,109,758</u>	<u>\$ 5,771,699</u>	<u>\$ 6,419,372</u>	<u>\$ (4,524,849)</u>	<u>\$ (4,179,807)</u>
Debt service as a percentage of noncapital expenditures	16.9%	19.3%	21.7%	21.5%	16.5%

Unaudited

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

Fiscal Year Ended December 31	Real Estate			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
1998	1,840,179,800	23,427,568	418,463,800	15,817,195
1999	1,854,134,700	22,129,138	481,904,800	15,128,928
2000	1,922,466,200	22,525,173	505,492,100	15,523,793
2001*	2,206,052,200	25,102,366	527,197,900	16,141,177
2002	2,477,595,400	23,719,895	583,024,800	10,453,000
2003	2,725,278,200	25,641,929	602,397,500	10,482,303
2004	3,351,249,500	29,833,979	642,098,600	12,109,770
2005	3,972,632,500	35,109,144	760,035,800	14,421,069
2006	4,114,469,300	39,255,023	822,511,200	15,028,434
2007	4,200,391,700	41,880,176	880,587,500	16,128,121

Fiscal Year Ended December 31	Personal Property			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
1998	12,312,400	127,604	57,416,600	2,387,097
1999	13,776,800	138,993	58,126,000	2,112,739
2000	14,917,500	150,364	60,479,600	2,127,017
2001*	15,782,000	159,627	61,189,500	2,152,839
2002	16,271,300	162,086	65,996,400	1,306,895
2003	16,922,200	168,654	64,502,300	1,278,679
2004	17,023,600	169,124	70,268,600	1,392,633
2005	17,840,900	176,231	73,834,400	1,462,013
2006	18,899,500	186,310	81,333,600	1,611,889
2007	20,534,000	204,985	96,120,400	1,862,143

Fiscal Year Ended December 31	Total		Percentage of Total Tax Capacity to	
	Estimated Market Value	Tax Capacity	Total Estimated Market Value	Tax Rate
	1998	\$ 2,328,372,600	\$ 41,759,464	1.79%
1999	2,407,942,300	39,509,798	1.64%	0.26063
2000	2,503,355,400	40,326,347	1.61%	0.26126
2001*	2,810,221,600	43,556,009	1.55%	0.26405
2002	3,142,887,900	35,641,876	1.13%	0.28976
2003	3,409,100,200	37,571,565	1.10%	0.29027
2004	4,080,640,300	43,505,506	1.07%	0.26866
2005	4,824,343,600	51,168,457	1.06%	0.24215
2006	5,037,213,600	56,081,656	1.11%	0.22183
2007	5,197,633,600	60,075,425	1.16%	0.22939

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

Unaudited

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

Fiscal Year	City	Overlapping Rates			Total Direct & Overlapping Rates
		Schools	County	Special	
1998	0.23789	0.49932	0.60070	0.01418	1.35209
1999	0.26063	0.50771	0.64718	0.01532	1.43084
2000	0.26126	0.48290	0.66028	0.01630	1.42074
2001	0.26405	0.46084	0.65924	0.01778	1.40191
2002	0.28976	0.18180	0.87363	0.04860	1.39379
2003	0.29027	0.14816	0.81464	0.05631	1.30938
2004	0.26866	0.11778	0.77282	0.06810	1.22736
2005	0.24215	0.11405	0.67545	0.06902	1.10067
2006	0.22183	0.10994	0.63330	0.06576	1.03083
2007	0.22939	0.10881	0.63013	0.06615	1.03447

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

Source: St. Louis County web site

Unaudited

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

Taxpayer	Type of Business	2007		1998	
		Estimated Market Value	Rank	Estimated Market Value	Rank
Minnesota Power	Electric utility	\$ 123,281,500	1	\$ 66,686,700	1
St. Mary's Med Center / Duluth	Healthcare / hospital	97,558,400	2	20,253,000	4
St. Lukes Hospital	Healthcare / hospital	43,039,900	3	-	-
Simon Property, Inc.	Shopping mall	41,466,700	4	22,995,300	3
StoraEnso North America	Paper mill	22,393,900	5	47,595,100	2
IRET Properties	Property management	21,980,600	6	-	-
ZMC Hotels	Hotels	14,119,800	7	7,313,500	7
D M & I R Railroad	Railroad	13,400,800	8	11,267,800	5
US Bank	Bank/Office building	11,917,300	9	8,188,900	6
JMM Limited Partnership	Retail/Hotel	11,265,600	10	7,092,800	8
Sears Roebuck & Co	Retailer	-	-	6,431,700	9
Burlington Northern	Railroad	-	-	5,457,600	10
		<u>\$ 400,424,500</u>		<u>\$ 203,282,400</u>	
			7.71%		8.71%

