

2016

Comprehensive Annual Financial Report



CITY OF DULUTH, MINNESOTA

For the Fiscal Year Ended December 31, 2016



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Department of Finance

For the Fiscal Year Ended December 31, 2016

**CITY OF DULUTH, MINNESOTA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2016**

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INTRODUCTORY SECTION



Chief Financial Officer • Wayne Parson, CPA (inactive)
City Auditor • Joshua Bailey

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An Equal Opportunity Employer

May 18, 2017

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, 2016.

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

The Minnesota Office of the State Auditor has issued an unmodified opinion on the City of Duluth's financial statements for the year ended December 31, 2016. The independent auditor's report is located at the front of the financial section of this report.

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

GOVERNMENT PROFILE

Duluth is the seat of St. Louis County, and is the largest city in the northern two-thirds of Minnesota. It is located at the western tip of Lake Superior, and encompasses 67 square miles of land and nearly 50 square miles of water. Situated on a hillside along Lake Superior's north shore, Duluth is 23 miles long and eight miles wide at its broadest point. Duluth's population exceeds 86,000 and contributes to a market area of more than 500,000 from northern Minnesota, northwest Wisconsin, the Upper Peninsula of Michigan, and lower Ontario. Duluth and its neighbor, Superior, Wisconsin, share the Great Lakes' largest port and one of the largest inland seaports in the world.

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

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

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

LOCAL ECONOMY

Once dependent on heavy industry for its economic health, Duluth has diversified and has become a strong regional center for shipping, tourism, education, health care, retail sales, technology, architecture, engineering and aviation. According to the Minnesota Department of Employment and Economic Development, 34.3% of Minnesota residents have a bachelor's degree or higher, compared to 30.1% for the nation as a whole. Duluth's unemployment averaged 3.9% for 2016, which was comparable to the previous year's average unemployment rate of 3.8%. The total number of jobs reported to the state in 2016 peaked at 58,604.

The Port of Duluth-Superior has been one of the backbones of the region's economy, and has been long known as the Great Lakes' "bulk cargo capital." It accommodates the maritime transportation needs of a wide range of industries ranging from agriculture, forestry, mining and manufacturing to construction, power generation, and passenger cruising. The Port is the farthest-inland freshwater seaport and one of the leading bulk cargo ports in all of North America, and is the largest and busiest on the Great Lakes. The Seaway Port Authority of Duluth reported that 707 ships visited the Port of Duluth-Superior in 2016, moving roughly 30 million tons of cargo including iron ore, coal, grain, limestone, cement, salt, wood pulp, steel, and wind turbine components, plus a variety of heavy-lift and project cargo. As the largest tonnage port on the Great Lakes-St. Lawrence Seaway, cargo movements through the Port of Duluth-Superior support 11,500 jobs and \$545 million in wages, and contribute over \$1.5 billion to the local/regional economy.

Duluth continues to excel in the key industry of tourism, bringing approximately 6.7 million visitors to Duluth annually and injecting more than \$957 million each year directly into the immediate area. Duluth has turned itself into the top destination for Minnesotans as a primary getaway, according to Explore Minnesota Tourism. Duluth offers a variety of attractions and outdoor activities, including: Canal Park, Duluth's historic waterfront district, which is home to the famous Aerial Lift Bridge-Minnesota's most frequented tourist attraction, and a variety of hotels, restaurants, and shops; the 7.5 mile Lakewalk boardwalk on the shores of Lake Superior; Bayfront Festival Park-named the "Best Outdoor Music Venue" in the 2014 "Best of Minnesota" poll by the Minneapolis Star Tribune-which is a 20 acre waterfront park with a seasonal amphitheater, hosting outdoor summertime concerts and events, and during the holiday season, the Bentleyville Tour of Lights-America's largest free walk through holiday light display; The Great Lakes Aquarium-a \$30 million freshwater aquarium featuring more than 20 exhibits; Spirit Mountain Ski and Recreation Area-a year round recreation area with the Midwest's longest downhill ski run, Nordic skiing, a snow tubing park, an RV park, and an adventure park featuring mini golf, disk golf, mountain biking, scenic lift ride, alpine coaster ride, and a zip line. Duluth hosts world-class special events such as Grandma's Marathon, the 16th largest marathon in the United States; and, the Bayfront Blues Fest, which attracts over 20,000 people. The City has 129 municipal parks encompassing over 3,264 acres, two public golf courses, zoo, and over 150 miles of trails for hikers, bicyclists, and cross country skiers. The City has proposed a future addition of 70 miles of a new multi-use trail system and a 7.3 mile trail that would connect the entire length of the city from the west to the eastward-bound Lakewalk trail. Duluth was rated by Money magazine as one of the top four Midwestern small cities, based on livability; and in 2015, Duluth was voted as America's "Best Town" by an online poll conducted by Outside Magazine. Lake Superior, the city's unique history, premier trails, and soft-adventure continue to define Duluth as a family friendly vacation destination.

The Duluth Entertainment Convention Center (DECC) remains a leader in convention center business and environmental stewardship. On August 6, 2016 the DECC celebrated its 50th anniversary with many memorable events, including KISS, the Beach Boys and Temptations concerts, a public open house, a new art gallery, and an employee reunion. The DECC continues to operate with the full strength of all of its facilities: In 2016 the DECC hosted 506 events and 47 conventions in their CitySide and HarborSide Convention Centers. Pioneer

Hall provided space for many tradeshows, expos, sporting events and Curling Night in America. The DECC Arena held numerous events including the FIRST Robotics Competition, the Bernie Sander's Rally, the Republican State Convention, and ice for the for Northland Figure Skaters. Symphony Hall serves as the home to the Duluth-Superior Symphony Orchestra (DSSO) and to the Minnesota Ballet, and held varied events such as dance competitions, the Banff Mountain Film Festival, and Martin Luther King Day. Bayfront Park was under the management of the DECC for the fifth year with a full roster of events, including Bentleyville, Hockey Day Minnesota, Duluth Fourth Fest, Trampled by Turtles, Blues Fest, Pride Festival, Tall Ships Festival, All Pints North Brewfest, and the Hot Air Balloon Festival. AMSOIL Arena had its sixth successful year of operations, and is home to the University of Minnesota-Duluth's (UMD) hockey teams. Fans supported the National Collegiate Hockey Conference (NCHC) league of men's hockey and women in the Western Collegiate Hockey Conference (WCHA). The silver LEED certified Arena featured youth and high school hockey, University commencements, the AAD Temple Shrine Circus; and, Keith Urban, Bryan Adams, James Taylor, and KISS concerts, to name a few. The DECC continues to focus on sustainability efforts, ongoing innovative projects, and energy efficiency upgrades. The DECC continues to divert at least 65% of their waste from the landfill through recycling, composting, and creating environmentally low-impact events.

The Duluth metro has more than 20,000 college and university students according to Minnesota's Department of Employment and Economic Development (DEED). The University of Minnesota, Duluth (UMD) and the College of St. Scholastica (CSS) are regularly ranked in the top tier of Midwestern universities by U.S. News and World Report's "America's Best Colleges" issue. UMD has a student population of 11,018, and provides 14 bachelor degrees in 84 majors and 72 minors as well as five certificates. In addition to the two-year program at the School of Medicine and a College of Pharmacy program, UMD offers graduate programs in 25 different fields, 13 minors, and four certificates; and, UMD participates in two all-university PhD programs (one of which is located primarily on the UMD campus) and cooperates significantly in the delivery of a number of Twin Cities-based PhD programs. The College of St. Scholastica has been called a "hidden gem" by the Washington Post in its "100 Schools to Consider" and in 2014 was named by Money Magazine to the top third of all four-year colleges in the country, based on graduation rates, educational quality, affordability and alumni earnings. CSS has 6 academic schools, and offers degrees in more than 75 undergraduate majors and minors, 10 masters, and 3 doctoral programs, with a total enrollment of 4,406 students. Lake Superior College (LSC) is a two-year community and technical college, and is a member of the Minnesota State Colleges and Universities System (MnSCU), and has a student population of over 5,800. LSC offers more than 90 technical majors, programs for transfer, continuing education, and customized training for business and industry. The American Institute of Economic Research named the Duluth metropolitan area as one of America's best small metropolitan areas for college students in their "Small Metro category" in its 2012 College Destinations index.

LONG-TERM FINANCIAL PLANNING

Unassigned fund balance in the General Fund (14.3 percent of total General Fund expenditures and transfers) exceeds the policy guidelines set by the Administration and Council for budgetary and planning purposes. According to the policy, unassigned fund balance should fall within the following range of General Fund expenditures and transfers: 5% as a minimum, 7% as a moderate scenario, with 10% regarded as optimum.

RELEVANT FINANCIAL POLICIES

The City established a Community Investment Fund in 1994. The Fund is financed by the City's share of revenues generated from the operation of the Fond-du-Luth Casino administered by the Fond du Lac Band of Lake Superior Chippewa. Investment earnings from the Community Investment Fund are dedicated to the City's General Fund by charter provision. All other monies appropriated from the Fund must be approved by resolution by at least seven members of the nine-member City Council. As of December 31, 2016, the Community Investment Fund reported a fund balance of \$20.2 million.

In 2007, the City established an irrevocable trust to pre-fund the City's other postemployment benefit liability. Contributions totaling \$27.1 million have been made to the irrevocable trust. The irrevocable trust balance including cumulative investment earnings was \$49.1 million at December 31, 2016. In November 2014, the City adopted a policy that established a funding framework for financing annual retiree healthcare costs through both annual appropriation and utilizing the irrevocable trust. Annual appropriation costs are capped at \$9 million.

Annual retiree healthcare premium costs in excess of \$9 million will be paid from the irrevocable trust. For the year ended December 31, 2016, retiree health care premium costs did not exceed \$9 million. City pooled investment earnings were also dedicated as an additional funding source for future contributions to the irrevocable trust.

MAJOR INITIATIVES

The City partnered with Maurices (a division of Ascena Group, Inc.) to construct a new downtown corporate tower. The project consists of an 11-story business tower of approximately 200,000 square feet with attached parking structure and skywalk connection. This projected \$80 million development is the largest downtown private development of its kind in the history of Duluth and will retain more than 400 professional jobs and create an additional 150 jobs. The project broke ground in June 2014, and was completed in April 2016.

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

The Duluth Economic Development Authority (DEDA) has a development agreement with a local developer to redevelop a historic site on the City's waterfront adjacent to Bayfront Park. DEDA has been awarded redevelopment and contamination clean-up grants totaling \$3 million. The project consists of a hotel and conference center, retail shops, and recreational facilities on DEDA-owned land and a former cement plant site. The \$32.8 million project broke ground in March 2015 and was completed in June 2016.

The Duluth Economic Development Authority (DEDA) has a memorandum of understanding with a developer to restore a historic theatre complex in Duluth's downtown waterfront district. The \$30 million project will be financed through a combination of state and federal tax credits, low interest loans, and fundraising. In addition, skywalk connections will be completed to the downtown skywalk system. Construction began in June 2016 and has a targeted completion date of December 2017.

The Duluth Transit Authority started construction of the \$30 million Duluth Transit Authority Multimodal Transportation Center in June 2014. The multimodal transportation center will provide an indoor passenger terminal area, including regional and intercity carriers. The multimodal transportation center is a major effort to resolve long-standing parking, sidewalk congestion, and bus passenger safety issues in the downtown area. On completion, the Center will provide parking for 300 vehicles. Existing skywalks have been replaced, including the Northwest Passage which spans across I-35 connecting the Terminal to the Duluth Entertainment Convention Center. The Center opened in February 2016.

The City issued \$7,820,000 of general obligation bonds in February 2016 to partially finance a new aircraft completion center for Cirrus Design Corporation. Total project costs including equipping the new facility exceeded \$15 million. The 67,972 square foot aircraft completion center brings an additional 150 jobs to the Cirrus manufacturing campus. Cirrus received FAA approval for its new personal jet airplane in October 2016 to augment its piston engine planes. Cirrus is a leader in the aviation industry and developed an airframe parachute system to set a new standard in aircraft safety. The new facility opened in December 2016.

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, 2015. This was the forty-first consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR, whose contents conform to both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City of Duluth also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the year 2016. In order to qualify for the Distinguished Budget Presentation Award, a governmental unit's budget must be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

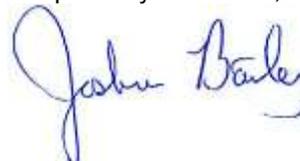
When looking at a report such as this CAFR, it is sometimes difficult to comprehend how much time and effort is devoted by employees from the beginning of the audit to the final printing and distribution of the CAFR. As the requirements and demands of financial reporting in government increase, so too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

Respectfully submitted,



Wayne Parson, CPA (inactive)
Chief Financial Officer

Respectfully submitted,



Joshua Bailey
City Auditor

ELECTED AND APPOINTED OFFICIALS CITY OF DULUTH, MINNESOTA

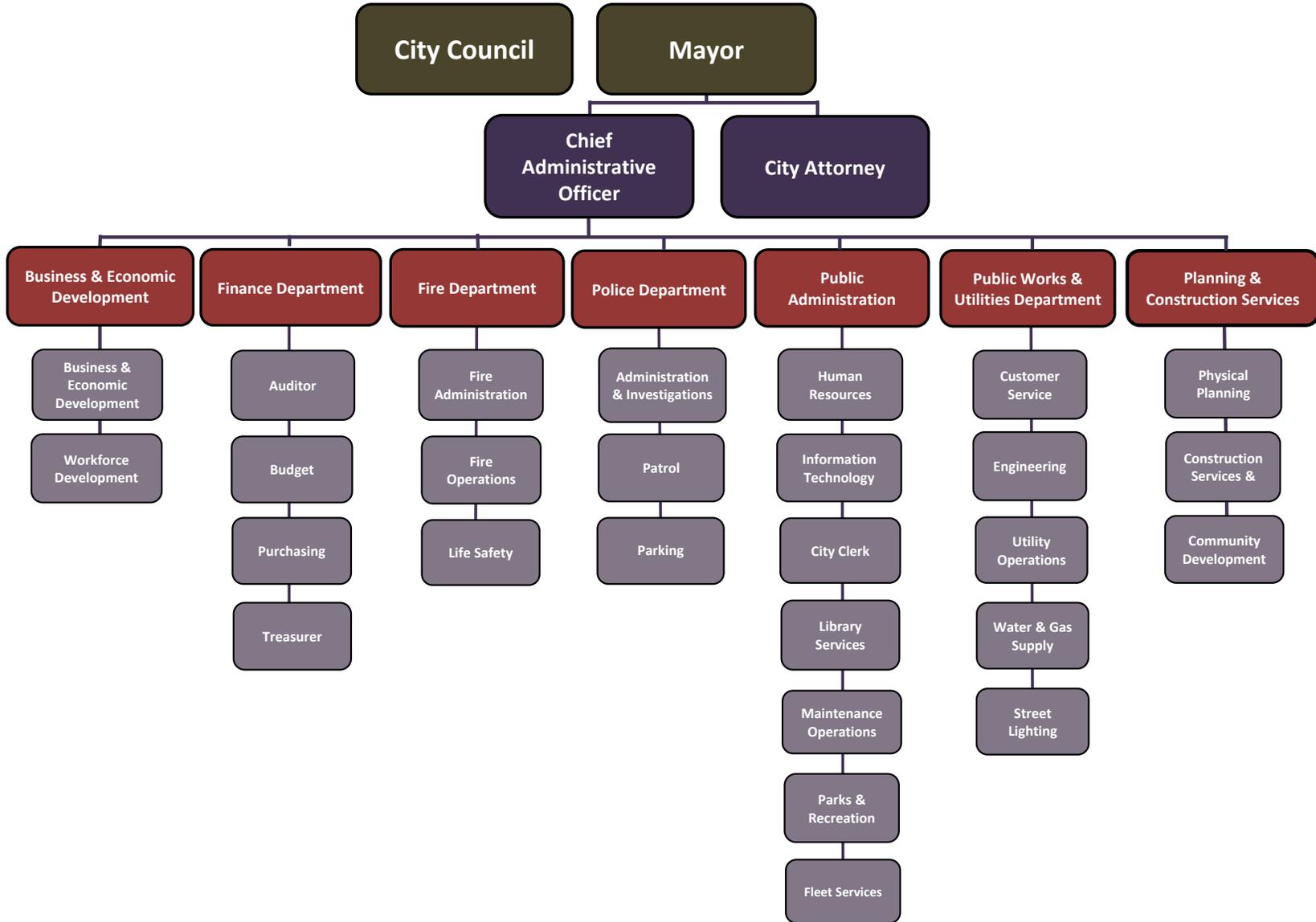
ELECTED POSITIONS	DISTRICT	TERM EXPIRES *
Mayor Emily Larson		2020
City Council		
Zack Filipovich	At large	2018
Elissa Hansen	At large	2020
Noah Hobbs	At large	2020
Barb Russ	At large	2018
Gary Anderson	1	2020
Joel Sipress	2	2018
Em Westerlund	3	2020
Howie Hanson	4	2018
Jay Fosle	5	2020

*All terms expire in January

APPOINTED POSITION

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

CITY OF DULUTH ORGANIZATIONAL CHART





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Duluth
Minnesota**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2015

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive style.

Executive Director/CEO

FINANCIAL SECTION



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents. The financial statements and related notes of the Spirit Mountain Recreation Area Authority's activities are included as of and for the year ended April 30, 2016.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Duluth as of December 31, 2016, including the Spirit Mountain Recreation Area Authority as of April 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2017, on our consideration of the City of Duluth's and the Duluth Economic Development Authority component unit's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Duluth's and the Duluth Economic Development Authority component unit's internal control over financial reporting and compliance.



REBECCA OTTO
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 18, 2017

**Management's
Discussion and Analysis**

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(unaudited)**

The City of Duluth's Finance Department has prepared this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2016, 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, 2016, by \$407.0 million; this amount is identified as net position.
- As of December 31, 2016, the City's governmental funds reported combined ending fund balances of \$79.0 million.
- Restricted fund balances were \$45.3 million of fund balance or 57.3%. These fund balances are not available for appropriation because of constraints placed on the use of these funds. The remaining fund balances of \$33.7 million, or 42.7%, are unrestricted and classified as committed, assigned, or unassigned.
- In 2007, the City created an irrevocable trust to pre-fund a portion of the City's other postemployment benefits. As of December 31, 2016, the trust reported net position totaling \$49.1 million.
- In 2016 the City's recorded pension liability, accounted for in accordance with GASB Statement No. 68 – Accounting and Financial Reporting for Pensions, increased \$81.4 million to a total of \$135.7 million. The increase was primarily due to changes in actuarial assumptions by the Minnesota Public Employee Retirement Association (PERA). This figure represents the City's proportionate share of the unfunded liability for the PERA pension plans in which it participates. This liability is partially offset by deferred inflows and outflows that amortize the liability changes over several years. The City continues to make all legally required contributions to the plans.
- As of December 31, 2016, the General Fund's unrestricted, unassigned fund balance was \$11.6 million, or 14.6% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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The City's governmental activities include general government, public safety, public works, culture and recreation, and urban and economic development. The City's business-type activities include water, gas, sewer, steam and stormwater utilities, street lighting, parking, and municipal golf courses. The government-wide financial statements include not only the City, referred to as the primary government, but also five legally separate component units, for which the City is financially accountable. Financial information for these component units is reported separately from the financial information of the City, as the primary government.

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

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

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Proprietary Funds

The City maintains two different types of proprietary funds. The first type is enterprise funds, which are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Information is presented separately in the proprietary fund financial statements for the 410 West First Street Parking Ramp, Water, Gas, and Sewer funds, all of which are considered to be major funds. Data from the remaining enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds are included in the combining and individual fund section of this report.

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

Fiduciary Funds

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

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

An additional portion of the City's net position (11.7%) represents resources that are subject to external restrictions on how they may be used, with the largest amount set aside for debt service. The following table presents a summary of the City's net position at December 31 for the past two fiscal years (dollars in thousands):

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	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 135,358	\$ 128,368	\$ 37,132	\$ 43,294	\$ 172,490	\$ 171,662
Capital assets	293,272	294,178	282,423	275,019	575,695	569,197
Total assets	<u>\$ 428,630</u>	<u>\$ 422,546</u>	<u>\$ 319,555</u>	<u>\$ 318,313</u>	<u>\$ 748,185</u>	<u>\$ 740,859</u>
Deferred outflows of resources	<u>\$ 82,063</u>	<u>\$ 8,923</u>	<u>\$ 7,350</u>	<u>\$ 2,449</u>	<u>\$ 89,413</u>	<u>\$ 11,372</u>
Long-term liabilities outstanding	\$ 308,287	\$ 225,137	\$ 82,064	\$ 83,765	\$ 390,351	\$ 308,902
Other liabilities	12,526	14,058	10,903	13,083	23,429	27,141
Total liabilities	<u>\$ 320,813</u>	<u>\$ 239,195</u>	<u>\$ 92,967</u>	<u>\$ 96,848</u>	<u>\$ 413,780</u>	<u>\$ 336,043</u>
Deferred inflows of resources	<u>\$ 14,631</u>	<u>\$ 6,846</u>	<u>\$ 2,195</u>	<u>\$ 1,388</u>	<u>\$ 16,826</u>	<u>\$ 8,234</u>
Net position:						
Net investment in capital assets	\$ 242,875	\$ 242,347	\$ 218,517	\$ 204,789	\$ 461,392	\$ 447,136
Restricted	45,703	43,143	2,072	2,894	47,775	46,037
Unrestricted	(113,329)	(100,062)	11,154	14,843	(102,175)	(85,219)
Total net position	<u>\$ 175,249</u>	<u>\$ 185,428</u>	<u>\$ 231,743</u>	<u>\$ 222,526</u>	<u>\$ 406,992</u>	<u>\$ 407,954</u>

Overall, the City's net position remained relatively unchanged in 2016. The City's total net position decreased \$0.9 million, a decrease of less than one percent. Net position invested in capital assets continues to increase largely due to the City's utility infrastructure replacement and the pay down of debt associated with those capital asset additions. The increase in net position related to capital assets was largely offset by a decrease to unrestricted net position of \$17.0 million. In 2016 the City's pension liability, recorded in accordance with GASB Statement Number 68 - Accounting and Financial Reporting for Pensions, grew significantly. The net change to net position, after taking into account the liability increase and associated deferred inflows and outflows, was over \$14.0 million.