Source: City Assessor

Unaudited

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

Fiscal Year Ended December 31	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
1998	8,281,291	7,935,851	95.8%	196,949	8,132,800	98.2%
1999	8,666,391	8,402,586	97.0%	346,412	8,748,998	101.0%
2000	8,795,700	8,560,631	97.3%	259,045	8,819,676	100.3%
2001	9,658,700	9,440,473	97.7%	224,849	9,665,322	100.1%
2002	9,038,100	8,889,198	98.4%	227,488	9,116,686	100.9%
2003	9,679,200	9,511,986	98.3%	172,160	9,684,146	100.1%
2004	10,153,500	9,872,757	97.2%	146,051	10,018,808	98.7%
2005	10,730,400	10,507,463	97.9%	133,221	10,640,684	99.2%
2006	11,102,100	10,839,881	97.6%	169,049	11,008,930	99.2%
2007	12,208,400	11,890,737	97.4%	-	11,890,737	97.4%

Unaudited

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

Governmental Activities										
Fiscal Year	General Obligation Bonds	General Obligation Tax Increment Bonds	General Obligation Tax Abatement Bonds	Tax Increment Revenue Bonds	Lease Revenue Bonds	Special Assessment Debt with Government Commitment	General Obligation Certificates	Capital Leases		
1998	11,926	-	-	16,900	2,565	28,817	6,260	764		
1999	16,653	-	-	15,000	2,485	36,747	6,150	734		
2000	26,951	-	-	10,900	2,310	45,198	6,100	629		
2001	28,953	-	-	9,500	2,215	46,888	5,205	604		
2002	30,093	-	-	8,100	2,115	49,443	5,175	533		
2003	28,208	-	-	6,500	2,005	52,555	4,590	508		
2004	26,974	**	4,348	-	**	10,167	1,890	53,018	4,310	483
2005	33,813	7,282	310	3,919	1,770	53,919	3,915	458		
2006	32,439	6,381	310	2,543	1,640	53,600	4,395	433		
2007	21,520	1,750	310	2,543	1,640	53,600	4,395	408		

Business-Type Activities

Fiscal Year	Revenue Bonds	Revenue and General Obligation Bonds	Capital Leases	Total Primary Government	Percentage of Personal Income*	Per Capita*
1998	2,940	26,299	-	67,232	4.37%	789
1999	2,725	23,625	-	77,769	4.76%	918
2000	2,260	20,292	-	92,088	5.25%	1,059
2001	2,010	20,942	-	93,365	5.07%	1,084
2002	1,755	30,100	-	95,459	4.91%	1,109
2003	1,490	36,380	-	94,366	4.78%	1,096
2004	1,040	38,210	122	101,190	4.88%	1,180
2005	920	40,340	80	105,386	5.06%	1,227
2006	800	46,815	424	101,741	4.63%	1,195
2007	800	62,365	382	86,166	3.82%	1,012

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

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

Unaudited

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Tax Capacity</u>	<u>Gross Bonded Debt</u>	<u>Less Debt Service Funds</u>	<u>Net Bonded Debt</u>	<u>Percent of Net Bonded Debt to Tax Capacity</u>	<u>Net Bonded Debt per Capita</u>
1998	85,249	\$ 41,759,464	\$ 19,552,900	\$ 3,053,890	\$ 16,499,010	39.51%	\$ 193.54
1999	84,691	39,509,798	31,930,500	3,345,682	28,584,818	72.35%	337.52
2000	86,918	40,326,347	30,460,500	3,445,454	27,015,046	66.99%	310.81
2001	86,125	43,556,009	34,157,800	3,623,861	30,533,939	70.10%	354.53
2002	86,044	35,641,876	35,268,100	1,881,129	33,386,971	93.67%	388.02
2003	86,082	37,571,565	32,798,400	4,880,479	27,917,921	74.31%	324.32
2004*	85,782	43,505,506	35,632,400	5,903,348	29,729,052	68.33%	346.57
2005	85,889	51,168,457	45,320,700	6,287,564	39,033,136	76.28%	454.46
2006	85,170	56,081,656	43,525,000	6,162,546	37,362,454	66.62%	438.68
2007**	85,170	60,075,425	27,975,000	11,841,283	16,133,717	26.86%	189.43

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

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

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

Unaudited

City of Duluth, Minnesota
Direct and Overlapping Governmental Activities Debt
As of December 31, 2007

<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	\$ 26,270,000	93.30%	\$ 24,509,910
Independent School District 704	11,595,000	6.20%	718,890
St. Louis County	44,430,000	37.90%	16,838,970
Western Lake Superior Sanitary District	59,410,747	74.09%	44,017,422
Subtotal, overlapping debt			86,085,192
City of Duluth direct debt			86,166,821
Total direct and overlapping debt			\$ 172,252,013

Unaudited

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

	Fiscal Year				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Taxable market value	\$ 2,328,372,600	\$ 2,407,942,300	\$ 2,503,355,400	\$ 2,810,221,600	\$ 3,142,887,900
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 46,567,452</u>	<u>\$ 48,158,846</u>	<u>\$ 50,067,108</u>	<u>\$ 56,204,432</u>	<u>\$ 62,857,758</u>
Debt applicable to limit:					
Total bonds payable	103,385,448	116,311,690	114,011,221	115,712,623	126,781,000
Less: Deductions allowable	<u>(83,832,548)</u>	<u>(84,381,190)</u>	<u>(83,550,721)</u>	<u>(87,249,823)</u>	<u>(100,307,900)</u>
Total net debt applicable to limit	<u>\$ 19,552,900</u>	<u>\$ 31,930,500</u>	<u>\$ 30,460,500</u>	<u>\$ 28,462,800</u>	<u>\$ 26,473,100</u>
Total net debt applicable to the limit as a percentage of debt limit	41.99%	66.30%	60.84%	50.64%	42.12%

	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Taxable market value	\$ 3,409,100,200	\$ 4,080,640,300	\$ 4,824,343,600	\$ 5,037,213,600	\$ 5,197,633,600
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 68,182,004</u>	<u>\$ 81,612,806</u>	<u>\$ 96,486,872</u>	<u>\$ 100,744,272</u>	<u>\$ 103,952,672</u>
Debt applicable to limit:					
Total bonds payable	131,728,000	139,957,491	146,189,413	148,923,488	140,925,002
Less: Deductions allowable	<u>(107,309,600)</u>	<u>(117,408,091)</u>	<u>(116,546,513)</u>	<u>(119,604,288)</u>	<u>(121,323,002)</u>
Total net debt applicable to limit	<u>\$ 24,418,400</u>	<u>\$ 22,549,400</u>	<u>\$ 29,642,900</u>	<u>\$ 29,319,200</u>	<u>\$ 19,602,000</u>
Total net debt applicable to the limit as a percentage of debt limit	35.81%	27.63%	30.72%	29.10%	18.86%

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>							
1998	\$ 8,191,660	\$ 6,100,744	\$ 2,090,916	\$ 565,000	\$ 410,754	\$ 975,754	2.14
1999	7,889,933	6,179,369	1,710,564	515,000	362,239	877,239	1.95
2000	7,863,335	6,373,536	1,489,799	* 2,450,000	326,440	2,776,440	0.54
2001	8,409,390	6,609,669	1,799,721	650,000	264,633	914,633	1.97
2002	9,787,215	6,601,830	3,185,385	685,000	328,420	1,013,420	3.14
2003	9,841,217	7,318,249	2,522,968	882,000	304,781	1,186,781	2.13
2004	10,041,273	7,165,410	2,875,863	918,000	269,155	1,187,155	2.42
2005	10,450,145	8,033,370	2,416,775	1,002,124	253,705	1,255,829	1.92
2006	11,104,194	8,399,508	2,704,686	989,000	218,199	1,207,199	2.24
2007	12,393,947	9,545,749	2,848,198	613,000	173,606	786,606	3.62