In governmental activities, the increase in total liabilities of \$81.6 million was largely due to the previously mentioned pension liability increase. The expense related to this pension liability is amortized over several years with the unamortized portion being reported as deferred outflows and inflows. Total assets increased \$6.1 million in 2016. This increase is largely associated with a loan receivable from Cirrus Design Corporation related to the City financed construction of their completion center expansion.

For business-type activities the decrease in total liabilities of \$3.9 million is largely due to the spend down of revenue related bonds and notes. Total assets increased due to utility infrastructure replacement projects.

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

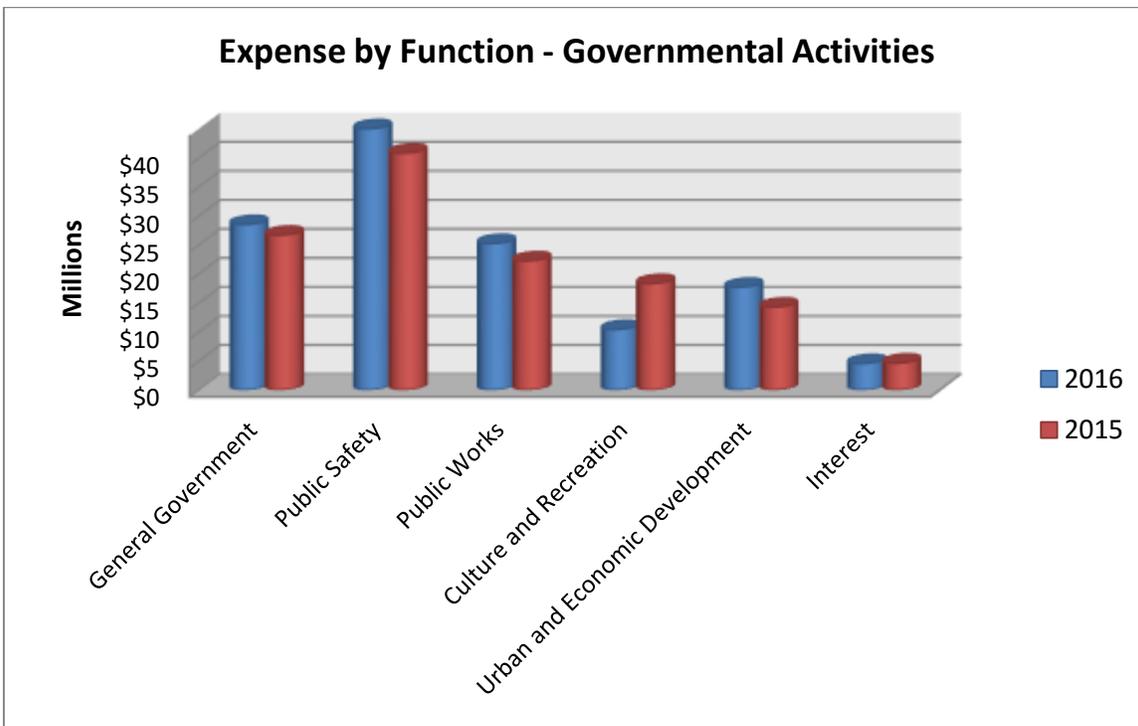
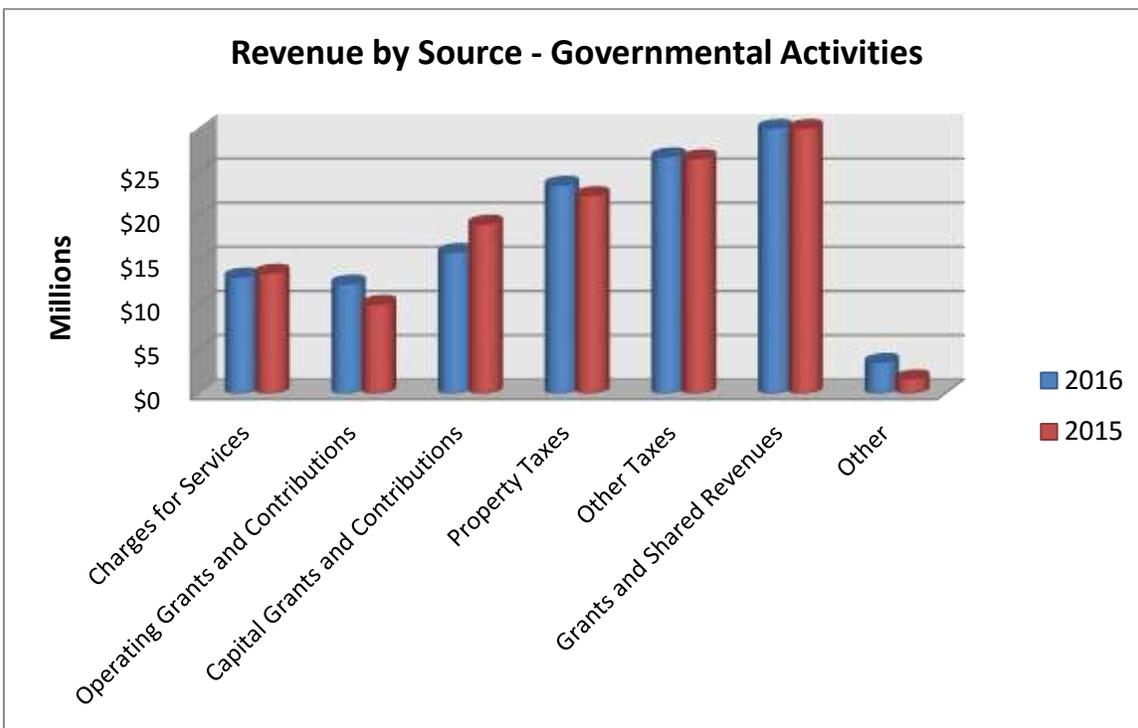
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	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 13,194	\$ 13,625	\$ 85,740	\$ 89,746	\$ 98,934	\$ 103,371
Operating grants and contributions	12,402	10,096	164	-	12,566	10,096
Capital grants and contributions	15,969	19,175	2,251	8,381	18,220	27,556
General Revenues:						
Property taxes	23,587	22,406	647	220	24,234	22,626
Other taxes	26,783	26,569	-	-	26,783	26,569
Grants and shared revenues not restricted to specific programs	31,345	31,232	49	49	31,394	31,281
Other	3,532	1,652	155	260	3,687	1,912
Total revenues	<u>126,812</u>	<u>124,755</u>	<u>89,006</u>	<u>98,656</u>	<u>215,818</u>	<u>223,411</u>
Expenses:						
General government	28,488	26,653	-	-	28,488	26,653
Public safety	55,526	40,798	-	-	55,526	40,798
Public works	25,219	22,230	-	-	25,219	22,230
Culture and recreation	10,408	18,320	-	-	10,408	18,320
Urban and economic development	17,689	14,265	-	-	17,689	14,265
Interest	4,543	4,619	-	-	4,543	4,619
Water	-	-	10,997	10,187	10,997	10,187
Gas	-	-	27,526	29,262	27,526	29,262
Sewer	-	-	16,034	16,284	16,034	16,284
Stormwater	-	-	4,209	3,765	4,209	3,765
Steam	-	-	8,365	7,667	8,365	7,667
Golf	-	-	2,069	2,309	2,069	2,309
Parking	-	-	2,631	2,550	2,631	2,550
410 West First Street ramp	-	-	768	-	768	-
Street lighting	-	-	2,308	1,914	2,308	1,914
Total expenses	<u>141,873</u>	<u>126,885</u>	<u>74,907</u>	<u>73,938</u>	<u>216,780</u>	<u>200,823</u>
Increase (decrease) in net position before transfers and extraordinary item	(15,061)	(2,130)	14,099	24,718	(962)	22,588
Extraordinary item: Loss on casino shared revenue litigation	-	(13,265)	-	-	-	(13,265)
Transfers	4,882	6,337	(4,882)	(6,337)	-	-
Increase in net position	<u>(10,179)</u>	<u>(9,058)</u>	<u>9,217</u>	<u>18,381</u>	<u>(962)</u>	<u>9,323</u>
Net position, January 1	185,428	235,315	222,526	214,317	407,954	449,632
Restatement	-	(40,829)	-	(10,172)	-	(51,001)
Net position, January 1, restated	<u>185,428</u>	<u>194,486</u>	<u>222,526</u>	<u>204,145</u>	<u>407,954</u>	<u>398,631</u>
Net position, December 31	<u>\$ 175,249</u>	<u>\$ 185,428</u>	<u>\$ 231,743</u>	<u>\$ 222,526</u>	<u>\$ 406,992</u>	<u>\$ 407,954</u>

Governmental activities revenue increased by \$2.1 million in 2016. This increase is primarily due to increased investment income earnings, property tax revenue, and state aid related to the wind storm that the City experienced

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in 2016, partially offset by decreased capital grants associated with infrastructure projects. The business-type activities revenue decrease of \$9.7 million was related to a decrease in the sale of natural gas associated with the 2016 heating season and a decrease in capital grants compared to 2015. Total expenses increased \$15.0 million for governmental activities. This increase is related to expenditures recorded in relation to the City's pension liability. Business-type activities expenses increased \$1.0 million. This increase is primarily due to the 410 West First Street ramp becoming operational.



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FUND FINANCIAL ANALYSIS

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

GOVERNMENTAL FUNDS

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

As of December 31, 2016, the City’s governmental funds reported combined ending fund balances of \$79.0 million, an increase of \$8.8 million from 2015. Of the total fund balance amount, \$33.7 million, or 42.7%, is reported as unrestricted fund balance, either committed, assigned, or unassigned. The unrestricted fund balance includes \$21.7 million in committed funds which are formally designated by City Council resolution for specific purposes. The Community Investment Special Revenue fund makes up 93.0% of the committed fund balance. Restricted fund balance of \$45.3 million is primarily composed of funds dedicated to debt service and capital projects.

The General Fund is the main operating fund of the City. At December 31, 2016, fund balance of the General Fund was \$13.4 million, with \$11.6 million, or 87.0% reported as unassigned. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance is 14.6% and total fund balance is 16.7% of total General Fund expenditures.

PROPRIETARY FUNDS

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

	Unrestricted Net Position December 31		Increase (Decrease) Net Position December 31	
	2016	2015	2016	2015
410 West First Street Ramp	\$ 175	\$ -	\$ (429)	\$ 5,160
Water	(1,477)	(603)	3,497	4,071
Gas	5,409	6,125	1,974	2,180
Sewer	620	413	4,832	6,266

There was a rate increase in water operations in May of 2016, but this rate increase was largely offset by a decrease in the volume of water used compared to 2015. Gas Fund revenues decreased due to a decrease in the cost of natural gas that is passed on to customers. Unrestricted net position decreased across the board due to the recognition of pension liability expenses in accordance with GASB Statement No. 68. Construction of the new 410 West First Street Ramp was completed in 2016 and is now operational.

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GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$3.0 million increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- \$2.2 million appropriation increase for prior year carryovers.
- \$0.4 million appropriation for grants, gifts and donations.
- \$0.4 million appropriation for other budget allowable additions.

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

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

- Revenues and other financing sources were under budget by \$0.2 million. This unfavorable variance can be attributed to lower than anticipated sales tax revenue and gas fund payment in lieu of tax, partially offset by disaster aid received from the State of Minnesota related to the 2016 windstorm.
- Expenditures and transfers were under budget by \$1.7 million due primarily to savings in retiree health insurance costs and personal costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2016, was \$575.7 million, net of accumulated depreciation. This investment includes land and improvements, buildings, equipment, roads and bridges, traffic signals, and utility-related infrastructure. In 2016, the City's total investment in capital assets, net of accumulated depreciation, increased by \$6.5 million. Major capital assets additions in 2016 included: trail construction - \$2.1 million; street and bridge improvements - \$12.6 million; and utility related infrastructure improvements of \$13.0 million. Additional information related to the City's capital assets can be found in Note 7 of the notes to the financial statements. The following table shows the City's investment in capital assets, net of accumulated depreciation at December 31 for the past two fiscal years (dollars in thousands):

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Capital Assets:				
Land and improvements	\$ 22,468	\$ 22,468	\$ 4,628	\$ 4,628
Buildings	44,185	39,442	53,149	34,004
Equipment	10,631	10,373	17,354	17,962
Infrastructure	198,301	192,485	187,337	178,989
Construction in progress	17,687	29,410	19,955	39,436
Total	\$ 293,272	\$ 294,178	\$ 282,423	\$ 275,019

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LONG-TERM DEBT

The City had \$168.3 million of bonded debt outstanding as of December 31, 2016. Of this amount, \$118.4 million is debt backed by the full faith and credit of the City. \$10.8 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 \$39.2 million outstanding revenue and general obligation bonds if income from various enterprise operations is insufficient to retire their respective bonds. Several types of revenue bonds constitute the remainder of the City's debt, and are secured solely by specific revenue sources. The following table shows the City's outstanding bonded debt for both governmental and business-type activities as of December 31 for the past two fiscal years (dollars in thousands):

	Balance 12/31/16	Balance 12/31/15
Governmental Activities:		
General Obligation Bonds	\$ 91,300	\$ 97,340
General Obligation Tax Abatement Bonds	13,805	6,350
Special Assessment Debt with Government Commitment	10,765	13,080
General Obligation Certificates	<u>13,250</u>	<u>12,670</u>
Total Governmental Activities Bonded Debt	<u>\$ 129,120</u>	<u>\$ 129,440</u>
Business-type Activities:		
Revenue and General Obligation Bonds	<u>\$ 39,222</u>	<u>\$ 42,760</u>

During 2016, the City's total bonded debt decreased by \$3.9 million.

In 2016, the City issued \$1.1 million of general obligation bonds, \$7.8 million in general obligation tax abatement bonds, \$33.4 million in capital improvement refunding bonds, and \$3.6 million of general obligation certificates. The City has an "Aa2" rating from Moody's Investors Service and an "AA" rating from Standard and Poor's.

State statutes limit the amount of general obligation debt the City can incur to no more than 2% of the market value of taxable property in the City. The City's current legal debt margin is \$118.1 million, which is significantly higher than the City's net debt of \$38.5 million. Additional information about the City's long-term debt can be found in Note 12 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The final approved 2017 General Fund budget is \$82.6 million. State local government aid (LGA) payments are anticipated to supply 35.5% of General Fund revenues. State aid payments are the single biggest financing source for the General Fund.

After nearly a decade of uncertainty in the State of Minnesota's Local Government Aid program, the 2013 State Legislature adopted reforms which will benefit Duluth and other cities by increasing the funding for LGA by \$80 million and revising the formula used to determine who gets aid and how much. The "need" factor will be three-tiered depending on the population of the city with separate calculations for cities under 2,500 in population, cities between 2,500 and 10,000 in population, and cities over 10,000 in population because different factors explain variations in a city's revenue base for different size cities. All three formulas were derived using revenue base (levy plus aid) as a proxy for city need. The new formula also stabilizes a city's allocation by capping the maximum annual loss for any city as well as distributing proportionally larger increases to cities whose current aid amount is furthest from their unmet need. For Duluth, these changes increased LGA by \$1.9 million in 2017 to \$29.3 million compared to the \$27.4 million received in 2011, 2012 and 2013. In 2014, 2015, and 2016 the LGA revenue was \$29.0, \$29.2, and \$29.3 million respectively.

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In 2015, the City contracted with an actuary to calculate its annual required contribution for postemployment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. The annual required contribution for 2016 was \$9.6 million. For the year ended December 31, 2016, the City made contributions of \$0.5 million to an irrevocable trust and paid an additional \$9.2 million of retiree claims resulting in a decrease of \$0.2 million in the City's net other postemployment benefits liability. As of December 31, 2016, the City's net other postemployment benefits liability is \$40.4 million.

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

REQUESTS FOR INFORMATION

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

Basic Financial Statements

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 62,384,758	\$ 11,672,065	\$ 74,056,823	\$ 13,604,063
Investments, at fair value	20,252,597	-	20,252,597	-
Assets held by trustee	6,683,739	-	6,683,739	-
Receivables, net	35,261,251	10,624,943	45,886,194	8,993,139
Due from primary government	-	-	-	750,343
Internal balances	(1,855,115)	1,855,115	-	-
Due from component units	1,916,332	-	1,916,332	-
Due from other governments	10,393,192	209,319	10,602,511	507,574
Inventories	271,173	2,797,766	3,068,939	427,632
Prepays	50,000	3,452,806	3,502,806	196,376
Restricted assets:				
Cash and cash equivalents	-	4,627,203	4,627,203	926,484
Accounts receivable	-	-	-	93,326
Loans receivable	-	1,892,502	1,892,502	-
Grants receivable	-	-	-	1,056,214
Assets held by trustee	-	-	-	806
Planning and development costs	-	-	-	1,300,500
Capital assets (Note 7):				
Non-depreciable	40,154,833	24,583,549	64,738,382	14,108,709
Depreciable, net	253,117,143	257,839,939	510,957,082	264,350,898
Total Assets	428,629,903	319,555,207	748,185,110	306,316,064
Deferred Outflows of Resources				
Deferred pension obligation outflows	79,139,866	6,536,032	85,675,898	2,981,061
Deferred loss from debt refunding	2,923,028	814,297	3,737,325	-
Total Deferred Outflows of Resources	82,062,894	7,350,329	89,413,223	2,981,061
Liabilities				
Accounts payable and other short-term liabilities	7,363,301	7,371,946	14,735,247	4,311,325
Accrued interest payable	1,962,396	454,542	2,416,938	5,187
Due to component units	707,682	-	707,682	-
Due to primary government	-	-	-	1,863,367
Due to other government	832,998	1,690,566	2,523,564	29,686
Unearned revenues	1,659,653	1,385,893	3,045,546	1,490,481
Noncurrent liabilities (Note 12):				
Due within one year	17,843,215	8,311,755	26,154,970	2,123,806
Due in more than one year	290,443,643	73,752,333	364,195,976	22,145,961
Total Liabilities	320,812,888	92,967,035	413,779,923	31,969,813
Deferred Inflows of Resources				
Deferred pension obligation inflows	14,630,514	2,194,787	16,825,301	987,162
Net Position				
Net investment in capital assets	242,875,012	218,517,664	461,392,676	265,480,565
Restricted for:				
General government	5,417,620	-	5,417,620	-
Public safety	229,848	-	229,848	-
Public works	-	1,703,843	1,703,843	-
Culture and recreation	2,533,169	-	2,533,169	-
Urban and economic development	5,790,517	-	5,790,517	-
Debt service	24,887,871	368,536	25,256,407	-
Capital outlay	6,844,732	-	6,844,732	8,238,364
Unrestricted	(113,329,374)	11,153,671	(102,175,703)	2,621,221
Total Net Position	\$ 175,249,395	\$ 231,743,714	\$ 406,993,109	\$ 276,340,150