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

GAS REVENUE BOND

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

SEWER REVENUE BOND

1998	\$ 14,164,851	\$ 14,250,391	\$ (85,540)	\$ 1,245,000	\$ 279,903	\$ 1,524,903	-0.06
1999	14,363,703	13,494,549	869,154	715,000	279,637	994,637	0.87
2000	14,898,053	13,425,754	1,472,299	875,000	291,510	1,166,510	1.26
2001	15,553,393	13,908,314	1,645,079	825,000	301,776	1,126,776	1.46
2002	16,560,152	13,815,859	2,744,293	925,000	396,905	1,321,905	2.08
2003	16,913,297	14,380,362	2,532,935	714,000	365,128	1,079,128	2.35
2004	16,407,422	13,705,780	2,701,642	750,000	441,383	1,191,383	2.27
2005	14,506,025	12,332,037	2,173,988	1,057,876	564,507	1,622,383	1.34
2006	15,700,498	13,679,753	2,020,745	1,192,000	584,732	1,776,732	1.14
2007	15,997,397	13,727,755	2,269,642	1,136,000	568,932	1,704,932	1.33

(continued)

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

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<u>STORMWATER REVENUE BOND</u>							
2002	\$ 2,774,284	\$ 1,869,425	\$ 904,859	\$ -	\$ 47,999	\$ 47,999	18.85
2003	2,861,113	2,147,125	713,988	74,000	51,437	125,437	5.69
2004	2,904,664	2,220,714	683,950	75,000	49,575	124,575	5.49
2005	3,012,171	2,232,765	779,406	76,000	47,592	123,592	6.31
2006	3,050,492	2,442,658	607,834	80,000	106,727	186,727	3.26
2007	3,991,834	2,501,932	1,489,902	168,000	109,299	277,299	5.37
<u>STEAM DISTRICT #1 REVENUE BOND</u>							
1998	\$ 2,866,971	\$ 2,589,815	\$ 277,156	\$ 200,000	\$ 62,612	\$ 262,612	1.06
1999	2,910,592	2,682,859	227,733	230,000	55,266	285,266	0.80
2000	3,118,008	2,737,336	380,672	235,000	54,422	289,422	1.32
2001	3,223,089	2,976,532	246,557	270,000	46,261	316,261	0.78
2002	3,548,873	3,008,319	540,554	300,000	45,309	345,309	1.57
2003	3,686,289	3,225,286	461,003	90,000	115,822	205,822	2.24
2004	4,021,712	3,373,137	648,575	135,000	118,620	253,620	2.56
2005	4,416,123	3,491,603	924,520	185,000	165,218	350,218	2.64
2006	4,687,255	3,994,525	692,730	265,000	262,113	527,113	1.31
2007	5,266,902	4,284,102	982,800	475,000	318,493	793,493	1.24
<u>GOLF REVENUE BOND</u>							
1998	\$ 1,518,541	\$ 1,123,075	\$ 395,466	\$ 225,000	\$ 162,758	\$ 387,758	1.02
1999	1,428,238	1,063,938	364,300	240,000	149,483	389,483	0.94
2000	1,634,898	1,220,726	414,172	250,000	135,323	385,323	1.07
2001	1,564,975	1,274,932	290,043	255,000	120,573	375,573	0.77
2002	1,487,619	1,392,197	95,422	265,000	105,528	370,528	0.26
2003	1,572,912	1,411,583	161,329	275,000	89,893	364,893	0.44
2004	1,735,653	1,441,402	294,251	120,000	31,595	151,595	1.94
2005	1,699,090	1,633,529	65,561	120,000	29,195	149,195	0.44
2006	1,901,413	1,672,256	229,157	125,000	26,435	151,435	1.51
2007	1,895,981	1,675,892	220,089	125,000	23,185	148,185	1.49
<u>PARKING REVENUE BOND</u>							
2007	\$ 2,193,800	\$ 597,826	\$ 1,595,974	\$ 680,000	\$ 786,071	\$ 1,466,071	1.09

Notes:

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

Unaudited

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
1998	85,249	1,538,706,228	18,050	12,885	3.5%
1999	84,691	1,634,828,334	19,303	12,528	3.6%
2000	86,918	1,754,033,601	20,180	12,166	4.2%
2001	86,125	1,842,756,661	21,396	12,464	4.6%
2002	86,044	1,943,385,113	22,586	12,555	5.0%
2003	86,082	1,972,288,627	22,912	12,321	5.4%
2004	85,782	2,072,565,791	24,161	11,979	5.4%
2005	85,889	2,080,866,765	24,227	11,123	4.9%
2006	85,170	2,198,977,882	25,819	10,050	4.7%
2007 *	85,170 *	2,258,033,441 *	26,512	9,819	4.9%

Data sources:

The population figures are estimates of the State Demographer.