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

<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	\$ 28,487,636	\$ 4,934,248	\$ 1,111,818	\$ -
Public safety	55,526,260	1,698,161	2,537,708	380,318
Public works	25,219,128	2,723,412	1,646,076	9,160,072
Culture and recreation	10,407,695	1,182,738	358,691	5,481,300
Urban and economic development	17,688,597	2,655,700	6,747,924	947,154
Interest	4,543,299	-	-	-
Total Governmental Activities	<u>141,872,615</u>	<u>13,194,259</u>	<u>12,402,217</u>	<u>15,968,844</u>
Business-type activities:				
Water	10,997,029	14,479,884	2,335	12,047
Gas	27,526,208	31,209,095	136,262	541,977
Sewer	16,034,063	19,527,000	1,868	1,309,855
Stormwater	4,208,833	5,243,461	1,401	196
Steam	8,364,984	7,064,402	-	-
Golf	2,068,650	1,822,938	-	-
Parking	2,630,605	4,552,144	-	387,257
410 West First Street ramp	768,011	339,417	-	-
Street lighting	2,307,565	1,501,926	22,235	-
Total Business-type Activities	<u>74,905,948</u>	<u>85,740,267</u>	<u>164,101</u>	<u>2,251,332</u>
Total Primary Government	<u>\$ 216,778,563</u>	<u>\$ 98,934,526</u>	<u>\$ 12,566,318</u>	<u>\$ 18,220,176</u>
Component units :				
Duluth Economic Development Authority	\$ 8,428,320	\$ 1,073,661	\$ 1,681,904	\$ -
Duluth Entertainment and Convention Center Authority	15,010,627	9,217,857	-	400,000
Duluth Airport Authority	14,291,051	6,080,951	-	4,016,906
Duluth Transit Authority	20,162,304	2,787,220	4,379,275	3,507,691
Spirit Mountain Recreation Area Authority	5,735,553	4,599,588	-	6,601,112
Total Component Units	<u>\$ 63,627,855</u>	<u>\$ 23,759,277</u>	<u>\$ 6,061,179</u>	<u>\$ 14,525,709</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Primary Government:				
Governmental activities:				
General government	\$ (22,441,570)	\$ -	\$ (22,441,570)	\$ -
Public safety	(50,910,073)	-	(50,910,073)	-
Public works	(11,689,568)	-	(11,689,568)	-
Culture and recreation	(3,384,966)	-	(3,384,966)	-
Urban and economic development	(7,337,819)	-	(7,337,819)	-
Interest	(4,543,299)	-	(4,543,299)	-
Total Governmental Activities	<u>(100,307,295)</u>	<u>-</u>	<u>(100,307,295)</u>	<u>-</u>
Business-type activities:				
Water	-	3,497,237	3,497,237	-
Gas	-	4,361,126	4,361,126	-
Sewer	-	4,804,660	4,804,660	-
Stormwater	-	1,036,225	1,036,225	-
Steam	-	(1,300,582)	(1,300,582)	-
Golf	-	(245,712)	(245,712)	-
Parking	-	2,308,796	2,308,796	-
410 West First Street ramp	-	(428,594)	(428,594)	-
Street lighting	-	(783,404)	(783,404)	-
Total Business-type Activities	<u>-</u>	<u>13,249,752</u>	<u>13,249,752</u>	<u>-</u>
Total Primary Government	<u>(100,307,295)</u>	<u>13,249,752</u>	<u>(87,057,543)</u>	<u>-</u>
Component units :				
Duluth Economic Development Authority	-	-	-	(5,672,755)
Duluth Entertainment and Convention Center Authority	-	-	-	(5,392,770)
Duluth Airport Authority	-	-	-	(4,193,194)
Duluth Transit Authority	-	-	-	(9,488,118)
Spirit Mountain Recreation Area Authority	-	-	-	5,465,147
Total Component Units	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,281,690)</u>
General Revenues:				
Property taxes	23,587,371	647,013	24,234,384	2,959,461
Sales taxes	24,585,124	-	24,585,124	1,683,274
Franchise taxes	1,998,457	-	1,998,457	-
Other taxes	198,546	-	198,546	-
Grants and shared revenues not restricted to specific programs	31,345,365	48,566	31,393,931	8,378,212
Investment income	1,805,404	99,045	1,904,449	151,671
Gain on sale or disposition of capital assets	-	2,220	2,220	980,603
Miscellaneous	1,726,300	53,425	1,779,725	1,311,647
Transfers	4,881,948	(4,881,948)	-	-
Total General Revenues and Transfers	<u>90,128,515</u>	<u>(4,031,679)</u>	<u>86,096,836</u>	<u>15,464,868</u>
Change in Net Position	(10,178,780)	9,218,073	(960,707)	(3,816,822)
Net Position - Beginning	185,428,175	222,525,641	407,953,816	280,156,972
Net Position - Ending	<u>\$ 175,249,395</u>	<u>\$ 231,743,714</u>	<u>\$ 406,993,109</u>	<u>\$ 276,340,150</u>

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

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 6,812,749	\$ 49,248,233	\$ 56,060,982
Investments, at fair value	-	20,252,597	20,252,597
Receivables, net			
Taxes	3,405,380	1,239,643	4,645,023
Accounts	397,809	342,059	739,868
Assessments	1,160,121	4,465,699	5,625,820
Loans	1,765,505	4,471,641	6,237,146
Due from other funds	112,782	686,268	799,050
Due from component units	1,219,733	696,599	1,916,332
Interfund loan receivables	3,668,977	-	3,668,977
Due from other governments	1,623,274	8,769,918	10,393,192
Total Assets	<u>\$ 20,166,330</u>	<u>\$ 90,172,657</u>	<u>\$ 110,338,987</u>
Liabilities			
Accounts payable	\$ 1,698,470	\$ 420,785	\$ 2,119,255
Contracts payable	119,305	3,912,521	4,031,826
Due to other funds	378,691	915,547	1,294,238
Due to component units	10,915	696,767	707,682
Interfund loan payable	-	1,322,294	1,322,294
Due to other governments	44,450	770,589	815,039
Accrued salaries payable	893,811	14,288	908,099
Unearned revenue	96,335	1,563,318	1,659,653
Total Liabilities	<u>3,241,977</u>	<u>9,616,109</u>	<u>12,858,086</u>
Deferred Inflows of Resources			
Unavailable revenue	<u>3,556,363</u>	<u>14,891,194</u>	<u>18,447,557</u>
Fund Balances			
Restricted	85,776	45,235,185	45,320,961
Committed	32,075	21,707,282	21,739,357
Assigned	1,616,063	824,467	2,440,530
Unassigned	11,634,076	(2,101,580)	9,532,496
Total Fund Balances	<u>13,367,990</u>	<u>65,665,354</u>	<u>79,033,344</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 20,166,330</u>	<u>\$ 90,172,657</u>	<u>\$ 110,338,987</u>

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

**CITY OF DULUTH, MINNESOTA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016**

Fund Balance--total governmental funds		\$ 79,033,344
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds. The cost of the assets is \$496,284,234, and the accumulated depreciation is \$203,387,548.		292,896,686
Other long-term assets are not available to pay for current-period expenditures, and therefore are deferred in the funds.		36,411,364
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and debt refunding that are not recognized in the governmental funds.		
Deferred pension obligation outflows	78,580,339	
Deferred loss from debt refunding	2,923,028	
Deferred pension obligation inflows	<u>(14,442,625)</u>	
		67,060,742
Internal service funds are used by management to charge the costs of fleet services, group health insurance, loss control activities, and vacation benefits payable to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position for \$7,295,791 less \$3,773,196 attributed to business-type activities.		3,522,595
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	140,241,630	
Other post employment benefits	42,616,540	
Pension liability	118,779,708	
Capital lease	75,062	
Interest accrued on long-term debt	<u>1,962,396</u>	
		<u>(303,675,336)</u>
Net position of governmental activities		<u>\$ 175,249,395</u>

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes			
Property taxes	\$ 14,209,670	\$ 9,461,586	\$ 23,671,256
Sales taxes	13,240,215	11,344,909	24,585,124
Other taxes	2,187,077	9,926	2,197,003
Licenses and permits	1,673,728	112,744	1,786,472
Intergovernmental revenues	34,575,741	25,768,207	60,343,948
Charges for services	4,989,429	3,520,722	8,510,151
Fines and forfeits	591,957	127,971	719,928
Special assessments	454,750	1,640,452	2,095,202
Investment income	(19,811)	1,760,798	1,740,987
Miscellaneous revenues	1,021,679	4,959,092	5,980,771
Total Revenues	<u>72,924,435</u>	<u>58,706,407</u>	<u>131,630,842</u>
Expenditures			
Current			
General government	23,209,370	1,169,371	24,378,741
Public safety	36,976,077	1,548,143	38,524,220
Public works	12,628,248	1,887,544	14,515,792
Culture and recreation	4,103,255	5,014,598	9,117,853
Urban and economic development	2,978,861	21,935,047	24,913,908
Debt service			
Principal retirement	-	9,531,000	9,531,000
Interest and fiscal fees	-	4,422,939	4,422,939
Bond issuance costs	-	595,689	595,689
Capital outlay			
Capital outlay	-	15,016,363	15,016,363
Total Expenditures	<u>79,895,811</u>	<u>61,120,694</u>	<u>141,016,505</u>
Excess (Deficiency) of Revenues Over (Under)			
Expenditures	<u>(6,971,376)</u>	<u>(2,414,287)</u>	<u>(9,385,663)</u>
Other Financing Sources (Uses)			
Issuance of bonds	-	12,520,000	12,520,000
Issuance of refunding bonds	-	33,470,000	33,470,000
Premium on issuance of bonds	-	7,185,320	7,185,320
Payment to refunded bond escrow agent	-	(39,861,356)	(39,861,356)
Transfers in	7,667,342	14,718,094	22,385,436
Transfers out	(1,201,738)	(16,301,750)	(17,503,488)
Total Other Financing Sources (Uses)	<u>6,465,604</u>	<u>11,730,308</u>	<u>18,195,912</u>
Net Change in Fund Balances	(505,772)	9,316,021	8,810,249
Fund Balances - January 1, 2016	13,873,762	56,349,333	70,223,095
Fund Balances - December 31, 2016	<u>\$ 13,367,990</u>	<u>\$ 65,665,354</u>	<u>\$ 79,033,344</u>

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

**CITY OF DULUTH, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balances - total governmental funds		\$ 8,810,249
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	14,529,704	
Depreciation expense	<u>(15,465,652)</u>	
Excess of capital outlay over depreciation expense		(935,948)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of \$(3,077,050) from internal funds less \$(467,508) attributed to business-type activities is reported with governmental activities.		(2,609,542)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net position. In the current period, proceeds were received from: Bonds issued, including a bond premium of \$7,185,320.		(53,175,320)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of: Bond principal retirement		46,376,205
Refunding of a bond results in a deferred gain or loss due to the difference between the book value of the old debt and the amount required to be placed in escrow to extinguish the old debt.		3,051,356
Because some revenues will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Unavailable revenues decreased by this amount this year.		(4,021,277)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Net increase in accrued interest	(73,880)	
Increase in net other post employment benefits payable	(927,518)	
Increase in pension obligation	(13,740,377)	
Increase in loans receivable	6,518,063	
Amortization of deferred loss on debt refunding	(128,328)	
Amortization of bond premiums	<u>677,537</u>	
Total additional expenditures		<u>(7,674,503)</u>
Change in net position of governmental activities		<u>\$ (10,178,780)</u>

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Amounts	Actual to
	Original	Final	(Budgetary Basis)	Modified Budget
			(Note 2)	Favorable
				(Unfavorable)
Revenues				
Taxes	\$ 30,493,300	\$ 30,493,300	\$ 29,636,962	\$ (856,338)
Licenses and permits	1,482,900	1,482,900	1,673,728	190,828
Intergovernmental revenues	33,555,800	33,675,978	34,575,741	899,763
Charges for services	5,390,000	5,390,000	4,989,429	(400,571)
Fines and forfeits	506,000	506,000	591,957	85,957
Special assessments	440,200	505,200	454,750	(50,450)
Investment income	-	-	(19,811)	(19,811)
Miscellaneous revenues	399,900	770,370	1,021,679	251,309
Total revenues	<u>72,268,100</u>	<u>72,823,748</u>	<u>72,924,435</u>	<u>100,687</u>
Expenditures				
Current:				
General government	24,656,300	24,617,221	23,281,016	1,336,205
Public safety	35,875,300	36,976,186	36,997,577	(21,391)
Public works	12,251,400	12,675,500	12,635,685	39,815
Culture and recreation	4,241,200	4,254,402	4,103,255	151,147
Urban and economic development	2,982,000	3,242,489	2,994,341	248,148
Total expenditures	<u>80,006,200</u>	<u>81,765,798</u>	<u>80,011,874</u>	<u>1,753,924</u>
Excess (deficiency) of revenues over expenditures	<u>(7,738,100)</u>	<u>(8,942,050)</u>	<u>(7,087,439)</u>	<u>1,854,611</u>
Other Financing Sources (Uses)				
Transfers in	7,738,100	7,929,754	7,667,342	(262,412)
Transfers out	-	(1,200,000)	(1,201,738)	(1,738)
Total other financing sources (uses)	<u>7,738,100</u>	<u>6,729,754</u>	<u>6,465,604</u>	<u>(264,150)</u>
Net change in fund balance - budgetary basis	-	(2,212,296)	(621,835)	1,590,461
Net adjustments to reflect operations in accordance with generally accepted accounting principles	-	-	116,063	116,063
Net change in fund balance - GAAP basis	-	(2,212,296)	(505,772)	<u>\$ 1,706,524</u>
Fund balance - January 1, 2016	<u>13,873,762</u>	<u>13,873,762</u>	<u>13,873,762</u>	
Fund balance - December 31, 2016	<u>\$ 13,873,762</u>	<u>\$ 11,661,466</u>	<u>\$ 13,367,990</u>	

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER, 31, 2016**

	Business-type Activities - Enterprise Funds			
	410 West First Street Ramp	Water	Gas	Sewer
Assets				
Current assets				
Cash and cash equivalents	\$ 161,893	\$ -	\$ 3,103,204	\$ 2,114,063
Restricted cash and cash equivalents				
Customer deposits	-	89,466	2,394,282	-
Construction	-	-	-	368,536
Loans	-	-	829,112	-
Restricted assets held by trustee	-	-	-	-
Receivables, net				
Accounts	31,047	1,355,009	5,030,658	1,937,218
Restricted loans	-	-	449,789	-
Assessments	-	31,383	2,530	36,585
Due from other funds	-	135,400	-	12,844
Interfund loan receivable	-	-	1,222,050	-
Due from other governments	-	2,566	131,139	27,085
Inventories	-	1,195,609	1,037,998	73,004
Prepays	-	617,339	2,503,546	255,184
Total current assets	<u>192,940</u>	<u>3,426,772</u>	<u>16,704,308</u>	<u>4,824,519</u>
Noncurrent assets				
Assessments receivable	-	110,748	6,331	184,197
Restricted loans receivable	-	-	1,430,531	-
Capital assets, net	20,475,799	61,708,236	52,361,259	97,088,653
Total noncurrent assets	<u>20,475,799</u>	<u>61,818,984</u>	<u>53,798,121</u>	<u>97,272,850</u>
Total Assets	<u>20,668,739</u>	<u>65,245,756</u>	<u>70,502,429</u>	<u>102,097,369</u>
Deferred Outflows of Resources				
Deferred loss from debt refunding	-	8,840	33,306	131,876
Deferred pension obligation outflows	-	1,852,430	2,349,297	1,112,279
Total Deferred Outflows of Resources	<u>-</u>	<u>1,861,270</u>	<u>2,382,603</u>	<u>1,244,155</u>
Liabilities				
Current liabilities				
Accounts payable	17,915	185,911	2,685,947	38,995
Contracts payable	-	222,447	244,103	140,122
Claims payable	-	-	-	-
Notes payable	-	1,070,062	-	1,522,938
Leases payable	-	228,061	209,056	196,386
Due to other funds	-	29,781	14,136	16,104
Interfund loan payable	-	855,033	-	-
Due to other governments	-	89,849	65,688	1,500,904
Accrued interest payable	-	79,825	57,224	156,207
Accrued salaries payable	-	75,735	101,671	38,656
Compensated absences	-	232,149	339,978	132,750
Unearned revenue	-	54,819	1,083,618	87,736
Deposits	-	10,000	2,404,082	-
Revenue bonds payable	-	336,473	902,931	1,357,474
Total current liabilities	<u>17,915</u>	<u>3,470,145</u>	<u>8,108,434</u>	<u>5,188,272</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER, 31, 2016**

	Business-type Activities - Enterprise Funds			
	410 West First Street Ramp	Water	Gas	Sewer
Noncurrent liabilities				
Notes payable	-	7,647,856	-	10,278,213
Loans payable	-	-	-	-
Claims payable	-	-	-	-
Interfund loan payable	-	-	-	-
Leases payable	-	1,710,656	1,568,101	1,473,064
Pension liability	-	4,409,395	5,592,100	2,647,589
Revenue bonds payable	12,572,031	821,115	1,055,403	5,227,039
Total noncurrent liabilities	<u>12,572,031</u>	<u>14,589,022</u>	<u>8,215,604</u>	<u>19,625,905</u>
Total Liabilities	<u>12,589,946</u>	<u>18,059,167</u>	<u>16,324,038</u>	<u>24,814,177</u>
Deferred Inflows of Resources				
Deferred pension obligation inflows	-	622,043	788,889	373,501
Net Position				
Net investment in capital assets	7,903,768	49,902,853	48,659,074	77,165,415
Restricted for health insurance trust	-	-	-	-
Restricted for special accounts	-	-	-	368,536
Restricted for loans	-	-	1,703,843	-
Unrestricted	175,025	(1,477,037)	5,409,188	619,895
Total Net Position	<u>\$ 8,078,793</u>	<u>\$ 48,425,816</u>	<u>\$ 55,772,105</u>	<u>\$ 78,153,846</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER, 31, 2016**

	Business-type Activities - Enterprise Funds		
	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 6,292,905	\$ 11,672,065	\$ 6,323,776
Restricted cash and cash equivalents			
Customer deposits	-	2,483,748	-
Construction	945,807	1,314,343	-
Loans	-	829,112	-
Restricted assets held by trustee	-	-	6,683,739
Receivables, net			
Accounts	1,864,017	10,217,949	49,587
Restricted loans	-	449,789	-
Assessments	34,238	104,736	-
Due from other funds	36,028	184,272	403,100
Interfund loan receivable	-	1,222,050	-
Due from other governments	48,529	209,319	-
Inventories	491,155	2,797,766	271,173
Prepays	76,737	3,452,806	50,000
Total current assets	<u>9,789,416</u>	<u>34,937,955</u>	<u>13,781,375</u>
Noncurrent assets			
Assessments receivable	982	302,258	-
Restricted loans receivable	12,182	1,442,713	-
Capital assets, net	50,789,541	282,423,488	375,290
Total noncurrent assets	<u>50,802,705</u>	<u>284,168,459</u>	<u>375,290</u>
Total Assets	<u>60,592,121</u>	<u>319,106,414</u>	<u>14,156,665</u>
Deferred Outflows of Resources			
Deferred loss from debt refunding	640,275	814,297	-
Deferred pension obligation outflows	1,222,026	6,536,032	559,527
Total Deferred Outflows of Resources	<u>1,862,301</u>	<u>7,350,329</u>	<u>559,527</u>
Liabilities			
Current liabilities			
Accounts payable	542,144	3,470,912	279,336
Contracts payable	616,437	1,223,109	83
Claims payable	-	-	1,424,129
Notes payable	-	2,593,000	-
Leases payable	-	633,503	-
Due to other funds	22,748	82,769	9,415
Interfund loan payable	836,601	1,691,634	327,099
Due to other governments	34,125	1,690,566	17,959
Accrued interest payable	161,286	454,542	-
Accrued salaries payable	47,781	263,843	24,702
Compensated absences	135,376	840,253	3,108,094
Unearned revenue	159,720	1,385,893	-
Deposits	-	2,414,082	-
Revenue bonds payable	1,648,121	4,244,999	-
Total current liabilities	<u>4,204,339</u>	<u>20,989,105</u>	<u>5,190,817</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER, 31, 2016**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities - Internal Service Funds</u>
Noncurrent liabilities			
Notes payable	-	17,926,069	-
Loans payable	162,493	162,493	-
Claims payable	-	-	709,835
Interfund loan payable	1,550,000	1,550,000	-
Leases payable	-	4,751,821	-
Pension liability	2,908,823	15,557,907	1,331,860
Revenue bonds payable	15,678,455	35,354,043	-
Total noncurrent liabilities	<u>20,299,771</u>	<u>75,302,333</u>	<u>2,041,695</u>
Total Liabilities	<u>24,504,110</u>	<u>96,291,438</u>	<u>7,232,512</u>
Deferred Inflows of Resources			
Deferred pension obligation inflows	<u>410,354</u>	<u>2,194,787</u>	<u>187,889</u>
Net Position			
Net investment in capital assets	34,886,554	218,517,664	375,290
Restricted for health insurance trust	-	-	5,417,620
Restricted for special accounts	-	368,536	-
Restricted for loans	-	1,703,843	-
Unrestricted	2,653,404	7,380,475	1,502,881
Total Net Position	<u>\$ 37,539,958</u>	<u>\$ 227,970,518</u>	<u>\$ 7,295,791</u>
Amounts reported for business-type activities in the statement of fund activities are different because of the consolidation of internal service fund activities related to enterprise funds.		3,773,196	
Net position of business-type activities		<u>\$ 231,743,714</u>	

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

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Business-type Activities - Enterprise Funds			
	410 West First Street Ramp	Water	Gas	Sewer
Operating Revenues				
Sales	\$ -	\$ -	\$ 29,663,964	\$ -
Charges for services	339,417	14,350,552	809,965	19,315,009
Fines and forfeits	-	-	-	-
Miscellaneous revenues	-	138,204	827,726	226,379
Total Operating Revenues	<u>339,417</u>	<u>14,488,756</u>	<u>31,301,655</u>	<u>19,541,388</u>
Operating Expenses				
Cost of sales and services	-	-	15,794,076	-
Personal services	-	5,193,991	6,697,145	2,992,274
Supplies	-	1,201,640	1,121,732	309,952
Utilities	17,915	1,242,537	41,320	113,194
Other services and charges	75,414	1,370,150	1,640,237	10,192,722
Depreciation	347,048	1,776,832	1,376,239	1,875,936
Medical and insurance	-	-	-	-
Total Operating Expenses	<u>440,377</u>	<u>10,785,150</u>	<u>26,670,749</u>	<u>15,484,078</u>
Operating Income (Loss)	<u>(100,960)</u>	<u>3,703,606</u>	<u>4,630,906</u>	<u>4,057,310</u>
Nonoperating Revenues (Expenses)				
Property taxes	-	-	-	-
Investment income	(319)	5,640	(14,932)	(6,156)
Intergovernmental revenue	-	19,254	154,427	10,151
Other revenue	-	-	485,550	-
Other expense	-	-	(480,350)	-
Gain (loss) on sale or disposition of capital assets	-	(4,390)	(10,410)	-
Interest and fiscal fees	(327,634)	(213,800)	(122,540)	(419,720)
Total Nonoperating Revenues (Expenses)	<u>(327,953)</u>	<u>(193,296)</u>	<u>11,745</u>	<u>(415,725)</u>
Income (Loss) Before Contributions and Transfers	(428,913)	3,510,310	4,642,651	3,641,585
Capital contributions	-	12,047	61,627	1,309,855
Transfers in	-	153,600	29,800	14,900
Transfers out	-	(179,385)	(2,759,794)	(134,257)
Change in Net Position	(428,913)	3,496,572	1,974,284	4,832,083
Total Net Position - January 1, 2016	8,507,706	44,929,244	53,797,821	73,321,763
Total Net Position - December 31, 2016	<u>\$ 8,078,793</u>	<u>\$ 48,425,816</u>	<u>\$ 55,772,105</u>	<u>\$ 78,153,846</u>

(continued)

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Business-type Activities - Enterprise Funds</u>		
	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
Operating Revenues			
Sales	\$ 511,350	\$ 30,175,314	\$ 1,732,112
Charges for services	18,066,632	52,881,575	19,529,653
Fines and forfeits	1,230,649	1,230,649	-
Miscellaneous revenues	435,425	1,627,734	434,169
Total Operating Revenues	<u>20,244,056</u>	<u>85,915,272</u>	<u>21,695,934</u>
Operating Expenses			
Cost of sales and services	247,985	16,042,061	1,691,296
Personal services	3,545,859	18,429,269	5,129,563
Supplies	3,783,991	6,417,315	50,959
Utilities	1,320,351	2,735,317	26,479
Other services and charges	7,562,408	20,840,931	2,735,838
Depreciation	2,488,876	7,864,931	56,666
Medical and insurance	-	-	15,152,433
Total Operating Expenses	<u>18,949,470</u>	<u>72,329,824</u>	<u>24,843,234</u>
Operating Income (Loss)	<u>1,294,586</u>	<u>13,585,448</u>	<u>(3,147,300)</u>
Nonoperating Revenues (Expenses)			
Property taxes	647,013	647,013	-
Investment income	(5,188)	(20,955)	64,415
Intergovernmental revenue	23,636	207,468	5,835
Other revenue	-	485,550	-
Other expense	-	(480,350)	-
Gain (loss) on sale or disposition of capital assets	(58,073)	(72,873)	-
Interest and fiscal fees	(471,060)	(1,554,754)	-
Total Nonoperating Revenues (Expenses)	<u>136,328</u>	<u>(788,901)</u>	<u>70,250</u>
Income (Loss) Before Contributions and Transfers	1,430,914	12,796,547	(3,077,050)
Capital contributions	387,453	1,770,982	-
Transfers in	24,736	223,036	-
Transfers out	(2,031,548)	(5,104,984)	-
Change in Net Position	(188,445)	9,685,581	(3,077,050)
Total Net Position - January 1, 2016	37,728,403	218,284,937	10,372,841
Total Net Position - December 31, 2016	<u>\$ 37,539,958</u>	<u>\$ 227,970,518</u>	<u>\$ 7,295,791</u>

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

Change in net position	\$ 9,685,581
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>(467,508)</u>
Change in net position of business-type activities	<u>\$ 9,218,073</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, 2016**

	Business-type Activities - Enterprise Funds			
	410 West First Street Ramp	Water	Gas	Sewer
Cash Flows from Operating Activities				
Cash received from customers	\$ 308,370	\$ 14,427,810	\$ 30,577,802	\$ 19,431,000
Cash paid to suppliers	(75,414)	(4,375,461)	(18,215,206)	(9,892,127)
Cash paid to employees	-	(4,978,991)	(6,297,413)	(2,946,192)
Other operating revenues	-	48,820	352,558	176,208
Net cash provided (used) by operating activities	232,956	5,122,178	6,417,741	6,768,889
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	-	116,137	29,800	14,900
Transfers to other funds	-	(177,241)	(2,763,051)	(132,013)
Property taxes	-	-	-	-
Operating grants	-	16,919	28,565	8,283
Interfund financing	-	855,033	(1,222,050)	-
Net cash provided (used) by noncapital financing activities	-	810,848	(3,926,736)	(108,830)
Cash Flows from Capital and Related Financing Activities				
Capital grants and contributions	915,100	33,606	63,147	1,415,068
Issuance of revenue bonds and notes	-	31,305	-	50,685
Principal paid on bonds, notes and capitalized leases	-	(1,664,892)	(1,071,307)	(2,867,704)
Interest paid on bonds, notes and capitalized leases	(68,200)	(228,487)	(157,912)	(428,179)
Sale of capital assets	-	23,903	37,253	34,680
Acquisition or construction of capital assets	(2,538,232)	(4,618,052)	(3,186,589)	(4,652,747)
Net cash provided (used) by capital and related financing activities	(1,691,332)	(6,422,617)	(4,315,408)	(6,448,197)
Cash Flows from Investing Activities				
Investment earnings	(273)	5,640	(14,932)	(6,156)
Net increase (decrease) in cash and cash equivalents	(1,458,649)	(483,951)	(1,839,335)	205,706
Cash and cash equivalents - January 1, 2016	1,620,542	573,417	8,165,933	2,276,893
Cash and cash equivalents - December 31, 2016	\$ 161,893	\$ 89,466	\$ 6,326,598	\$ 2,482,599
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	\$ (100,960)	\$ 3,703,606	\$ 4,630,906	\$ 4,057,310
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation	347,048	1,776,832	1,376,239	1,875,936
Change in assets and liabilities:				
Decrease (increase) in receivables	(31,047)	1,060	(781,791)	69,774
Decrease (increase) in inventories	-	(93,540)	(64,147)	(9,453)
Decrease (increase) in prepaids	-	(416,661)	(234,895)	(61,368)
Decrease (increase) in deferred pension obligation outflows	-	(1,430,296)	(1,829,609)	(859,039)
Increase (decrease) in payables	17,915	(32,584)	1,272,894	721,038
Increase (decrease) in unearned revenues	-	(6,982)	(133,985)	(334)
Increase (decrease) in deferred pension obligation inflows	-	221,345	295,598	133,127
Increase (decrease) in pension liability	-	1,399,398	1,886,531	841,898
Total adjustments	333,916	1,418,572	1,786,835	2,711,579
Net cash provided (used) by operating activities	\$ 232,956	\$ 5,122,178	\$ 6,417,741	\$ 6,768,889

(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, 2016**

	Business-type Activities - Enterprise Funds		Governmental Activities -
	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities			
Cash received from customers	\$ 19,853,087	\$ 84,598,069	\$ 21,553,636
Cash paid to suppliers	(12,934,857)	(45,493,065)	(19,780,405)
Cash paid to employees	(3,400,445)	(17,623,041)	(4,889,662)
Other operating revenues	213,556	791,142	932
Net cash provided (used) by operating activities	<u>3,731,341</u>	<u>22,273,105</u>	<u>(3,115,499)</u>
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	135,859	296,696	-
Transfers to other funds	(2,022,598)	(5,094,903)	-
Property taxes	635,595	635,595	-
Operating grants	22,235	76,002	5,835
Interfund financing	542,566	175,549	185,291
Net cash provided (used) by noncapital financing activities	<u>(686,343)</u>	<u>(3,911,061)</u>	<u>191,126</u>
Cash Flows from Capital and Related Financing Activities			
Capital grants and contributions	387,453	2,814,374	-
Issuance of revenue bonds and notes	-	81,990	-
Principal paid on bonds, notes and capitalized leases	(1,574,699)	(7,178,602)	-
Interest paid on bonds, notes and capitalized leases	(364,132)	(1,246,910)	-
Sale of capital assets	7,960	103,796	-
Acquisition or construction of capital assets	(4,587,117)	(19,582,737)	(86,659)
Net cash provided (used) by capital and related financing activities	<u>(6,130,535)</u>	<u>(25,008,089)</u>	<u>(86,659)</u>
Cash Flows from Investing Activities			
Investment earnings	(5,188)	(20,909)	64,414
Net increase (decrease) in cash and cash equivalents	(3,090,725)	(6,666,954)	(2,946,618)
Cash and cash equivalents - January 1, 2016	10,329,437	22,966,222	15,954,133
Cash and cash equivalents - December 31, 2016	<u>\$ 7,238,712</u>	<u>\$ 16,299,268</u>	<u>\$ 13,007,515</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Net operating income (loss)	\$ 1,294,586	\$ 13,585,448	\$ (3,147,300)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:			
Depreciation	2,488,876	7,864,931	56,666
Change in assets and liabilities:			
Decrease (increase) in receivables	(228,451)	(970,455)	(119,905)
Decrease (increase) in inventories	15,414	(151,726)	24,706
Decrease (increase) in prepaids	(2,400)	(715,324)	-
Decrease (increase) in deferred pension obligation outflows	(954,887)	(5,073,831)	(437,593)
Increase (decrease) in payables	(53,618)	1,925,645	(26,647)
Increase (decrease) in unearned revenues	11,023	(130,278)	-
Increase (decrease) in deferred pension obligation inflows	156,785	806,855	72,146
Increase (decrease) in pension liability	1,004,013	5,131,840	462,428
Total adjustments	2,436,755	8,687,657	31,801
Net cash provided (used) by operating activities	<u>\$ 3,731,341</u>	<u>\$ 22,273,105</u>	<u>\$ (3,115,499)</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, 2016**

Noncash Investing, Capital and Financing Activities

410 West First Street Parking Ramp

Capital contributions are reported net of timing differences totaling \$915,100 due to receivables.

Water

Capital contributions are reported net of timing differences totaling \$21,559 due to receivables.

Gas

Capital contributions are reported net of timing differences totaling \$1,520 due to receivables.

Sewer

Capital contributions are reported net of timing differences totaling \$105,213 due to receivables.

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2016**

	Other Postemployment Benefits Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 76,883	\$ 2,549,572
Receivables:		
Loans	-	782,751
Accounts receivable	157,419	-
Investments, at fair value:		
Fixed income pool	15,145,263	-
Equity pool	33,683,932	-
Total Assets	<u>49,063,497</u>	<u>\$ 3,332,323</u>
Liabilities		
Accounts payable	\$ -	\$ 34,683
Due to agency	-	3,297,640
Total Liabilities	<u>-</u>	<u>\$ 3,332,323</u>
Net Position		
Held in trust for postemployment benefits	<u>\$ 49,063,497</u>	

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
OTHER POSTEMPLOYMENT BENEFITS TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

Additions

Contributions	<u>\$ 9,779,402</u>
Investment earnings:	
Interest and dividends	1,091,587
Net decrease in fair value of investments	<u>3,029,073</u>
Total investment earnings	<u>4,120,660</u>
Total Additions	<u>13,900,062</u>

Deductions

Administrative fees	3,920
Benefits	<u>9,228,702</u>
Total Deductions	<u>9,232,622</u>
Change in Net Position	4,667,440
Net Position - January 1, 2016	<u>44,396,057</u>
Net Position - December 31, 2016	<u><u>\$ 49,063,497</u></u>

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF NET POSITION
COMPONENT UNITS
DECEMBER 31, 2016**

	Duluth Economic Development Authority	Duluth Entertainment and Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	Totals
Assets						
Cash and cash equivalents	\$ 3,637,921	\$ 2,602,558	\$ 1,661,017	\$ 5,131,098	\$ 571,469	\$ 13,604,063
Receivables, net:						
Taxes	47,925	-	-	12,237	-	60,162
Accounts	106,914	327,593	591,961	162,136	2,328	1,190,932
Loans	7,732,596	-	-	-	-	7,732,596
Grants	-	-	9,449	-	-	9,449
Due from primary government	15,401	684,960	-	2,615	47,367	750,343
Due from other governments	204,768	-	-	302,806	-	507,574
Inventories	-	163,900	16,483	171,308	75,941	427,632
Prepays	-	16,184	36,264	130,681	13,247	196,376
Restricted assets:						
Cash and cash equivalents	-	926,484	-	-	-	926,484
Accounts receivable	-	26,059	67,267	-	-	93,326
Grants receivable	-	-	1,056,214	-	-	1,056,214
Assets held by trustee	-	806	-	-	-	806
Planning and development costs	-	-	1,230,802	-	69,698	1,300,500
Capital assets, net:						
Non-depreciable	4,361,597	947,179	5,514,437	222,367	3,063,129	14,108,709
Depreciable	11,736,566	88,829,295	103,295,322	43,804,421	16,685,294	264,350,898
Total Assets	27,843,688	94,525,018	113,479,216	49,939,669	20,528,473	306,316,064
Deferred Outflows of Resources						
Deferred pension obligation outflows	-	1,984,573	654,600	-	341,888	2,981,061
Liabilities						
Accounts payable and other short-term liabilities	442,309	652,045	295,187	1,231,787	148,917	2,770,245
Contracts payable	178,656	-	363,720	-	47,367	589,743
Accrued interest payable	-	-	-	-	5,187	5,187
Due to primary government	653,264	464	74	2,530	1,207,035	1,863,367
Due to other government	6,056	-	-	-	23,630	29,686
Unearned revenue	-	782,289	64,913	137,879	505,400	1,490,481
Deposits	-	951,337	-	-	-	951,337
Non-current liabilities:						
Due within one year	-	127,022	1,068,073	567,864	360,847	2,123,806
Due in more than one year	-	5,663,230	13,447,977	-	3,034,754	22,145,961
Total Liabilities	1,280,285	8,176,387	15,239,944	1,940,060	5,333,137	31,969,813
Deferred Inflows of Resources						
Deferred pension obligation inflows	-	389,643	137,332	-	460,187	987,162
Net Position						
Net investment in capital assets	16,098,163	89,776,474	97,640,870	44,026,788	17,938,270	265,480,565
Restricted for:						
Capital projects	5,019,717	-	-	3,218,647	-	8,238,364
Unrestricted	5,445,523	(1,832,913)	1,115,670	754,174	(2,861,233)	2,621,221
Total Net Position	\$ 26,563,403	\$ 87,943,561	\$ 98,756,540	\$ 47,999,609	\$ 15,077,037	\$ 276,340,150

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, 2016**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Duluth Economic Development Authority				
Governmental activities:				
Economic development	\$ 8,428,320	\$ 1,073,661	\$ 1,681,904	\$ -
Duluth Entertainment and Convention Center Authority				
Business-type activities:				
Entertainment and convention facility	15,010,627	9,217,857	-	400,000
Duluth Airport Authority				
Business-type activities:				
Airport facility	14,291,051	6,080,951	-	4,016,906
Duluth Transit Authority				
Business-type activities:				
Public transportation	20,162,304	2,787,220	4,379,275	3,507,691
Spirit Mountain Recreation Area Authority				
Business-type activities:				
Ski hill operations	5,735,553	4,599,588	-	6,601,112
Total Component Units	\$ 63,627,855	\$ 23,759,277	\$ 6,061,179	\$ 14,525,709

(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, 2016

Functions/Programs	Net (Expense) Revenue and Changes in Net Position					Totals
	Duluth Economic Development Authority	Duluth Entertainment and Convention Center Authority	Duluth Airport Authority	Duluth Transit Authority	Spirit Mountain Recreation Area Authority	
Duluth Economic Development Authority						
Governmental activities:						
Economic development	\$ (5,672,755)	\$ -	\$ -	\$ -	\$ -	\$ (5,672,755)
Duluth Entertainment and Convention Center Authority						
Business-type activities:						
Entertainment and convention facility	-	(5,392,770)	-	-	-	(5,392,770)
Duluth Airport Authority						
Business-type activities:						
Airport facility	-	-	(4,193,194)	-	-	(4,193,194)
Duluth Transit Authority						
Business-type activities:						
Public transportation	-	-	-	(9,488,118)	-	(9,488,118)
Spirit Mountain Recreation Area Authority						
Business-type activities:						
Ski hill operations	-	-	-	-	5,465,147	5,465,147
Total Component Units						(19,281,690)
General Revenues:						
Property taxes	1,467,561	-	-	1,491,900	-	2,959,461
Sales taxes	-	1,683,274	-	-	-	1,683,274
Grants and shared revenues not restricted to specific programs	-	-	-	8,378,212	-	8,378,212
Investment income	62,841	20,086	18,146	50,598	-	151,671
Gain on sale of capital assets	871,284	12,500	96,819	-	-	980,603
Miscellaneous	530,723	677,722	-	-	103,202	1,311,647
Total General Revenues	2,932,409	2,393,582	114,965	9,920,710	103,202	15,464,868
Change in Net Position	(2,740,346)	(2,999,188)	(4,078,229)	432,592	5,568,349	(3,816,822)
Net Position - Beginning	29,303,749	90,942,749	102,834,769	47,567,017	9,508,688	280,156,972
Net Position - Ending	\$ 26,563,403	\$ 87,943,561	\$ 98,756,540	\$ 47,999,609	\$ 15,077,037	\$ 276,340,150

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

Notes to the
Financial Statements

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016**

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CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

REPORTING ENTITY

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

DISCRETELY PRESENTED COMPONENT UNITS

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

The governing board of each component unit is appointed by the Mayor and approved by the City Council, except for the DECC, which has seven City appointees and four directors appointed by the Governor of Minnesota. Three of the seven board members of DEDA must be City Councilors.

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

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

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

Duluth Transit Authority
 2402 West Michigan Street
 Duluth, MN 55806

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

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

Duluth Airport Authority
 Duluth International Airport
 Duluth, MN 55811

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 45 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

The City reports the following major governmental fund:

General Fund	The City's primary operating fund. It accounts for all financial transactions not accounted for in another fund.
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**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following major proprietary funds:

410 West First Street Ramp Fund	This fund accounts for the construction, operation, and maintenance of the parking ramp located at 410 West First Street.
Water Enterprise Fund	This fund accounts for the collection, treatment, and distribution of water.
Gas Enterprise Fund	This fund accounts for the distribution of natural gas, as well as inspection, maintenance and servicing of customer gas utilization equipment.
Sewer Enterprise Fund	This fund accounts for the operation and maintenance of the sanitary sewer system.

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 irrevocable trust established for funding other postemployment benefits for eligible retired employees under a single-employer defined benefit plan.
Agency Fund	Accounts for assets held by the City as an agent for the Duluth 1200 Loan Fund.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2016. GASB is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

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

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

CASH AND CASH EQUIVALENTS

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

ASSETS HELD BY TRUSTEE

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RECEIVABLES AND PAYABLES

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

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

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

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

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

Assessments for street improvements are reported in a governmental fund, and revenues are deferred until the collections are received. Assessments for utility improvements are reported in proprietary funds.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVENTORIES AND PREPAID ITEMS

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

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

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

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

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

RESTRICTED ASSETS

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

CAPITAL ASSETS

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

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

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

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

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

COMPENSATED ABSENCES

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

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

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

LONG-TERM OBLIGATIONS

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

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

FUND EQUITY

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

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

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

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

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

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

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

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

RECLASSIFICATIONS

Several account balances were reclassified for the year ended December 31, 2015, as previously reported. These reclassifications were required for the comparability to the current year's financial statements and must be considered when comparing the financial statements of this report with those of prior reports.

USE OF ESTIMATES

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

PENSIONS

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

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

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

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

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

FEDERAL AUDIT REQUIREMENTS

The Single Audit Act requires the City to have a single, independent audit of its financial operations, including compliance with certain provisions of federal law and regulations. This audit requirement was complied with for fiscal year ended December 31, 2016. An auditor's report on compliance and internal accounting control will be issued at a later date.

DEFICIT FUND EQUITY

The following special revenue funds had deficit fund balances due to grants earned but not received within 45 days of the end of the current fiscal year: Lake Superior Zoo - \$446,628, Disaster Recovery - \$1,046,249, Home Investment Partnerships Program - \$30,478, and Senior Employment - \$2,008. The deficits will be eliminated upon receipt of the grant funds.

The following capital project funds had deficit fund balances at the end of the current fiscal year. These deficits will be eliminated through future financing and grant receipts: Special Assessment - \$196,444 - special assessment debt; and Permanent Improvement - \$379,773 - grant funds.

The following internal service funds had deficit net positions which will be eliminated through future charges: Employee Vacation Compensation - \$14,879 and Fleet Services - \$629,945.

The Golf enterprise fund deficit net position of \$680,085 will be eliminated through operational changes and efficiencies.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

3. DEPOSITS AND INVESTMENTS

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

Government-wide Statement of Net Position

Governmental Activities	
Cash and cash equivalents	\$ 62,384,758
Investments, at fair value	20,252,597
Assets held by trustee	6,683,739
Business-type Activities	
Cash and cash equivalents	11,672,065
Cash and cash equivalents - restricted assets	4,627,203
Discrete Component Units	
Cash and cash equivalents	13,604,063
Cash and cash equivalents - restricted assets	926,484
Assets held by trustee - restricted assets	806

Statement of Fiduciary Net Position

Cash and cash equivalents	2,626,455
Investments, at fair value	48,829,195

Total Cash and Investments

\$ 171,607,365

DEPOSITS

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

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy to obtain pledged collateral for all deposits in excess of FDIC insurance. As of December 31, 2016, deposits with financial institutions were fully insured or collateralized by securities held in the City's name.