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

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

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

*Estimates

Unaudited

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

<u>Employer</u>	<u>Type of Business</u>	<u>2007</u>			<u>1998</u>		
		<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
SMDC Health System	Healthcare / hospital	4,693	1	7.73%	4,206	1	7.42%
University of Minnesota - Duluth	Education	1,700	2	2.80%	1,571	4	2.77%
St. Luke's Hospital	Healthcare / hospital	1,657	3	2.73%	1,334	5	2.35%
St. Louis County	Government	1,640	4	2.70%	1,600	3	2.82%
Independent School District No. 709	Education	1,426	5	2.35%	1,700	2	3.00%
Allete (Minnesota Power)	Electric utility	1,400	6	2.31%	721	10	1.27%
Uniprise (United Health Care)	Claims processing	1,087	7	1.79%	-	-	-
Duluth Air National Guard Base	Military	1,028	8	1.69%	-	-	-
Cirrus Design	Aviation	992	9	1.63%	-	-	-
City of Duluth	Government	866	10	1.43%	993	7	1.75%
State of Minnesota	Government	-	-	-	1,189	6	2.10%
U.S. Postal Service	Government / postal encoding center	-	-	-	930	8	1.64%
Miller Dwan Medical Center	Healthcare	-	-	-	800	9	1.41%
		<u>16,489</u>		<u>27.16%</u>	<u>15,044</u>		<u>26.53%</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>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General government	163.0	160.0	156.0	154.8	155.8
Public safety					
Police	178.0	186.0	182.0	180.0	179.0
Fire	163.0	161.0	161.0	163.0	161.0
Public works	116.5	110.5	109.7	107.0	105.8
Culture and recreation					
Parks and recreation	20.2	20.2	22.2	23.2	23.2
Zoo	13.0	13.0	13.0	13.0	13.0
Library	68.6	68.6	68.6	65.6	65.6
Urban and economic development	51.0	53.0	53.0	49.0	47.0
Water & Gas	170.0	167.0	163.0	143.8	141.8
Sewer	39.5	34.0	33.1	35.8	34.7
Stormwater	-	18.5	18.2	16.7	19.9
Golf	10.0	10.0	10.0	8.0	8.0
Total	992.8	1,001.8	989.8	959.9	954.8

Function:	Full-time Equivalent Employees as of December 31				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General government	152.8	146.0	145.0	144.0	140.2
Public safety					
Police	179.0	171.0	169.0	173.0	174.0
Fire	162.0	159.0	154.0	159.0	158.0
Public works	103.8	92.4	90.4	90.4	83.4
Culture and recreation					
Parks and recreation	23.2	22.2	20.2	18.2	19.2
Zoo	13.0	12.0	11.0	11.0	12.0
Library	65.6	59.7	58.6	58.6	59.6
Urban and economic development	47.0	41.0	37.0	37.0	33.0
Water & Gas	139.9	135.5	135.2	131.9	124.9
Sewer	33.6	33.3	37.4	38.6	38.6
Stormwater	17.9	19.8	20.0	20.1	20.1
Golf	8.0	8.0	5.0	5.0	3.0
Total	945.8	899.9	882.8	886.8	866.0