INVESTMENTS

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

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

6) repurchase agreements consisting of collateral allowable in Minnesota Statutes § 118A.04, and reverse repurchase agreements may be entered into with any of the following entities:

- (1) a financial institution qualified as a "depository" of public funds of the government entity;
- (2) any other financial institution which is a member of the Federal Reserve System and whose combined capital and surplus equals or exceeds \$10,000,000;
- (3) a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York; or
- (4) a securities broker-dealer licensed pursuant to chapter 80A, or an affiliate of it, regulated by the Securities and Exchange Commission and maintaining a combined capital and surplus of \$40,000,000 or more, exclusive of subordinated debt.

Reverse agreements may only be entered into for a period of 90 days or less and only to meet short-term cash flow needs. In no event may reverse repurchase agreements be entered into for the purpose of generating cash for investments, except as stated in Minnesota Statutes § 118A.05, subdivision 3.

7) securities lending agreements, including custody agreements, may be entered into with a financial institution meeting the qualifications of Minnesota Statutes § 118A.05, subdivision 2, clause (1) or (2), and having an office in Minnesota. Securities lending transactions may be entered into with entities meeting the qualifications of Minnesota Statutes § 118A.05, subdivision 2, and the collateral for such transactions shall be restricted to the securities described in Minnesota Statutes § 118A.04 and § 118A.05.

8) agreements or contracts for:

- (1) shares of a Minnesota joint powers investment trust whose investments are restricted to securities described in Minnesota Statutes § 118A.04 and § 118A.05, subdivision 2;
- (2) units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency, in which investments are restricted to securities described in Minnesota Statutes § 118A.04 and § 118A.05;
- (3) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or

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

(4) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and whose shares are registered under the Federal Securities Act of 1933, as long as the investment company's fund receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization and is invested in financial instruments with a final maturity no longer than 13 months.

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

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

At December 31, 2016, the City had the following investments:

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years
U.S. Government Agency Securities	\$ 65,484,964	\$ 34,812,412	\$ 30,672,552	\$ -
Negotiable Certificates of Deposit	10,539,495	5,387,082	5,152,413	-
Municipal Bonds	10,133,613	451,566	8,187,807	1,494,240
Mutual Funds	71,132,063	71,132,063	-	-
Total Investments	157,290,135	\$ 111,783,123	\$ 44,012,772	\$ 1,494,240
Deposits	14,317,230			
Total Deposits and Investments	\$ 171,607,365			

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, 2016, is as follows:

S & P Rating	Fair Value
AAA	\$ 4,839,098
AA+	67,475,534
AA	2,802,430
AA-	501,515
<u>Moody's Rating</u>	
Aaa	2,050,271
<u>Not Rated</u>	
Mutual Funds	69,081,792
Negotiable Certificates of Deposit	10,539,495
Total	\$ 157,290,135

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2016, none of the City's investments were subject to custodial credit risk.

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

<u>Issuer</u>	<u>Reported Amount</u>
Federal Home Loan Mortgage Association	\$ 11,234,133
Federal National Mortgage Association	\$ 13,665,249
Federal Farm Credit Bank	\$ 8,011,961
Federal Home Loan Bank	\$ 31,214,927

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

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

At December 31, 2016, the City of Duluth had the following recurring fair value measurements.

Investments By Fair Value Level	12/31/2016	<u>Fair Value Measurements Using:</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Government Agency Securities	\$ 65,484,964	\$ 1,358,694	\$ 64,126,270	\$ -
Negotiable Certificates of Deposit	10,539,495	-	10,539,495	-
Municipal Bonds	10,133,613	-	10,133,613	-
Total Investments by Fair Value	86,158,072	<u>\$ 1,358,694</u>	<u>\$ 84,799,378</u>	<u>\$ -</u>
Investments Measured at Net Asset Value (NAV)				
Mutual Funds	<u>2,050,271</u>			
Total Investments by Fair Value and Measured at NAV	88,208,343			
Deposits	14,317,230			
State Board of Investment Funds	69,081,792			
Total Deposits and Investments	<u>\$ 171,607,365</u>			

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

3. DEPOSITS AND INVESTMENTS (continued)

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

The City holds \$34,838,389 in the Internal Equity Pool and \$13,990,806 in the Internal Fixed Pool, with the State Board of Investment, an external investment pool, related to the City's Other Postemployment Benefits Trust Fund. The fair value of the investment is the fair value per share of the underlying portfolio. Pursuant to Minnesota Statute § 353.95, the City may only redeem these funds for the use of postemployment benefits. The City invests in this pool due to the increased investment authority, historical rates of return on investments, and the reduction of the postemployment benefit liability recorded in its financial statements.

The City also holds \$14,490,348 in the Internal Equity Pool, \$5,715,835 in the Internal Fixed Pool, and \$46,414 in the Cash Pool, with the State Board of Investment, an external investment pool, related to the City's Community Investment Trust Fund. The fair value of the investment is the fair value per share of the underlying portfolio. The City invests in this pool, in accordance with Minnesota Statute § 11A.235, due to the increased investment authority and historical rates of return on investments.

4. PROPERTY TAXES

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

Property taxes may be paid by taxpayers in two equal installments, on May 15 and October 15. The County is required to distribute collections to the City three times each year. Taxes which remain unpaid at year-end are delinquent. Collections made by the County through the end of the year and remitted to the City within 45 days after year-end are recognized as revenue and the remainder is deferred. The current year collection rate at December 31, 2016, was 98.4%.

5. RECEIVABLES

Receivables, net of uncollectible amounts, are reported in the governmental, proprietary, and fiduciary financial statements for goods and services, taxes, assessments, loans, grants, and interest. The amount of delinquent assessments included for the current fiscal year is \$928,006. The uncollectible amounts related to the revenues of the City's utility enterprise funds at December 31, 2016, are as follows:

Water	\$ 124,377
Gas	544,431
Sewer	236,851
Nonmajor	109,789
Total Uncollectible	<u>\$ 1,015,448</u>

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016**

6. DEFERRED INFLOWS OF RESOURCES

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following schedule shows the detail of deferred inflows of resources at December 31, 2016:

General		
Assessments	\$	1,160,123
Grants		153,340
Loans		1,765,505
Taxes		477,395
Nonmajor		
Assessments		4,465,698
Grants		6,300,451
Loans		3,793,488
Taxes		331,557
Total for Governmental Funds	\$	<u>18,447,557</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Notes T.O.C.

7. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

<u>PRIMARY GOVERNMENT</u>	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 22,467,642	\$ -	\$ -	\$ 22,467,642
Construction in progress	29,410,090	9,738,574	21,461,473	17,687,191
Total capital assets, not being depreciated	<u>51,877,732</u>	<u>9,738,574</u>	<u>21,461,473</u>	<u>40,154,833</u>
Capital assets, being depreciated:				
Buildings	78,029,018	7,804,254	-	85,833,272
Equipment	33,914,010	3,786,749	1,809,283	35,891,476
Infrastructure	321,019,560	14,875,502	-	335,895,062
Total capital assets being depreciated	<u>432,962,588</u>	<u>26,466,505</u>	<u>1,809,283</u>	<u>457,619,810</u>
Less accumulated depreciation for:				
Buildings	38,586,525	3,061,947	-	41,648,472
Equipment	23,540,689	3,445,206	1,725,594	25,260,301
Infrastructure	128,535,258	9,058,636	-	137,593,894
Total accumulated depreciation *	<u>190,662,472</u>	<u>15,565,789</u>	<u>1,725,594</u>	<u>204,502,667</u>
Total capital assets, being depreciated, net	<u>242,300,116</u>	<u>10,900,716</u>	<u>83,689</u>	<u>253,117,143</u>
Governmental activities capital assets, net	<u>\$ 294,177,848</u>	<u>\$ 20,639,290</u>	<u>\$ 21,545,162</u>	<u>\$ 293,271,976</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 4,628,407	\$ -	\$ -	\$ 4,628,407
Construction in progress	39,436,322	13,028,747	32,509,927	19,955,142
Total capital assets, not being depreciated	<u>44,064,729</u>	<u>13,028,747</u>	<u>32,509,927</u>	<u>24,583,549</u>
Capital assets, being depreciated:				
Buildings	62,541,593	20,822,847	37,457	83,326,983
Equipment	47,939,393	2,222,463	2,144,129	48,017,727
Infrastructure	231,973,659	11,840,339	742,202	243,071,796
Total capital assets, being depreciated	<u>342,454,645</u>	<u>34,885,649</u>	<u>2,923,788</u>	<u>374,416,506</u>
Less accumulated depreciation for:				
Buildings	28,538,089	1,677,608	37,457	30,178,240
Equipment	29,977,161	2,736,146	2,049,409	30,663,898
Infrastructure	52,984,764	3,491,866	742,201	55,734,429
Total accumulated depreciation **	<u>111,500,014</u>	<u>7,905,620</u>	<u>2,829,067</u>	<u>116,576,567</u>
Total capital assets, being depreciated, net	<u>230,954,631</u>	<u>26,980,029</u>	<u>94,721</u>	<u>257,839,939</u>
Business-type activities capital assets, net	<u>\$ 275,019,360</u>	<u>\$ 40,008,776</u>	<u>\$ 32,604,648</u>	<u>\$ 282,423,488</u>

* Accumulated depreciation on assets transferred from business-type activities to governmental activities was \$43,471.

** Accumulated depreciation on assets transferred from governmental activities to business-type activities was \$40,688.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

7. CAPITAL ASSETS (continued)

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

Governmental activities:

General government	\$ 1,596,254
Public Safety	2,371,713
Public works, including depreciation of general infrastructure assets	9,631,424
Culture and recreation	1,721,413
Urban and economic development	144,848
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>56,666</u>
Total depreciation expense - governmental activities	<u><u>\$15,522,318</u></u>

Business-type activities:

Parking	\$ 546,373
410 West First Street Ramp	347,048
Water	1,776,832
Gas	1,376,239
Sewer	1,875,936
Golf	104,405
Stormwater	422,186
Steam	1,190,539
Street Lighting	<u>225,374</u>
Total depreciation expense - business-type activities	<u><u>\$ 7,864,932</u></u>

COMPONENT UNITS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 11,685,167	\$ 98,306	\$ 571,730	\$ 11,211,743
Construction in progress	2,624,478	12,133,714	11,861,226	2,896,966
Total capital assets, not being depreciated	<u>14,309,645</u>	<u>12,232,020</u>	<u>12,432,956</u>	<u>14,108,709</u>
Capital assets, being depreciated:				
Buildings	308,385,023	12,047,144	1,071,233	319,360,934
Equipment	74,016,256	3,631,159	3,026,362	74,621,053
Infrastructure	91,302,500	4,480,400	-	95,782,900
Other	802,903	-	-	802,903
Total capital assets being depreciated	<u>474,506,682</u>	<u>20,158,703</u>	<u>4,097,595</u>	<u>490,567,790</u>
Less accumulated depreciation for:				
Buildings	99,339,476	10,485,756	214,247	109,610,985
Equipment	47,802,434	4,994,284	3,000,681	49,796,037
Infrastructure	61,248,408	5,010,193	-	66,258,601
Other	521,727	29,542	-	551,269
Total accumulated depreciation	<u>208,912,045</u>	<u>20,519,775</u>	<u>3,214,928</u>	<u>226,216,892</u>
Total capital assets, being depreciated, net	<u>265,594,637</u>	<u>(361,072)</u>	<u>882,667</u>	<u>264,350,898</u>
Component unit capital assets, net	<u><u>\$279,904,282</u></u>	<u><u>\$11,870,948</u></u>	<u><u>\$13,315,623</u></u>	<u><u>\$278,459,607</u></u>

Depreciation expense was charged to component units as follows:

Duluth Economic Development Authority	\$ 996,479
Duluth Entertainment and Convention Center Authority	3,814,952
Duluth Airport Authority	9,385,213
Duluth Transit Authority	5,312,438
Spirit Mountain Recreation Area Authority	1,010,693
Total depreciation expense - component units	<u><u>\$20,519,775</u></u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

8. PURCHASE AND CONSTRUCTION COMMITMENTS

At December 31, 2016, the City had construction commitments of approximately \$4,027,882 for various utility improvements. The Duluth Airport Authority component unit had construction commitments of \$12,450,058 for airport improvements. Funding for these future expenditures or expenses will be available from federal and state grants, municipal state aid construction funds, tax levies, bond proceeds, and special assessments.

At December 31, 2016, the City had purchase commitments represented by open encumbrances. These are included as part of fund balance as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 75,748
Other Governmental Funds	12,801,471
Total Purchase Commitments	<u>\$ 12,877,219</u>

FLOOD DAMAGE REPAIR COMMITMENTS

On June 19 and 20, 2012, the City incurred significant flood damage to its infrastructure due to an unprecedented rain event. The City has been awarded grants from various sources to repair flood damaged roads, bridges, facilities, parks, and streams. Additional flood damage work estimated to be \$4.1 million remains to be completed as of December 31, 2016.

9. RISK MANAGEMENT

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

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

The self-insurance for workers' compensation covers up to \$500,000 per single loss occurrence. At that point, the City is covered for losses by the Workers' Compensation Reinsurance Association (WCRA), an organization created by Minnesota statutes in 1979 to implement a mandatory program of reinsurance for workers' compensation liability risks in the State of Minnesota for losses occurring on or after October 1, 1979. The WCRA provides full indemnification for the City for claims arising under Minnesota Statutes Chapter 176 in excess of the \$500,000 retention limit.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

9. RISK MANAGEMENT (continued)

The accrued liability for workers' compensation is estimated by the benefits administrator at the time an injury or illness is reported. Interest cost is not included in the estimate. The estimated liability for general liability matters is accrued if the City determines settlement is probable, based on a case-by-case evaluation. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims incurred but not reported have been considered in the sense that management's experience has shown that they do not affect the predictions. An actuary was not used in determining the liabilities, but actuarial guidelines were used. The estimated liability for claims payable at year end is present valued at 5%. In addition, the City Attorney estimated settlements to be \$244,044 for various claims and cases which are considered reasonably possible losses to the City. Considerable prejudgment interest liability is not considered by the City Attorney in making a liability estimate. The amount of these estimated liabilities is not reflected in the financial statements. Changes in the balances of the self-insurance fund's liability during 2015 and 2016 were as follows:

	Liability January 1	Claims and Changes in Estimates	Less Claims Payments	Liability December 31
2015	\$ 1,060,371	271,576	348,512	\$ 983,435
2016	\$ 983,435	521,892	643,729	\$ 861,598

The Group Health Fund, an internal service fund, was established for the payment of employee medical and dental claims. The City pays Delta Dental of Minnesota, HealthPartners, and ClearScript an administrative fee to process dental, medical, and prescription drug claims, respectively. The City assumes all risk, except that which is covered by a medical stop-loss policy purchased from HealthPartners. The stop-loss policy has an individual limit of \$750,000 and an aggregate limit of 120% of projected claims for the year. Claims, expenditures, and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have occurred but have not been reported. The estimated liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the balances of the Group Health Fund's liability during 2015 and 2016 were as follows:

	Liability January 1	Claims and Changes in Estimates	Less Claims Payments	Liability December 31
2015	\$ 1,890,212	8,085,362	8,520,895	\$ 1,454,679
2016	\$ 1,454,679	11,079,985	11,262,298	\$ 1,272,366

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Notes T.O.C.

10. LEASE OBLIGATIONSOPERATING 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 2016:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Component Units</u>
Impound lot	\$ 2,800	\$ -
Land & right-of-way	24,074	54,605
Buildings	698,019	-
Equipment	609,332	5,335
Total Expense	<u>\$ 1,334,225</u>	<u>\$ 59,940</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, 2016:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	<u>Component Units</u>
2017	\$ 18,902	\$ 54,606
2018	18,902	54,604
2019	18,902	-
2020	18,902	-
2021	18,902	-
2022-2026	5,000	-
2027-2031	5,000	-
2032-2036	5,000	-
2037-2041	5,000	-
2042-2046	5,000	-
2047-2051	5,000	-
2052-2056	5,000	-
2057-2061	4,000	-
Total minimum payments required	<u>\$ 133,510</u>	<u>\$ 109,210</u>

Component unit subleases of noncancelable operating leases provide for future minimum rentals to be received totaling \$109,210 at December 31, 2016.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

10. LEASE OBLIGATIONS (continued)

CAPITAL LEASES

Capitalized leases for the City and its component units at December 31, 2016, consist of the following capital assets shown at original costs as summarized below:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
Equipment	208,209	9,377,739	3,453,731
Less: Accumulated amortization	(104,104)	(4,688,870)	(1,136,398)
Total Expense	<u>\$ 104,105</u>	<u>\$ 4,688,869</u>	<u>\$ 2,317,333</u>

Minimum future lease payments are:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Component Units</u>
2017	\$ 39,992	\$ 831,661	\$ 340,879
2018	39,992	831,660	288,354
2019	-	831,660	257,348
2020	-	831,661	242,568
2021	-	831,660	213,207
2022-2026	-	2,079,151	780,675
Total minimum lease payments	79,984	6,237,453	2,123,031
Less: Imputed interest	(4,922)	(852,129)	(312,878)
Present value of minimum lease payments	<u>\$ 75,062</u>	<u>\$ 5,385,324</u>	<u>\$ 1,810,153</u>

11. SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2016, follows:

	<u>Balance 01/01/16</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/16</u>
Duluth Economic Development Authority				
Accounts Payable	\$ 178,399	-	42,785	\$ 135,614

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Notes T.O.C.

12. LONG-TERM DEBTCHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2016, follows:

	Balance 01/01/16	Additions	Deletions	Balance 12/31/16	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 97,340,000	\$ 34,605,000	\$ 40,645,000	\$ 91,300,000	\$ 6,230,000
General Obligation - Tax Abatement	6,350,000	7,820,000	365,000	13,805,000	370,000
Special Assessment Debt with Government Commitment	13,080,000	-	2,315,000	10,765,000	3,445,000
General Obligation Certificates	12,670,000	3,565,000	2,985,000	13,250,000	3,195,000
Add Deferred Amounts:					
For Bond Premium	1,909,847	7,185,320	677,537	8,417,630	-
General Obligation Public					
Facilities Authority Notes	79,000	-	26,000	53,000	26,000
Revenue Notes	2,656,000	-	5,000	2,651,000	5,000
Capital Leases Payable	110,267	-	35,205	75,062	39,992
Pension Liability	43,842,392	76,269,176	-	120,111,568	-
Compensated Absences	2,972,629	3,166,760	3,031,295	3,108,094	3,108,094
Claims and Judgments	2,438,114	11,601,877	11,906,027	2,133,964	1,424,129
Net Other Postemployment					
Benefits Payable	41,689,022	927,518	-	42,616,540	-
Total Governmental Long-Term Liabilities	\$ 225,137,271	\$ 145,140,651	\$ 61,991,064	\$ 308,286,858	\$ 17,843,215
Business-Type Activities:					
Bonds Payable:					
Revenue and General Obligation Bonds	\$ 42,760,045	\$ 421,987	\$ 3,960,003	\$ 39,222,029	\$ 4,244,999
Add Deferred Amounts:					
For Bond Premiums	495,931	-	118,918	377,013	-
General Obligation Public					
Facilities Authority Notes	23,033,812	43,694	2,558,437	20,519,069	2,593,000
Capital Leases Payable	5,995,482	-	610,158	5,385,324	633,503
Loans Payable	212,497	-	50,004	162,493	-
Pension Liability	10,426,067	5,131,840	-	15,557,907	-
Compensated Absences	840,893	947,087	947,727	840,253	840,253
Total Business-Type Long-Term Liabilities	\$ 83,764,727	\$ 6,544,608	\$ 8,245,247	\$ 82,064,088	\$ 8,311,755
Component Unit Activities:					
Duluth Entertainment and Convention Center Authority					
Capital Leases	\$ 9,939	\$ -	\$ 9,939	\$ -	\$ -
Compensated Absences	208,941	141,550	141,964	208,527	127,022
Pension Liability	3,057,686	1,740,941	-	4,798,627	-
Net Other Postemployment					
Benefits Payable	765,659	17,439	-	783,098	-
Duluth Transit Authority					
Compensated Absences	565,643	567,864	565,643	567,864	567,864

(continued)

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

12. LONG-TERM DEBT (continued)

	Balance 01/01/16	Additions	Deletions	Balance 12/31/16	Due Within One Year
Duluth Airport Authority					
Notes Payable	221,584	-	56,615	164,969	61,737
Loans Payable	12,020,556	-	851,667	11,168,889	896,667
Compensated Absences	92,675	109,669	92,675	109,669	109,669
Unearned Revenue	330,821	-	96,221	234,600	-
Pension Liability	995,044	572,022	-	1,567,066	-
Net Other Postemployment Benefits Payable	1,152,095	118,762	-	1,270,857	-
Spirit Mountain Recreation Area Authority					
Capital Leases	2,189,519	-	379,366	1,810,153	273,147
Pension Liability	1,484,410	13,338	-	1,497,748	-
Compensated Absences	79,486	87,700	79,486	87,700	87,700
Total Component Unit Long-Term Liabilities	\$ 23,174,058	\$ 3,369,285	\$ 2,273,576	\$ 24,269,767	\$ 2,123,806

DEBT REQUIREMENTS AND SOURCES OF REPAYMENTS

Governmental Activities Long-Term Debt

General Obligation Bonds and Certificate Covenants

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

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

General obligation annual debt service requirements to maturity follow:

Year Ending December 31	General Obligation Bonds		General Obligation Certificates		General Obligation Tax Abatement	
	Interest	Principal	Interest	Principal	Interest	Principal
2017	\$ 3,504,479	\$ 6,230,000	\$ 291,468	\$ 3,195,000	\$ 339,344	\$ 370,000
2018	3,348,948	4,890,000	254,988	3,260,000	329,594	830,000
2019	3,199,734	4,805,000	177,650	2,655,000	315,194	835,000
2020	3,055,461	4,665,000	111,725	1,915,000	298,294	855,000
2021	2,908,421	4,795,000	56,475	1,450,000	281,044	870,000
2022-2026	12,086,729	25,135,000	15,500	775,000	1,106,029	4,640,000
2027-2031	6,589,334	27,220,000	-	-	438,581	4,780,000
2032-2035	934,570	13,560,000	-	-	9,844	625,000
Total	\$ 35,627,676	\$ 91,300,000	\$ 907,806	\$ 13,250,000	\$ 3,117,924	\$ 13,805,000

United States Department of Housing and Urban Development Revenue Notes

During 2005, \$7,876,000 revenue notes were issued for the Fifth Street Redevelopment Project. Repayment of the notes shall be from tax credit equity participation amounts, surplus cash, tax savings, anticipated tax increment financing, interest reserve account and additional funds previously paid by the developer and held by the City.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

12. LONG-TERM DEBT (continued)

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

Year Ending December 31	United States Dept. of Housing and Urban Development Revenue Notes	
	Interest	Principal
2017	\$ 151,954	\$ 5,000
2018	151,689	10,000
2019	151,151	15,000
2020	150,333	15,000
2021	149,507	15,000
2022-2025	587,340	2,591,000
Total	<u>\$ 1,341,974</u>	<u>\$ 2,651,000</u>

Special Assessment Bonds

The City has a contingent liability against its full faith and credit on \$10,765,000 of special assessment bonds. The general credit of the City is obligated only to the extent that collections from special assessments are insufficient to retire outstanding bonds.