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

Source: City of Duluth Budget Office

Unaudited

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

Function:	Fiscal Year				
	1998	1999	2000	2001	2002
Police					
Criminal offences*	15,280	8,763	12,467	17,839	17,928
Adult and juvenile arrests	8,647	6,912	9,387	4,755	6,805
Traffic violations	8,202	8,463	8,724	7,389	8,602
Parking violations	65,161	62,205	59,248	59,690	69,453
Fire					
Number of calls answered	6,116	6,164	6,257	6,759	6,944
Number of inspections conducted	3,275	3,400	3,450	3,000	3,140
Public works					
Construction permits:					
Permits issued	2,947	2,909	2,522	2,499	2,743
Estimated cost of construction during year	\$ 55,832,881	\$ 128,133,601	\$ 73,534,868	\$ 74,490,278	\$ 105,056,128
Culture and recreation					
Parks and recreation department**					
Participation in special events	-	-	44,160	94,400	57,752
Participation in recreation	-	-	285,887	261,301	306,168
Zoo regular customers	-	-	134,764	114,000	113,982
Library					
Registered borrowers	76,316	83,843	81,815	79,442	77,580
Cataloged items in collection	340,715	353,427	344,788	345,112	345,709
Items loaned	990,626	902,640	923,029	942,089	976,951
Reference/research questions answered	181,020	188,614	191,162	190,261	197,796
Water					
Meters in service	27,035	27,118	27,206	27,265	27,459
Average number of gallons treated per month	594,780,500	537,550,000	536,100,000	551,560,000	531,922,500
Daily average consumption in gallons	19,554,427	18,147,022	17,592,030	18,141,408	17,947,726
Gas					
Meters in service	23,863	24,119	24,242	24,413	24,613
MMBTU sold	5,007,959	4,893,775	5,087,104	4,805,908	5,124,065
Sewer					
Number of service connections	28,835	28,835	27,487	28,835	28,835
Daily average treatment in gallons	15,730,000	17,085,000	15,330,000	16,500,000	16,500,000
Maximum daily capacity of treatment plant in gallons	86,570,000	86,570,000	86,570,000	86,570,000	86,570,000
Stormwater***					
Cleaning storm sewer pipe (in feet)	-	-	50,784	28,845	24,052
Steam District #1					
Steam sold	300,974	317,372	331,980	333,314	333,657
Steam District #2					
Steam flow (1000's lbs.)	1,290,964	1,397,933	1,769,265	1,975,384	1,555,902
Golf**					
Season passes	-	-	1,338	1,256	1,195
Daily tickets	-	-	41,646	39,883	37,673
Carts	-	-	9,757	10,870	11,875
Rounds played	-	-	108,000	98,462	91,613

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

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

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

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

Sources: Various government departments.

(continued)

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

Function:	Fiscal Year				
	2003	2004	2005	2006	2007
Police					
Criminal offences*	17,610	16,352	9,659	9,916	10,277
Adult and juvenile arrests	4,503	4,042	3,329	4,648	4,485
Traffic violations	7,290	5,978	3,752	6,184	3,344
Parking violations	68,721	69,906	66,555	76,095	62,556
Fire					
Number of calls answered	7,015	7,345	7,461	7,981	8,090
Number of inspections conducted	3,500	1,200	1,200	1,200	1,200
Public works					
Construction permits:					
Permits issued	2,659	2,456	2,400	2,080	3,117
Estimated cost of construction during year	\$ 101,287,887	\$ 175,360,742	\$ 121,160,329	\$ 194,794,123	\$ 93,080,667
Culture and recreation					
Parks and recreation department**					
Participation in special events	43,825	53,330	58,492	48,510	47,143
Participation in recreation	287,127	253,496	129,000	129,998	117,118
Zoo regular customers	116,862	107,227	93,870	102,865	117,269
Library					
Registered borrowers	59,080	63,851	49,011	48,884	49,660
Cataloged items in collection	341,119	341,034	354,480	355,668	359,805
Items loaned	972,650	970,342	969,186	969,972	969,756
Reference/research questions answered	230,310	237,517	226,222	231,445	194,604
Water					
Meters in service	27,572	27,696	27,809	27,948	28,087
Average number of gallons treated per month	562,962,000	537,703,000	514,360,000	518,865,000	527,489,906
Daily average consumption in gallons	15,214,250	17,630,000	16,910,466	17,058,575	17,342,134
Gas					
Meters in service	24,857	24,970	25,085	25,278	25,642
MMBTU sold	5,289,874	5,066,848	4,777,330	4,285,167	4,808,178
Sewer					
Number of service connections	28,835	28,835	28,840	28,845	28,845
Daily average treatment in gallons	16,500,000	16,500,000	14,580,000	14,780,000	13,150,675
Maximum daily capacity of treatment plant in gallons	86,570,000	86,570,000	86,570,000	86,570,000	86,570,000
Stormwater***					
Cleaning storm sewer pipe (in feet)	19,734	40,535	14,448	10,599	9,409
Steam District #1					
Steam sold	363,175	353,808	376,485	422,651	436,966
Steam District #2					
Steam flow (1000's lbs.)	1,277,989	2,141,686	2,321,074	2,413,617	2,173,992
Golf**					
Season passes	1,231	1,159	1,037	1,046	1,005
Daily tickets	37,399	35,826	35,524	41,467	34,274
Carts	13,079	12,652	13,509	14,323	13,255
Rounds played	98,436	91,909	84,382	89,287	84,185

Unaudited

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

Function:	Fiscal Year				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Police					
Patrol units	79	80	80	76	78
Fire					
Fire stations	9	9	9	9	9
Public works					
Miles of streets and alleys:					
Miles of streets - paved	449.41	455.22	457.13	459.46	460.46
Miles of streets - unpaved	85.00	83.92	83.10	81.05	81.05
Miles of Sidewalk	379.90	379.90	380.60	380.60	380.60
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,184	3,184	3,184	3,291	3,241
Overhead street lamps	3,750	3,750	3,750	3,740	3,740
Culture and recreation					
Parks and recreation department					
Number of parks	105	105	129	131	129
Park acreage	11,482	11,482	11,862	11,493	11,862
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	36	36	31	31	31
Community clubs/field houses operated	29	29	2	27	27
Number of athletic fields	39	39	39	39	39
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	392.42	393.23	396.93	397.67	397.85
Number of hydrants	2,139	2,164	2,194	2,199	2,196
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	439.00	444.30	451.40	458.30	465.30
Sewer					
Miles of sanitary sewers	387.53	387.83	400.20	419.94	420.81
Stormwater					
Miles of storm sewers	257.16	258.76	260.00	260.88	262.48
Steam District #1					
Miles of line	9.75	9.75	9.75	10.00	10.00
Steam District #2					
Feet of line	580	580	580	580	580
Golf					
Number of municipal golf courses	2	2	2	2	2

Sources: Various government departments.

(continued)

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

Function:	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Police					
Patrol units	81	75	92	87	96
Fire					
Fire stations	9	9	9	9	9
Public works					
Miles of streets and alleys:					
Miles of streets - paved	462.87	466.63	469.20	471.90	474.66
Miles of streets - unpaved	80.13	78.56	77.31	76.61	73.85
Miles of Sidewalk	380.77	380.83	381.33	382.56	382.56
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,241	3,241	3,712	3,758	3,758
Overhead street lamps	3,740	3,740	3,727	3,732	3,732
Culture and recreation					
Parks and recreation department					
Number of parks	129	129	129	107	107
Park acreage	11,862	11,862	11,862	11,862	11,862
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	30	23	23	22	22
Community clubs/field houses operated	27	27	27	27	27
Number of athletic fields	39	39	39	36	36
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	403.38	406.24	408.22	408.30	424.31
Number of hydrants	2,231	2,279	2,363	2,373	2,396
Maximum daily capacity of plant in gallons	32,000,000	32,000,000	32,000,000	32,000,000	32,000,000
Gas					
Miles of gas mains	478.50	482.20	488.30	495.34	508.00
Sewer					
Miles of sanitary sewers	420.81	404.00	408.00	409.00	409.00
Stormwater					
Miles of storm sewers	262.48	311.00	349.00	351.00	288.00
Steam District #1					
Miles of line	10.00	10.50	11.00	11.00	11.00
Steam District #2					
Feet of line	580	580	580	580	580
Golf					
Number of municipal golf courses	2	2	2	2	2

Unaudited

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

	Fiscal Year				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
COMPONENT UNITS-					
Duluth Entertainment and Convention Center (DECC) -					
Number of events	538	543	551	554	588
Number of conventions	35	38	39	48	60
Duluth Airport Authority -					
Number of passengers	236,058	294,180	295,700	288,140	303,070
Duluth Transit Authority -					
Number of buses	88	72	87	87	72
Number of routes	19	19	18	18	18
Number of passengers	3,073,963	3,037,905	3,046,353	3,148,888	3,048,430
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority -					
Skier visits	235,917	210,219	297,883	259,441	256,937
Season passes	7,174	7,488	10,712	10,086	11,129

	Fiscal Year				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
COMPONENT UNITS-					
Duluth Entertainment and Convention Center (DECC) -					
Number of events	512	522	545	534	523
Number of conventions	38	44	43	43	45
Duluth Airport Authority -					
Number of passengers	253,454	316,912	305,750	290,421	349,447
Duluth Transit Authority -					
Number of buses	66	66	72	61	61
Number of routes	18	17	18	18	20
Number of passengers	2,771,990	2,647,051	2,709,249	2,692,931	2,633,910
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority -					
Skier visits	254,616	235,410	257,600	264,424	269,673
Season passes	9,385	8,630	9,209	8,920	8,028

Unaudited