General Obligation Public Facilities Authority Notes

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

Annual debt service requirements to maturity to fund special assessments and general obligation Public Facility Authority Notes are as follows:

Year Ending December 31	Special Assessment Bonds		General Obligation Public Facilities Authority Notes	
	Interest	Principal	Interest	Principal
2017	\$ 300,461	\$ 3,445,000	\$ 530	\$ 26,000
2018	206,602	2,155,000	270	27,000
2019	142,385	2,040,000	-	-
2020	85,925	1,505,000	-	-
2021	43,525	975,000	-	-
2022-2025	20,300	645,000	-	-
Total	<u>\$ 799,198</u>	<u>\$ 10,765,000</u>	<u>\$ 800</u>	<u>\$ 53,000</u>

Other Debt

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

Business-type Activities Long-Term Debt

Revenue and General Obligation Bonds

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

General Obligation Public Facilities Authority Notes

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

12. LONG-TERM DEBT (continued)

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

Year Ending December 31	Revenue and General Obligation Bonds		General Obligation Public Facilities Authority Notes	
	Interest	Principal	Interest	Principal
2017	\$ 1,108,461	\$ 4,244,999	\$ 265,148	\$ 2,593,000
2018	1,177,805	3,885,550	229,290	2,629,000
2019	933,528	3,440,849	193,541	2,325,000
2020	852,128	3,015,579	164,928	2,179,000
2021	780,200	2,725,703	132,930	2,085,069
2022-2026	2,922,173	10,860,272	291,356	7,733,000
2027-2031	1,858,958	2,572,253	14,047	975,000
2032-2036	1,453,985	2,184,746	-	-
2037-2041	975,538	2,663,194	-	-
2042-2044	276,450	3,628,884	-	-
Total	<u>\$ 12,339,226</u>	<u>\$ 39,222,029</u>	<u>\$ 1,291,240</u>	<u>\$ 20,519,069</u>

Component Unit Long-Term Debt

Duluth Airport Authority Notes and Loans Payable

On November 1, 2005, the Authority issued an Airport Facility Revenue Note, Series 2005A to finance the lease buyout of the Authority's fixed base operator. The principal of the note is \$164,969, payable in semi-annual payments on June 1 and December 1 each year, commencing June 1, 2007, and until final maturity on June 1, 2019, with an annual interest rate of 8.85%.

The annual requirements to service the debt follow:

Year Ending December 31	Airport Facility Revenue Note	
	Interest	Principal
2017	\$ 13,263	\$ 61,737
2018	7,679	67,321
2019	1,589	35,911
Total	<u>\$ 22,531</u>	<u>\$ 164,969</u>

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

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

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

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

12. LONG-TERM DEBT (continued)

DEBT LIMIT

SCHEDULE OF BONDED INDEBTEDNESS

	<u>Issue Date</u>	<u>Amount Outstanding</u>	<u>Total</u>
Governmental Activities:			
General Obligation Bonds Payable:			
Airpark Improvement	09/01/2004	\$ 320,000	
Capital Improvement	12/13/2007	160,000	
Duluth Entertainment and Convention Center Improvement	08/07/2008	1,525,000	
Aerial Lift Bridge Improvement	08/07/2008	495,000	
Capital Improvement	12/09/2008	410,000	
Capital Improvement	12/17/2009	3,395,000	
Capital Improvement - Law Enforcement Center	12/17/2009	11,905,000	
Capital Improvement	11/23/2010	1,160,000	
Airport Improvement Refunding	11/23/2010	325,000	
Capital Improvement	11/29/2011	1,190,000	
Airport Improvement	05/24/2012	6,315,000	
Airport Improvement	12/18/2013	3,400,000	
Capital Improvement	12/18/2013	1,475,000	
Capital Improvement - Lakewalk	12/18/2013	1,305,000	
Wade Stadium Improvement	10/30/2014	2,225,000	
Spirit Mountain Improvement	10/30/2014	2,080,000	
Capital Improvement	10/30/2014	1,020,000	
Capital Improvement	11/05/2015	1,615,000	
Airport Improvement	11/05/2015	2,855,000	
Capital Improvement - 1/2 & 1/2	11/05/2015	13,520,000	
Duluth Entertainment and Convention Center Improvement Refunding	03/22/2016	33,470,000	
Capital Improvement	11/09/2016	<u>1,135,000</u>	
Total General Obligation Bonds Payable			\$ 91,300,000
General Obligation Tax Abatement:			
Spirit Mountain Tax Abatement Bonds	02/23/2012	5,985,000	
GO Tax Abatement (Cirrus)	03/22/2016	<u>7,820,000</u>	13,805,000
Special Assessment Debt with Government Commitment	7 issues	<u>10,765,000</u>	10,765,000
General Long-Term Debt Certificates Payable:			
General Obligation Certificates Payable	6 issues	<u>13,250,000</u>	<u>13,250,000</u>
Total Governmental Activities Debt			<u>129,120,000</u>
Business-type Activities Debt:			
Revenue and General Obligation Bonds Payable:			
Parking Fund	1 issue	8,565,000	
410 West First Street Ramp Fund	1 issue	12,572,031	
Water Fund	3 issues	1,125,324	
Gas Fund	2 issues	1,887,931	
Steam Fund	2 issues	7,630,000	
Sewer Fund	8 issues	6,422,073	
Stormwater Fund	2 issues	<u>1,019,670</u>	
Total Revenue and General Obligation Bonds Payable			<u>39,222,029</u>
Total Business-type Activities Debt			<u>39,222,029</u>
Total Bonds Payable			<u>168,342,029</u>

(continued)

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

12. LONG-TERM DEBT (continued)

	Issue Date	Amount Outstanding	Total
Deductions Allowable:			
Airport Improvement Refunding	11/23/2010	\$ 325,000	
Airpark Improvement	09/01/2004	320,000	
Duluth Entertainment and Convention Center Authority Improvement	08/07/2008	1,525,000	
Airport Improvement	05/24/2012	6,315,000	
Spirit Mountain Tax Abatement Bonds	02/23/2012	5,985,000	
Airport Improvement	12/18/2013	3,400,000	
Wade Stadium Improvement	10/30/2014	2,225,000	
Spirit Mountain Improvement	10/30/2014	2,080,000	
Airport Improvement	11/05/2015	2,855,000	
Capital Improvement 1/2 & 1/2	11/05/2015	13,520,000	
Duluth Entertainment and Convention Center Authority Refunding	03/22/2016	33,470,000	
GO Tax Abatement (Cirrus)	03/22/2016	7,820,000	
Special Assessment		10,765,000	
Parking Fund		8,565,000	
410 West First Street Ramp		12,572,031	
Water Fund		1,125,324	
Gas Fund		1,887,931	
Steam Fund		7,630,000	
Sewer Fund		6,422,073	
Stormwater Fund		1,019,670	
Total Deductions Allowable			<u>129,827,029</u>
Net Debt			<u>\$ 38,515,000</u>
Legal Debt Margin for Duluth			
Taxable Market Value (5,903,691,700 X 2%)			<u>\$ 118,073,834</u>

Overlapping Debt to Duluth

Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$ 123,390,000	36.78%	\$ 45,380,425
Independent School District 704	16,375,000	6.24%	1,021,383
St. Louis County	93,785,000	88.34%	82,849,023
			<u>\$ 129,250,831</u>

REFUNDING BOND ISSUES

Current Refunding Bonds

A current refunding occurs when the refunded bonds are retired within 90 days after the refunding issue is sold. No current refunding bonds were issued in 2016.

Advance Refunding Bonds

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

12. LONG-TERM DEBT (continued)

In 2016 the City issued \$33,470,000 General Obligation DECC Improvement Refunding Bonds with the obligation to be paid primarily by food and beverage taxes. The transaction resulted in a net present value savings of \$5,414,950 and a reduction in future debt service payments of \$6,507,511. The proceeds from this issue were used to advance refund the City's Series 2008A General Obligation DECC Improvement Bonds.

The following refunded bonds are scheduled do be recalled on February 1, 2018

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

All other advance refunded bonds have been paid in full.

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

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Balance</u>
Governmental Activities:			
Current Refunding Bonds:			
Airport Improvement	11/23/2010	\$ 1,850,000	\$ 325,000
General Obligation Improvement	11/23/2010	1,205,000	455,675
Street Improvement	11/27/2012	6,905,000	4,300,000
General Obligation Improvement	10/30/2014	865,000	705,000
Street Improvement	11/05/2015	2,630,000	2,630,000
Duluth Entertainment and Convention Center Improvement Refunding	03/22/2016	33,470,000	33,470,000
Advance Refunding Bonds:			
General Obligation Improvement	11/23/2010	1,135,000	429,325
Total Governmental Activities		<u>\$ 48,060,000</u>	<u>\$ 42,315,000</u>
Business-type Activities:			
Current Refunding Bonds:			
Gas Utility Revenue and General Obligation	12/17/2009	\$ 2,846,814	\$ 432,931
Sewer Utility Revenue and General Obligation	12/17/2009	713,186	107,067
Water Utility Revenue and General Obligation	11/23/2010	1,625,000	494,324
Sewer Utility Revenue and General Obligation	11/23/2010	2,025,000	616,006
Stormwater Utility Revenue and General Obligation	11/23/2010	755,000	229,670
Gas Utility Revenue and General Obligation	11/29/2011	3,125,000	1,455,000
Steam Utility Revenue and General Obligation	11/27/2012	5,475,000	3,615,000
Water Utility Revenue and General Obligation	11/05/2015	515,000	515,000
Sewer Utility Revenue and General Obligation	11/05/2015	1,110,000	1,110,000
Sewer Utility Revenue and General Obligation	11/05/2015	350,000	350,000
Stormwater Utility Revenue and General Obligation	11/05/2015	790,000	790,000
Advance Refunding Bonds:			
Sewer Utility Revenue and General Obligation	11/29/2011	2,265,000	1,325,000
Sewer Utility Revenue and General Obligation	11/27/2012	2,000,000	1,465,000
Parking Improvements	11/27/2012	10,270,000	8,565,000
Total Business-type Activities		<u>\$ 33,865,000</u>	<u>\$ 21,069,998</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Notes T.O.C.

12. LONG-TERM DEBT (continued)BONDS/CERTIFICATES AND NOTES PAYABLE - BY ISSUE

Bonds, certificates, and notes payable at December 31, 2016, are composed of the following individual issues:

BONDS AND CERTIFICATES BY ISSUE

	Interest Rate and Dates		Issue Date	Final Maturity	Authorized and Issued	Outstanding
Governmental Activities:						
General Obligation Bonds Payable						
General Obligation						
Airpark Improvement	2.00 to 4.20%	02/01; 08/01	09-01-04	02-01-20	\$ 945,000	\$ 320,000
Capital Improvement	4.00%	02/01; 08/01	12-13-07	02-01-17	1,240,000	160,000
Duluth Entertainment and Convention Center						
Authority Improvement	4.00 to 5.00%	02/01; 08/01	08-07-08	02-01-34	40,635,000	1,525,000
Aerial Lift Bridge Improvement	3.00 to 4.30%	02/01; 08/01	08-07-08	02-01-19	1,475,000	495,000
Capital Improvement	3.00 to 4.25%	02/01; 08/01	12-09-08	02-01-18	1,600,000	410,000
Capital Improvement	2.50 to 4.00%	02/01; 08/01	12-17-09	02-01-20	7,085,000	3,395,000
Capital Improvement - Law Enforcement Center	5.00 to 6.00%	02/01; 08/01	12-17-09	02-01-32	11,905,000	11,905,000
Capital Improvement	2.00 to 3.00%	02/01; 08/01	11-23-10	02-01-21	2,175,000	1,160,000
Airport Improvement Refunding	0.75 to 2.45%	02/01; 08/01	11-23-10	02-01-17	1,850,000	325,000
Capital Improvement	3.00%	02/01; 08/01	11-29-11	02-01-22	1,870,000	1,190,000
Airport Improvement	2.00 to 3.25%	02/01; 08/01	05-24-12	02-01-28	7,650,000	6,315,000
Airport Improvement	1.55 to 4.38%	02/01; 08/01	12-18-13	02-01-29	3,400,000	3,400,000
Capital Improvement	2.00 to 3.00%	02/01; 08/01	12-18-13	02-01-24	1,795,000	1,475,000
Capital Improvement - Lakewalk	2.50 to 4.00%	02/01; 08/01	12-18-13	02-01-29	1,460,000	1,305,000
Wade Stadium Improvement	3.00 to 3.70%	02/01; 08/01	10-30-14	02-01-30	2,330,000	2,225,000
Spirit Mountain Improvement	2.00 to 3.40%	02/01; 08/01	10-30-14	02-01-35	2,150,000	2,080,000
Capital Improvement	2.00 to 2.50%	02/01; 08/01	10-30-14	02-01-25	1,115,000	1,020,000
Capital Improvement	2.00 to 3.00%	02/01; 08/01	11-05-15	02-01-26	1,615,000	1,615,000
Airport Improvement	3.00 to 3.70%	02/01; 08/01	11-05-15	02-01-31	2,855,000	2,855,000
Capital Improvement - 1/2 & 1/2	3.00 to 3.80%	02/01; 08/01	11-05-15	02-01-32	13,520,000	13,520,000
Duluth Entertainment and Convention Center						
Improvement Refunding	3.00 to 5.00%	02/01; 08/01	03-22-16	02-01-34	33,470,000	33,470,000
Capital Improvement	4.00%	02/01; 08/01	11-09-16	02-01-27	1,135,000	1,135,000
Total General Obligation					<u>143,275,000</u>	<u>91,300,000</u>
General Obligation - Tax Abatement						
Spirit Mountain Tax Abatement Bonds	2.00 to 3.00%	02/01; 08/01	02-23-12	02-01-30	7,055,000	5,985,000
GO Tax Abatement (Cirrus)	1.00 to 3.15%	02/01; 08/01	03-22-16	02-01-32	7,820,000	7,820,000
Total General Obligation - Tax Abatement					<u>14,875,000</u>	<u>13,805,000</u>
Special Assessment Debt with Government						
Commitment						
General Obligation Improvement	4.00%	02/01; 08/01	09-07-06	02-01-21	1,985,000	855,000
Street Improvement	4.00 to 4.75%	02/01; 08/01	08-07-08	02-01-24	2,320,000	1,390,000
General Obligation Improvement Refunding	2.25 to 2.40%	02/01; 08/01	11-23-10	02-01-19	1,205,000	455,675
General Obligation Improvement Refunding	2.25 to 2.40%	02/01; 08/01	11-23-10	02-01-19	1,135,000	429,325
Street Improvement Refunding	2.00 to 3.00%	02/01; 08/01	11-27-12	02-01-21	6,905,000	4,300,000
General Obligation Improvement Refunding	1.50 to 2.00%	02/01; 08/01	10-30-14	02-01-20	865,000	705,000
Street Improvement Refunding	4.00%	02/01; 08/01	11-05-15	02-01-23	2,630,000	2,630,000
Total Special Assessment Debt with Government					<u>17,045,000</u>	<u>10,765,000</u>
Commitment						
General Obligation Certificates Payable						
Equipment	2.00%	02/01; 08/01	11-29-11	02-01-17	3,095,000	645,000
Equipment	3.00%	02/01; 08/01	11-27-12	02-01-18	3,275,000	1,370,000
Equipment	2.00%	02/01; 08/01	12-18-13	02-01-19	3,835,000	2,355,000
Equipment	1.50 to 2.00%	02/01; 08/01	10-30-14	02-01-20	2,460,000	1,990,000
Equipment	2.00 to 3.00%	02/01; 08/01	11-05-15	02-01-21	3,325,000	3,325,000
Equipment	4.00%	02/01; 08/01	11-09-16	02-01-22	3,565,000	3,565,000
Total General Obligation Certificates Payable					<u>19,555,000</u>	<u>13,250,000</u>
Total Governmental Activities					<u>\$194,750,000</u>	<u>\$129,120,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Notes T.O.C.

12. LONG-TERM DEBT (continued)

	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding	
Business-type Activities:						
Revenue and General Obligation Bonds Payable						
Parking Fund						
Parking Improvement Tax Increment Refunding	1.00 to 2.75%	02/01; 08/01	11-27-12	02-01-26	\$ 10,270,000	\$ 8,565,000
410 West First Street Ramp						
Parking Improvement Tax Increment	4.00%	02/01; 08/01	05-15-14	04-01-44	11,500,000	12,572,031
Water Fund						
Water Utility Revenue and General Obligation	2.00 to 4.00%	02/01; 08/01	02-19-09	02-01-24	196,000	116,000
Water Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-23-10	02-01-18	1,625,000	494,324
Water Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-05-15	02-01-22	515,000	515,000
Total Water Fund					2,336,000	1,125,324
Gas Fund						
Gas Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	12-17-09	02-01-17	2,846,814	432,931
Gas Utility Revenue and General Obligation Refunding	3.00 to 4.00%	02/01; 08/01	11-29-11	02-01-19	3,125,000	1,455,000
Total Gas Fund					5,971,814	1,887,931
Steam Fund						
Steam Utility Revenue and General Obligation Refunding	1.00 to 2.13%	02/01; 08/01	11-27-12	02-01-22	5,475,000	3,615,000
Steam Utility Revenue and General Obligation Refunding	3.00 to 3.20%	02/01; 08/01	11-05-15	02-01-27	4,015,000	4,015,000
Total Steam Fund					9,490,000	7,630,000
Sewer Fund						
Sewer Utility Revenue and General Obligation Refunding	2.00 to 4.00%	02/01; 08/01	02-19-09	02-01-24	1,444,000	854,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	12-17-09	02-01-17	713,186	107,067
Sewer Utility Revenue and General Obligation Refunding	2.00 to 4.00%	02/01; 08/01	12-17-09	02-01-25	905,000	595,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-23-10	02-01-18	2,025,000	616,006
Sewer Utility Revenue and General Obligation Refunding	1.00 to 3.00%	02/01; 08/01	11-29-11	02-01-20	2,265,000	1,325,000
Sewer Utility Revenue and General Obligation Refunding	2.00%	02/01; 08/01	11-27-12	02-01-20	2,000,000	1,465,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-05-15	02-01-23	1,110,000	1,110,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-05-15	02-01-22	350,000	350,000
Total Sewer Fund					10,812,186	6,422,073
Stormwater Fund						
Stormwater Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-23-10	02-01-18	755,000	229,670
Stormwater Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-05-15	02-01-22	790,000	790,000
Total Stormwater Fund					1,545,000	1,019,670
Total Business-type Activities					\$ 51,925,000	\$ 39,222,029

CITY OF DULUTH, MINNESOTA
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DECEMBER 31, 2016

Notes T.O.C.

12. LONG-TERM DEBT (continued)

NOTES PAYABLE BY ISSUE	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding	
Governmental Activities:						
General Obligation						
Public Facilities Authority Note	1.00%	02/20; 08/20	07-24-02	08-20-18	\$ 364,195	\$ 53,000
Revenue Note						
U.S. Dept. of Housing and Urban Development	5.23 to 5.77%	01/22; 07/22	08-01-05	08-01-25	7,876,000	2,651,000
Total Governmental Activities					<u>\$ 8,240,195</u>	<u>\$ 2,704,000</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	\$ 139,918
Public Facilities Authority Note	2.530%	02/20; 08/20	07-23-04	08-20-18	1,971,532	312,000
Public Facilities Authority Note	1.077%	02/20; 08/20	10-28-09	08-20-19	1,668,813	516,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	1,293,200	793,000
Public Facilities Authority Note	1.076%	02/20; 08/20	12-07-10	08-20-25	3,344,131	2,128,000
Public Facilities Authority Note	1.221%	02/20; 08/20	11-18-11	08-20-26	1,221,631	807,000
Public Facilities Authority Note	1.000%	02/20; 08/20	02-25-14	08-20-29	4,778,806	4,022,000
Total Water Fund					<u>15,148,113</u>	<u>8,717,918</u>
Sewer Fund						
Public Facilities Authority Note	2.819%	02/20; 08/20	08-25-03	08-20-18	100,000	16,082
Public Facilities Authority Note	1.340%	02/20; 08/20	10-17-03	08-20-18	1,179,115	185,000
Public Facilities Authority Note	1.150%	02/20; 08/20	07-12-07	08-20-22	1,973,033	914,000
Public Facilities Authority Note	1.969%	02/20; 08/20	08-20-09	08-20-24	796,835	463,000
Public Facilities Authority Note	2.017%	02/20; 08/20	11-25-09	08-20-24	2,414,150	1,446,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	3,753,059	2,337,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	8,504,224	5,214,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-18-11	08-20-21	279,117	134,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-30-11	08-20-21	265,418	141,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-18-11	08-20-21	278,149	151,000
Public Facilities Authority Note	1.000%	02/20; 08/20	09-10-12	08-20-22	476,537	285,000
Public Facilities Authority Note (Note 1)	1.000%	02/20; 08/20	10-29-14	08-20-24	1,255,464	515,069
Total Sewer Fund					<u>21,275,101</u>	<u>11,801,151</u>
Total Business-type Activities					<u>\$ 36,423,214</u>	<u>\$ 20,519,069</u>
Component Units:						
Duluth Airport Authority						
Revenue Note	8.85%	06/01;12/01	11-01-05	06-01-19	497,379	164,969
Total Component Units					<u>\$ 497,379</u>	<u>\$ 164,969</u>

Note 1: Only \$738,533 has been drawn on the Public Facilities Authority Note dated 10/29/2014.

CITY OF DULUTH, MINNESOTA
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13. FUND EQUITY

For governmental funds, fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources. Fund balance classifications as of December 31, 2016, are as follows:

	General Fund	Other Governmental Funds	Total Fund Balance
Fund Balances:			
Spendable:			
Restricted for:			
Forfeitures	\$ 85,776	\$ 57,298	\$ 143,074
Capital Projects	-	17,525,000	17,525,000
Community Development	-	93,745	93,745
Employment	-	218,300	218,300
Parks and Recreation	-	1,295,734	1,295,734
Public Access Television	-	378,115	378,115
Public Works	-	404,139	404,139
Economic Development	-	867,522	867,522
Library	-	636,562	636,562
Tourism	-	1,177,129	1,177,129
Debt Service	-	22,581,641	22,581,641
Committed for:			
General Government	-	261,313	261,313
Community Investment	-	20,216,936	20,216,936
Energy Program	-	571,082	571,082
Municipal Arts	-	132,735	132,735
Parks and Recreation	-	450,787	450,787
Public Safety	32,075	74,429	106,504
Assigned to:			
General Government	1,616,063	-	1,616,063
Economic Development	-	8,796	8,796
Capital Projects	-	815,671	815,671
Unassigned	11,634,076	(2,101,580)	9,532,496
Total Fund Balances	<u>\$ 13,367,990</u>	<u>\$ 65,665,354</u>	<u>\$ 79,033,344</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Notes T.O.C.

14. INTERFUND ASSETS/LIABILITIES/TRANSFERSDUE TO/FROM OTHER FUNDS

The outstanding balances between funds results mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Balances at December 31, 2016 are:

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 10,424
	Nonmajor Enterprise Funds	24,531
	Internal Service Funds	343,736
Water Enterprise	General	2,144
	Nonmajor Governmental Funds	16,522
	Internal Service Funds	11,115
Gas Enterprise	General	2,752
	Internal Service Funds	11,384
Sewer Enterprise	General	2,244
	Internal Service Funds	13,860
Nonmajor Governmental Funds	General	101,783
	Water Enterprise	135,400
	Sewer Enterprise	12,844
	Nonmajor Governmental Funds	649,907
Nonmajor Enterprise Funds	Nonmajor Enterprise Funds	9,628
	Internal Service Funds	5,985
	General	3,859
	Nonmajor Enterprise Funds	1,869
Internal Service Funds	Internal Service Funds	17,020
	Nonmajor Governmental Funds	9,415
Total		(1,2,3) <u>\$ 1,386,422</u>
Due from other funds, reported in	Balance Sheet - Governmental Funds	\$ 799,050
	Statement of Net Position - Proprietary Funds:	
	Business-type Activities - Enterprise Funds	184,272
	Governmental Activities - Internal Service Funds	403,100
Total		<u>\$ 1,386,422</u>

DUE TO/FROM PRIMARY GOVERNMENT/COMPONENT UNITS

Due to/from the primary government and component unit results from the time lag between the date that (1) goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between the primary government and component units are made; or (4) a budgetary authorized line of credit by the primary government to the component unit; or (5) a budgetary authorized lending agreement by the primary government to the component unit. Balances as shown below are reported on the Government-wide Statement of Net Position. Balances are for December 31, 2016, with the exception of the Spirit Mountain Recreation Authority, whose fiscal year ended April 30, 2016.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Notes T.O.C.

14. INTERFUND ASSETS/LIABILITIES/TRANSFERS (continued)

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government:	Component Unit:	
General Fund	Duluth Transit Authority	(1,2,3) \$ 1,950
	Spirit Mountain Recreation Area Authority	(4) 1,200,000
	Duluth Airport Authority	(1,2,3) 74
	Duluth Economic Development Authority	(1,2,3) 17,709
Nonmajor Governmental Funds	Duluth Transit Authority	(1,2,3) 580
	Duluth Entertainment and Convention Center Authority	(1,2,3) 464
	Spirit Mountain Recreation Area Authority	(1,2,3) 60,000
	Duluth Economic Development Authority	(1,2,3,5) 635,555
Total Due From Component Units		<u>\$ 1,916,332</u>
Total Due To Primary Government		\$ 1,863,367
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2016		(1,207,035)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2016		1,260,000
Total Due From Component Units		<u>\$ 1,916,332</u>
Component Unit:	Primary Government:	
Duluth Transit Authority	General	\$ 55
	Nonmajor Governmental Funds	2,560
Duluth Entertainment and Convention Center Authority	General	6,154
	Nonmajor Governmental Funds	678,806
Duluth Economic Development Authority	Nonmajor Governmental Funds	15,401
Spirit Mountain Recreation Area Authority	General	4,706
Total Due from Primary Government		<u>\$ 707,682</u>
Total Due To Component Units		\$ 750,343
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2016		(47,367)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2016		4,706
Total Due To Component Units		<u>\$ 707,682</u>

INTERFUND LOAN RECEIVABLES/PAYABLES

Interfund loan balances are a result of temporary interfund financing at year-end to cover deficit cash balances within the various funds. Balances on December 31, 2016 are:

<u>Receivable Fund</u>	<u>Amount</u>
General	\$ 3,668,977
Gas Enterprise Fund	1,222,050
	<u>\$ 4,891,027</u>
<u>Payable Fund</u>	
Water Enterprise Fund	\$ 855,033
Nonmajor Governmental Funds	1,322,294
Nonmajor Enterprise Funds	2,386,601
Internal Service Funds	327,099
Total	<u>\$ 4,891,027</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

14. INTERFUND ASSETS/LIABILITIES/TRANSFERS (continued)

INTERFUND TRANSFERS

The City reports transfers between many of its funds to move revenues from the fund in which they are collected to the fund required to expend them, including: (1) debt service payments, participation in projects, and reimbursements of expenditures; and (2) payments in lieu of taxes from enterprise funds; or (3) to distribute budgetary authorized revenues to finance programs the government must account for in other funds. Interfund transfers for the year ended December 31, 2016, are as follows:

<u>Transfer to, reported in fund:</u>	<u>Transfer from, reported in fund:</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	(3) \$ 1,188,202
	Nonmajor Enterprise Funds	(1) 13,536
Water Enterprise	General	(1) 179,385
Gas Enterprise	General	(1,2) 2,618,840
	Nonmajor Governmental Funds	(1) 140,954
Sewer Enterprise	General	(1) 134,257
Nonmajor Governmental Funds	General	(3) 2,740,562
	Water Enterprise	(1) 144,300
	Gas Enterprise	(1) 14,900
	Sewer Enterprise	(1) 7,450
	Nonmajor Governmental Funds	(1) 13,388,938
	Nonmajor Enterprise Funds	(1) 5,600
Nonmajor Enterprise Funds	General	(1) 1,994,298
	Water Enterprise	(1) 9,300
	Gas Enterprise	(1) 14,900
	Sewer Enterprise	(1) 7,450
	Nonmajor Enterprise Funds	(1) 5,600
Total		<u>\$ 22,608,472</u>
Transfers out, reported in:	Statement of Revenues, Expenditures, and Change in Fund Balances:	
	Governmental Funds	\$ 22,385,436
	Statement of Revenues, Expenditures, and Change in Fund Net Position:	
	Business-type Activities - Enterprise Funds	223,036
Total		<u>\$ 22,608,472</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

15. PENSION PLANS

PLAN DESCRIPTION

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

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

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

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.20% of average salary for each of the first ten years of service and 2.70% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.20% of average salary for each of the first ten years of service and 1.70% for each remaining year. Under Method 2, the annuity accrual rate is 2.70% of average salary for Basic Plan members and 1.70% for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Public Employees Police and Fire Plan members, the annuity accrual rate is 3.00% of average salary for each year of service.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

15. PENSION PLANS (continued)

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

CONTRIBUTIONS

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minnesota Statutes, Chapter 353. These statutes are established and amended by the state legislature. General Employees Retirement Plan Basic members and Coordinated members were required to contribute 9.10% and 6.50%, respectively, of their annual covered salary in 2016. Public Employees Police and Fire Plan members were required to contribute 10.80% of their annual covered salary in 2016.

In 2016, the City was required to contribute the following percentages of annual covered salary:

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

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

The City's contributions for the year ended December 31, 2016, to the pension plans were:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
General Employees Retirement Fund	\$ 2,446,675	\$ 2,514,167	\$ 2,419,915
Public Employees Police and Fire Fund	3,615,941	3,557,651	3,208,134
Total	<u>\$ 6,062,616</u>	<u>\$ 6,071,818</u>	<u>\$ 5,628,049</u>

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

PENSION COSTS

General Employees Retirement Fund

At December 31, 2016, the City reported a liability of \$42,684,233 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 0.5257%. It was 0.5499% measured as of June 30, 2015. The City recognized pension expense of \$5,175,770 for its proportionate share of the General Employees Retirement Plan's pension expense.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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15. PENSION PLANS (continued)

The City also recognized \$166,234 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$6 million to the General Employees Retirement Plan each year, starting September 15, 2015, through September 15, 2031.

City's proportionate share of the net pension liability	\$ 42,684,233
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>557,508</u>
Total	<u>\$ 43,241,741</u>

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 3,509,615
Changes in actuarial assumptions	8,357,610	-
Difference between projected and actual investment earnings	8,190,696	-
Changes in proportion	-	2,511,941
Contributions paid to PERA subsequent to the measurement date	1,383,764	-
Total	<u>\$ 17,932,070</u>	<u>\$ 6,021,556</u>

A total of \$1,383,764 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 2,573,442
2018	2,573,442
2019	3,838,037
2020	1,541,829

Public Employees Police and Fire Fund

At December 31, 2016, the City reported a liability of \$92,985,242 for its proportionate share of the Public Employees Police and Fire Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the City's proportion was 2.317%. It was 2.268% measured as of June 30, 2015. The City recognized pension expense of \$16,138,055 for its proportionate share of the Public Employees Police and Fire Plan's pension expense.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

15. PENSION PLANS (continued)

The City also recognized \$208,530 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota’s on-behalf contribution to the Public Employees Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the Public Employees Police and Fire Plan each year, starting in fiscal year 2014, until the plan is 90% funded.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 10,594,937
Changes in actuarial assumptions	51,173,841	-
Difference between projected and actual investment earnings	14,117,446	-
Changes in proportion	463,962	208,808
Contributions paid to PERA subsequent to the measurement date	1,988,579	-
Total	\$ 67,743,828	\$ 10,803,745

A total of \$1,988,579 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2017	\$ 11,799,194
2018	11,799,194
2019	11,799,194
2020	10,676,702
2021	8,877,220

The total pension expense for all plans recognized by the City for the year ended December 31, 2016, was \$21,313,825.

ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants in the General Employees Retirement Plan were based on RP-2014 tables, while Public Employees Police and Fire Plan were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Plan and the Public Employees Police and Fire Plan, cost of living benefit increases for retirees are assumed to be 1.00%.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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15. PENSION PLANS (continued)

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Plan was for the period 2008 through 2015. The experience study for the Public Employees Police and Fire Plan was for the period 2004 through 2009.

On August 16, 2016, an updated experience study was done for PERA's Public Employees Police and Fire Plan for the period 2011 through 2015, which would result in a larger pension liability. However, PERA will implement the changes in assumptions for its June 30, 2017, estimate of pension liability.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Cash	2%	0.50%

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.50% in 2016, a reduction of the 7.90% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Retirement Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In the Public Employees Police and Fire Plan, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2056. Beginning in fiscal year ended June 30, 2057, when projected benefit payments exceed the Plan's projected fiduciary net position, benefit payments were discounted at the municipal bond rate of 2.85% based on an index of 20-year general obligation bonds with an average AA credit rating at the measurement date. An equivalent single discount rate of 5.60% for the Public Employees Police and Fire Plan was determined that produced approximately the same present value of the projected benefits when applied to all years of projected benefits as the present value of projected benefits using 7.50% applied to all years of projected benefits through the point of asset depletion and 2.85% thereafter.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

15. PENSION PLANS (continued)

CHANGES IN ACTUARIAL ASSUMPTIONS

The following changes in actuarial assumptions occurred in 2016:

General Employees Retirement Plan

The assumed post-retirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter, to 1.00% for all future years.

The assumed investment rate was changed from 7.90% to 7.50%. The single discount rate was also changed from 7.90% to 7.50%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25%. Payroll growth was reduced from 3.50% to 3.25%. Inflation was reduced from 2.75% to 2.50%.

Public Employees Police and Fire Plan

The assumed post-retirement benefit increase rate was changed from 1.00% per year through 2037 and 2.50% per year thereafter, to 1.00% for all future years.

The assumed investment rate was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 5.60%.

The assumed payroll growth and inflation were decreased by 0.25%. Payroll growth was reduced from 3.50% to 3.25%. Inflation was reduced from 2.75% to 2.50%.

PENSION LIABILITY SENSITIVITY

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

	Proportionate Share of the			
	General Employees Retirement Plan		Public Employees Police and Fire Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1.0% Decrease	6.5%	\$ 60,624,260	4.6%	\$ 130,166,998
Current	7.5%	42,684,233	5.6%	92,985,242
1.0% Increase	8.5%	27,906,532	6.6%	62,604,923

PENSION PLAN FIDUCIARY NET POSITION

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

15. PENSION PLANS (continued)

DEFINED CONTRIBUTION PLAN

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

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

Total contributions by dollar amount and percentage of covered payroll made by the City during the year ended December 31, 2016, were:

	<u>Employee</u>	<u>Employer</u>
Contribution amount	\$ 6,311	\$ 6,311
Percentage of covered payroll	5.00%	5.00%

COMPONENT UNITS' PENSION INFORMATION

Qualified employees of the Duluth Entertainment and Convention Center Authority, Duluth Airport Authority, and Spirit Mountain Recreation Area Authority belong to PERA. Contributions were made by the above component units to PERA's Coordinated and Basic Plans in amounts required by state statutes. The PERA Coordinated and Basic Plans are the same pension plans available to City employees. Detailed information concerning each component unit's pension plan is presented in its publicly available 2016 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 2016 annual report.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

16. OTHER POSTEMPLOYMENT BENEFITS

PLAN DESCRIPTION

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

The health benefits are provided through the City's Joint Powers Enterprise Trust. The life insurance benefits are paid directly by the fund from which the employee retires. A separate report is not issued for the plan. The authority to provide these benefits is established in Minnesota Statutes § 471.617.

As of December 31, 2016, there were 1,116 retirees receiving health benefits from the City's health plan and 818 active employees covered under the plan.

FUNDING POLICY

The City has historically funded these liabilities on a pay-as-you go basis. Union contracts govern the premiums contributed by the City and the retirees. For eligible retirees, the City pays a portion of the premium ranging from 25%-100% depending on the years of service. Retirees pay the remaining portion of the premium. Premiums are paid to the Joint Powers Enterprise Trust which accounts for the activity of the plan. Premiums are intended to cover the cost of providing benefits to retirees on a pay-as-you go basis. For the year ended December 31, 2016, the City contributed \$8,282,161 and retirees contributed \$173,258.

In July 2007, the City established an Other Postemployment Benefits (OPEB) irrevocable trust and began prefunding a portion of the OPEB liability. Contributions of \$541,921 were made to the irrevocable trust in 2016.

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. 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 2016, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 10,095,898
Interest on Net OPEB obligation	2,427,441
Adjustment to ARC	(2,929,663)
Annual OPEB Cost	<u>9,593,676</u>
Claims paid on behalf of retirees	(9,228,702)
Contributions to irrevocable trust	<u>(541,922)</u>
Decrease in Net OPEB obligation	(176,948)
Net OPEB, January 1	<u>40,574,277</u>
Net OPEB, December 31	<u><u>\$ 40,397,329</u></u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

16. OTHER POSTEMPLOYMENT BENEFITS (continued)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation 2014, 2015, and 2016 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2014	\$ 13,822,249	\$ 9,277,052	67.12%	\$ 41,636,228
December 31, 2015	\$ 9,540,547	\$ 10,602,498	111.13%	\$ 40,574,277
December 31, 2016	\$ 9,593,676	\$ 9,770,623	101.84%	\$ 40,397,329

FUNDING STATUS AND FUNDING PROGRESS

As of January 1, 2015, the most recent actuarial valuation date, the plan was 25.08% funded. The actuarial accrued liability for benefits was \$172,507,535, and the actuarial value of assets was \$43,257,834 resulting in an unfunded actuarial accrued liability of \$129,249,701. The covered payroll (annual payroll of active employees covered by the plan) was \$30,154,437. The ratio of the unfunded actuarially accrued liabilities to covered payroll is 428.63%.

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

In the January 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. Market value was the method used to determine the actuarial value of plan assets. The actuarial assumptions included a 5.7% investment rate of return which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments at a 2.2% inflation rate. The annual healthcare cost trend rate is 10.0% initially, reduced incrementally to an ultimate rate of 5.0% after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30 year open amortization period.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

16. OTHER POSTEMPLOYMENT BENEFITS (continued)

TRUST FUND

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

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

DEFINED CONTRIBUTION OPEB PLAN

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

17. SEGMENT INFORMATION

The City has issued revenue bonds for each of the following nonmajor enterprise funds: Parking, which accounts for the municipal parking ramps, lots, and meters; Stormwater, which operates the stormwater sewer collection system; and Steam, the plant which generates and distributes steam to users in the downtown area. Summary financial information for each of these funds for fiscal year ended December 31, 2016, is presented below:

CONDENSED STATEMENT OF NET POSITION

	<u>Parking</u>	<u>Stormwater</u>	<u>Steam</u>
Assets			
Current assets	\$ 4,397,084	\$ 767,919	\$ 2,399,863
Due from other funds	-	9,628	26,400
Noncurrent assets	-	982	12,182
Capital assets	19,989,332	17,300,878	9,681,344
Total Assets	<u>24,386,416</u>	<u>18,079,407</u>	<u>12,119,789</u>
Deferred Outflows of Resources	<u>651,233</u>	<u>868,092</u>	<u>166,304</u>
Liabilities			
Current liabilities	919,505	569,725	1,926,124
Due to other funds	2,014	14,847	1,734
Noncurrent liabilities	8,223,069	2,886,035	7,057,636
Total Liabilities	<u>9,144,588</u>	<u>3,470,607</u>	<u>8,985,494</u>
Deferred Inflows of Resources	<u>60,832</u>	<u>290,196</u>	<u>-</u>
Net Position			
Net investment in capital assets	11,882,552	16,247,689	3,100,819
Unrestricted	3,949,677	(1,060,993)	199,780
Total Net Position	<u>\$ 15,832,229</u>	<u>\$ 15,186,696</u>	<u>\$ 3,300,599</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

17. SEGMENT INFORMATION (continued)

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

	<u>Parking</u>	<u>Stormwater</u>	<u>Steam</u>
Operating revenues (expenses)			
Charges (pledged against bonds)	\$ 4,573,477	\$ 5,249,002	\$ 7,064,401
Depreciation expense	(546,372)	(422,186)	(1,190,539)
Other operating expenses	(1,850,051)	(3,670,639)	(6,896,627)
Operating income	<u>2,177,054</u>	<u>1,156,177</u>	<u>(1,022,765)</u>
Nonoperating revenues (expenses)			
Investment earnings	(10,050)	4,322	4,976
Other revenue	-	3,251	(58,341)
Interest expense	(234,182)	(20,594)	(216,284)
Capital contributions	387,257	196	-
Transfers in	-	11,200	-
Transfers out	(1,326,700)	(522,933)	(136,815)
Change in net position	<u>993,379</u>	<u>631,619</u>	<u>(1,429,229)</u>
Beginning net position	<u>14,838,850</u>	<u>14,555,077</u>	<u>4,729,828</u>
Ending net position	<u>\$ 15,832,229</u>	<u>\$ 15,186,696</u>	<u>\$ 3,300,599</u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>Parking</u>	<u>Stormwater</u>	<u>Steam</u>
Net cash provided (used) by			
Operating activities	\$ 2,520,173	\$ 1,623,113	\$ 281,276
Noncapital financing activities	(1,326,700)	(509,489)	348,031
Capital and related financing activities	(1,012,310)	(2,665,358)	(2,402,863)
Investing activities	(10,050)	4,322	4,976
Net increase (decrease)	<u>171,113</u>	<u>(1,547,412)</u>	<u>(1,768,580)</u>
Beginning cash and cash equivalents	<u>4,117,237</u>	<u>1,642,193</u>	<u>2,714,387</u>
Ending cash and cash equivalents	<u>\$ 4,288,350</u>	<u>\$ 94,781</u>	<u>\$ 945,807</u>

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

LAKE SUPERIOR CENTER

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

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

TAX INCREMENT DISTRICTS

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

FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS

The City has received significant financial assistance from numerous federal governmental agencies in the form of grants and entitlements. The disbursement of funds received under these generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material effect on the City's financial position at December 31, 2016.

JOINT VENTURE

The Duluth Area Family Service Collaborative was established in 1995 pursuant to Minnesota Statute § 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 provided no funding to the Collaborative during 2016. St. Louis County is the fiscal agent for the Collaborative which is accounted in the Duluth Area Family Service Collaborative Agency Fund. A summary of the financial information of the Collaborative for the year ended December 31, 2016, is:

Total Assets	\$	590,437
Total Liabilities		-
Total Net Position		590,437
Total Revenues		328,906
Total Expenditures		196,447
Change in Net Position		132,459

Separate financial information can be obtained from the St. Louis County Auditor's Office.

RELATED ORGANIZATION

The Duluth Housing and Redevelopment Authority is a legally separate organization from the City with its own rights and powers. Although the Mayor of the City appoints all Authority Board members, there is no financial accountability necessary for including this organization as a component unit of the City. Related party transactions are limited to payments by the City on various contracts for services entered into with the Authority. The City made payments on various contracts totaling \$1,525,158 to the Duluth Housing and Redevelopment Authority in 2016.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE

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

A summary of the financial information of the Minneapolis-Duluth/Superior Passenger Rail Alliance for the Government-wide financial statement for December 31, 2015 (most recent available) was:

Total Assets	\$	126,563
Total Liabilities		11,696
Total Net Position		114,867
Total Revenues		65,250
Total Expenditures		206,044
Change in Net Position		(140,794)

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

TAX INCREMENT ASSISTANCE

The Duluth Economic Development Authority is committed to provide tax increment assistance pursuant to development agreements for economic development and 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, 2016, follows:

	Maximum Assistance	2016 Tax Rebate
A & L Renaissance	\$ 426,075	\$ 126,430
Augusta Building	\$ 268,321	\$ 29,181
Bluestone Commons	\$ 9,947,966	\$ 172,117
Central Hillside Development, LLP	\$ 261,562	\$ 16,348
Garfield Business Park, LLC	\$ 611,069	\$ 20,579
NorShore Theatre, LLC	\$ 1,800,000	\$ -
NorShore Theatre, LLC	\$ 565,000	\$ -
Sherman Associates Hotel/Condominium	\$ 5,000,000	\$ 137,162

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

CONDUIT DEBT OBLIGATIONS

The City and Duluth Economic Development Authority (DEDA) have issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed through a series of loan agreements and are payable solely from the revenues of the entities. Neither the City, DEDA, nor the State are obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. Bonds issued and outstanding as of December 31, 2016, are as follows:

<u>Entity</u>	<u>Series</u>	<u>Issued</u>	<u>Principal</u>
Aftenro Home	2006	\$ 2,620,000	\$ 2,148,840
Benedictine Health Center	2013	\$ 5,750,000	\$ 4,933,119
Benedictine Health Center	2014	\$ 4,000,000	\$ 3,981,787
Duluth Regional Care	2012A	\$ 1,040,800	\$ 389,255
Health Sciences Education Facility Corp	2015A	\$ 10,000,000	\$ 10,000,000
Health Sciences Education Facility Corp	2015B	\$ 6,600,000	\$ 6,600,000
Ikonics	2016	\$ 3,415,000	\$ 3,335,524
St. Luke's Hospital	2012	\$ 81,595,000	\$ 75,360,000

19. TAX ABATEMENT

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

**Required Supplementary
Information**

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EMPLOYER CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) TRUST
DECEMBER 31, 2016**

YEARS ENDED DECEMBER 31, 2007 THROUGH 2016

Year Ended December 31	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2007	\$22,081,427	\$23,742,663	93.0%
2008	\$13,171,329	\$23,742,663	55.5%
2009	\$13,488,168	\$17,615,054	76.6%
2010	\$10,043,975	\$17,615,054	57.0%
2011	\$11,830,474	\$15,345,228	77.1%
2012	\$9,699,313	\$15,345,228	63.2%
2013	\$8,772,788	\$14,249,437	61.6%
2014	\$9,277,052	\$14,249,437	65.1%
2015	\$10,602,498	\$10,095,898	105.0%
2016	\$9,770,623	\$10,095,898	96.8%

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)
DECEMBER 31, 2016**

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

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2016**

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

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

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

SCHEDULE OF CONTRIBUTIONS

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

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The City's year-end is December 31.

Notes to the Required Supplementary Information are an integral part of this schedule.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND
SCHEDULE OF CONTRIBUTIONS
PERA PUBLIC EMPLOYEES POLICE AND FIRE PLAN
DECEMBER, 31, 2016**

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

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

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The amounts presented for each fiscal year were determined as of June 30.

SCHEDULE OF CONTRIBUTIONS

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

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The City's year-end is December 31.

Notes to the Required Supplementary Information are an integral part of this schedule.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30, 2016:

General Employees Retirement Plan

The assumed post-retirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter, to 1.00% for all future years.

The assumed investment rate was changed from 7.90% to 7.50%. The single discount rate was also changed from 7.90% to 7.50%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25%. Payroll growth was reduced from 3.50% to 3.25%. Inflation was reduced from 2.75% to 2.50%.

Public Employees Police and Fire Plan

The assumed post-retirement benefit increase rate was changed from 1.00% per year through 2037 and 2.50% per year thereafter, to 1.00% for all future years.

The assumed investment rate was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 5.60%.

The assumed payroll growth and inflation were decreased by 0.25%. Payroll growth was reduced from 3.50% to 3.25%. Inflation was reduced from 2.75% to 2.50%.

Combining and Individual
Fund Statements and
Schedules

Governmental Funds

**CITY OF DULUTH, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

Community Investment Trust – to account for the City's share of revenues that were received from the operation of the Fond du Luth Casino, in accordance with an agreement with the Fond du Lac Band of Lake Superior Chippewa. Monies are to be used to finance future capital improvements of the City, with investment earnings of the fund to be transferred annually to the General Fund.

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

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

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

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

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

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

**CITY OF DULUTH, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

SPECIAL REVENUE FUNDS (continued)

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

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

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

DEBT SERVICE FUNDS

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

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

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

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

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

CAPITAL PROJECTS FUNDS

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

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

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

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

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

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

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

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

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

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Special Revenue Funds				
	Lake Superior Zoo	Parks	Special Projects	Police Grant Programs	Disaster Recovery
Assets					
Cash and cash equivalents	\$ -	\$ 1,418,188	\$ 1,175,788	\$ 10,000	\$ 770,531
Investments, at fair value	-	-	-	-	-
Receivables, net					
Taxes	-	120,062	-	-	-
Accounts	-	2,566	133,842	-	-
Assessments	-	-	31,752	-	-
Loans	300,000	-	-	-	-
Due from other funds	-	12,114	5,425	-	-
Due from component units	-	-	1,044	-	-
Due from other governments	40,000	455,514	62,674	252,416	2,313,498
Total Assets	<u>\$ 340,000</u>	<u>\$ 2,008,444</u>	<u>\$ 1,410,525</u>	<u>\$ 262,416</u>	<u>\$ 3,084,029</u>
Liabilities					
Accounts payable	\$ 197	\$ 17,021	\$ 13,864	\$ 143,565	\$ 14,092
Contracts payable	28,290	293,770	26,311	62,138	318,488
Due to other funds	-	28	248,777	5,210	3,078
Due to component units	-	-	-	-	-
Interfund loan payable	457,862	-	-	16,861	-
Due to other governments	279	5,582	-	-	72,198
Accrued salaries payable	-	12,978	-	-	-
Unearned revenue	-	-	46,226	-	1,408,924
Total Liabilities	<u>486,628</u>	<u>329,379</u>	<u>335,178</u>	<u>227,774</u>	<u>1,816,780</u>
Deferred Inflows of Resources					
Unavailable revenue	<u>300,000</u>	<u>424,899</u>	<u>141,182</u>	<u>-</u>	<u>2,313,498</u>
Fund Balances					
Restricted	-	1,254,166	400,771	34,642	-
Committed	-	-	533,394	-	-
Assigned	-	-	-	-	-
Unassigned	(446,628)	-	-	-	(1,046,249)
Total Fund Balances	<u>(446,628)</u>	<u>1,254,166</u>	<u>934,165</u>	<u>34,642</u>	<u>(1,046,249)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 340,000</u>	<u>\$ 2,008,444</u>	<u>\$ 1,410,525</u>	<u>\$ 262,416</u>	<u>\$ 3,084,029</u>

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Special Revenue Funds				
	Recovery Loan Program	Bayfront Festival Park	Library Special Accounts	Economic Development	Community Investment Trust
Assets					
Cash and cash equivalents	\$ 251,654	\$ 254,835	\$ 665,816	\$ -	\$ -
Investments, at fair value	-	-	-	-	20,252,597
Receivables, net					
Taxes	-	-	-	-	-
Accounts	-	300	-	-	-
Assessments	-	-	-	-	-
Loans	1,253,141	-	-	-	-
Due from other funds	-	-	-	-	-
Due from component units	622,000	-	-	13,555	-
Due from other governments	-	-	-	91,918	-
Total Assets	\$ 2,126,795	\$ 255,135	\$ 665,816	\$ 105,473	\$ 20,252,597
Liabilities					
Accounts payable	\$ -	\$ 2,000	\$ 13,530	\$ -	\$ -
Contracts payable	-	-	15,724	46,314	-
Due to other funds	-	-	-	1,417	35,661
Due to component units	-	-	-	15,401	-
Interfund loan payable	-	-	-	16,874	-
Due to other governments	684,285	-	-	63	-
Accrued salaries payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total Liabilities	684,285	2,000	29,254	80,069	35,661
Deferred Inflows of Resources					
Unavailable revenue	574,988	-	-	16,608	-
Fund Balances					
Restricted	867,522	-	636,562	-	-
Committed	-	253,135	-	-	20,216,936
Assigned	-	-	-	8,796	-
Unassigned	-	-	-	-	-
Total Fund Balances	867,522	253,135	636,562	8,796	20,216,936
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,126,795	\$ 255,135	\$ 665,816	\$ 105,473	\$ 20,252,597

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Special Revenue Funds				
	Energy Management	Tourism Tax	Public Facility and Program	Home Investment Partnerships Program	Community Development
Assets					
Cash and cash equivalents	\$ 579,759	\$ 872,896	\$ 40,774	\$ -	\$ 114,447
Investments, at fair value	-	-	-	-	-
Receivables, net					
Taxes	-	794,361	794	-	-
Accounts	5,300	-	-	-	1,760
Assessments	-	-	-	-	-
Loans	-	-	-	303,707	2,614,793
Due from other funds	-	-	-	-	2,833
Due from component units	-	-	-	-	-
Due from other governments	-	113,788	-	354,408	703,341
Total Assets	\$ 585,059	\$ 1,781,045	\$ 41,568	\$ 658,115	\$ 3,437,174
Liabilities					
Accounts payable	\$ 260	\$ -	\$ -	\$ -	\$ 28,436
Contracts payable	9,408	81,690	-	224,843	461,248
Due to other funds	2,999	522,226	-	3,342	3,242
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	83,412	-
Due to other governments	-	-	-	82	1,031
Accrued salaries payable	1,310	-	-	-	-
Unearned revenue	-	-	-	62,690	40,043
Total Liabilities	13,977	603,916	-	374,369	534,000
Deferred Inflows of Resources					
Unavailable revenue	-	-	-	314,224	2,809,429
Fund Balances					
Restricted	-	1,177,129	41,568	-	93,745
Committed	571,082	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	(30,478)	-
Total Fund Balances	571,082	1,177,129	41,568	(30,478)	93,745
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 585,059	\$ 1,781,045	\$ 41,568	\$ 658,115	\$ 3,437,174

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Special Revenue Funds			
	Workforce Development	Senior Employment	Street System Maintenance Utility	Public Arts
Assets				
Cash and cash equivalents	\$ 126,817	\$ -	\$ 248,501	\$ 132,735
Investments, at fair value	-	-	-	-
Receivables, net				
Taxes	-	-	-	-
Accounts	1,149	32,092	164,210	-
Assessments	-	-	-	-
Loans	-	-	-	-
Due from other funds	2,700	-	-	-
Due from component units	-	-	-	-
Due from other governments	165,740	52,482	-	-
Total Assets	\$ 296,406	\$ 84,574	\$ 412,711	\$ 132,735
Liabilities				
Accounts payable	\$ 11,995	\$ -	\$ 8,572	\$ -
Contracts payable	2,952	-	-	-
Due to other funds	9	2,020	-	-
Due to component units	2,560	-	-	-
Interfund loan payable	-	82,542	-	-
Due to other governments	4,895	-	-	-
Accrued salaries payable	-	-	-	-
Unearned revenue	5,435	-	-	-
Total Liabilities	27,846	84,562	8,572	-
Deferred Inflows of Resources				
Unavailable revenue	50,260	2,020	-	-
Fund Balances				
Restricted	218,300	-	404,139	-
Committed	-	-	-	132,735
Assigned	-	-	-	-
Unassigned	-	(2,008)	-	-
Total Fund Balances	218,300	(2,008)	404,139	132,735
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 296,406	\$ 84,574	\$ 412,711	\$ 132,735

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Debt Service Funds			
	DECC Revenue	General Obligation	Special Assessment Debt Service	Street Improvement Debt Service
Assets				
Cash and cash equivalents	\$ 3,014,053	\$ 13,849,667	\$ 1,137,123	\$ 4,678,226
Investments, at fair value	-	-	-	-
Receivables, net				
Taxes	-	311,208	-	-
Accounts	-	-	-	-
Assessments	-	-	1,497,254	709,477
Loans	-	-	-	-
Due from other funds	511,528	-	-	2,275
Due from component units	-	-	-	-
Due from other governments	-	-	26,360	-
Total Assets	\$ 3,525,581	\$ 14,160,875	\$ 2,660,737	\$ 5,389,978
Liabilities				
Accounts payable	\$ -	\$ -	\$ 10,159	\$ -
Contracts payable	-	-	-	-
Due to other funds	-	-	23,457	-
Due to component units	678,806	-	-	-
Interfund loan payable	-	-	-	-
Due to other governments	-	-	-	-
Accrued salaries payable	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	678,806	-	33,616	-
Deferred Inflows of Resources				
Unavailable revenue	-	236,378	1,497,254	709,476
Fund Balances				
Restricted	2,846,775	13,924,497	1,129,867	4,680,502
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	2,846,775	13,924,497	1,129,867	4,680,502
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,525,581	\$ 14,160,875	\$ 2,660,737	\$ 5,389,978

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Capital Projects Funds				
	Capital Equipment	Special Assessment	Permanent Improvement	Cirrus Building	Spirit Mountain Capital Improvement
Assets					
Cash and cash equivalents	\$ 2,710,808	\$ -	\$ -	\$ 1,607,458	\$ -
Investments, at fair value	-	-	-	-	-
Receivables, net					
Taxes	-	-	13,218	-	-
Accounts	-	-	504	-	-
Assessments	-	293,209	-	-	-
Loans	-	-	-	-	-
Due from other funds	83,220	-	43,248	-	-
Due from component units	-	-	-	-	60,000
Due from other governments	-	-	3,491,314	200,102	-
Total Assets	\$ 2,794,028	\$ 293,209	\$ 3,548,284	\$ 1,807,560	\$ 60,000
Liabilities					
Accounts payable	\$ 67,546	\$ -	\$ -	\$ -	\$ -
Contracts payable	9,250	-	743,562	947,481	-
Due to other funds	-	-	-	-	-
Due to component units	-	-	-	-	-
Interfund loan payable	-	196,444	408,299	-	60,000
Due to other governments	-	-	2,174	-	-
Accrued salaries payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total Liabilities	76,796	196,444	1,154,035	947,481	60,000
Deferred Inflows of Resources					
Unavailable revenue	-	293,209	2,774,022	200,102	-
Fund Balances					
Restricted	2,717,232	-	-	659,977	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	(196,444)	(379,773)	-	-
Total Fund Balances	2,717,232	(196,444)	(379,773)	659,977	-
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,794,028	\$ 293,209	\$ 3,548,284	\$ 1,807,560	\$ 60,000

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2016**

	Capital Projects Funds			Total Nonmajor Governmental Funds
	Street Improvement Program	Capital Improvement	Tourism and Recreational Projects	
Assets				
Cash and cash equivalents	\$ 892,929	\$ 4,149,759	\$ 10,545,469	\$ 49,248,233
Investments, at fair value	-	-	-	20,252,597
Receivables, net				
Taxes	-	-	-	1,239,643
Accounts	-	336	-	342,059
Assessments	1,934,007	-	-	4,465,699
Loans	-	-	-	4,471,641
Due from other funds	19,847	-	3,078	686,268
Due from component units	-	-	-	696,599
Due from other governments	-	117,915	328,448	8,769,918
Total Assets	\$ 2,846,783	\$ 4,268,010	\$ 10,876,995	\$ 90,172,657
Liabilities				
Accounts payable	\$ -	\$ 82,813	\$ 6,735	\$ 420,785
Contracts payable	76,272	244,759	320,021	3,912,521
Due to other funds	20,833	-	43,248	915,547
Due to component units	-	-	-	696,767
Interfund loan payable	-	-	-	1,322,294
Due to other governments	-	-	-	770,589
Accrued salaries payable	-	-	-	14,288
Unearned revenue	-	-	-	1,563,318
Total Liabilities	97,105	327,572	370,004	9,616,109
Deferred Inflows of Resources				
Unavailable revenue	1,934,007	116,096	183,542	14,891,194
Fund Balances				
Restricted	-	3,824,342	10,323,449	45,235,185
Committed	-	-	-	21,707,282
Assigned	815,671	-	-	824,467
Unassigned	-	-	-	(2,101,580)
Total Fund Balances	815,671	3,824,342	10,323,449	65,665,354
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,846,783	\$ 4,268,010	\$ 10,876,995	\$ 90,172,657

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds				
	Lake Superior Zoo	Parks	Special Projects	Police Grant Programs	Disaster Recovery
Revenues					
Taxes					
Property taxes	\$ -	\$ 2,608,208	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	51,080	61,664	-	-
Intergovernmental revenues	200,000	142,265	551,809	1,482,455	4,388,148
Charges for services	780,244	64,619	24,900	-	-
Fines and forfeits	-	-	6,182	121,789	-
Special assessments	-	-	-	-	-
Investment income	-	(3,886)	(2,731)	180	(3,976)
Miscellaneous revenues	245,918	63,878	667,477	-	517,311
Total Revenues	1,226,162	2,926,164	1,309,301	1,604,424	4,901,483
Expenditures					
Current					
General government	-	-	4,241	-	-
Public safety	-	-	610,178	516,738	-
Public works	-	-	-	-	449,866
Culture and recreation	1,733,201	1,889,510	103,911	-	885,640
Urban and economic development	-	-	-	-	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	233,181	1,134,835	176,183	123,658	1,167,357
Total Expenditures	1,966,382	3,024,345	894,513	640,396	2,502,863
Excess (Deficiency) of Revenues Over (Under) Expenditures	(740,220)	(98,181)	414,788	964,028	2,398,620
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	710,000	415,000	30,000	-	122,367
Transfers out	-	(73,835)	(408,907)	(920,184)	-
Total Other Financing Sources (Uses)	710,000	341,165	(378,907)	(920,184)	122,367
Net Change in Fund Balances	(30,220)	242,984	35,881	43,844	2,520,987
Fund Balances - January 1, 2016	(416,408)	1,011,182	898,284	(9,202)	(3,567,236)
Fund Balances - December 31, 2016	\$ (446,628)	\$ 1,254,166	\$ 934,165	\$ 34,642	\$ (1,046,249)

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds				
	Recovery Loan Program	Bayfront Festival Park	Library Special Accounts	Economic Development	Community Investment Trust
Revenues					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	-	-	618,338	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	(577)	(571)	(1,021)	122	1,717,000
Miscellaneous revenues	3,560	35,080	103,129	18,413	-
Total Revenues	2,983	34,509	102,108	636,873	1,717,000
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	31,903	247,016	-	-
Urban and economic development	3,560	-	-	635,169	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	-	-	-	-	-
Total Expenditures	3,560	31,903	247,016	635,169	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(577)	2,606	(144,908)	1,704	1,717,000
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	-	-	65,954	-
Transfers out	-	-	-	(79,650)	(454,862)
Total Other Financing Sources (Uses)	-	-	-	(13,696)	(454,862)
Net Change in Fund Balances	(577)	2,606	(144,908)	(11,992)	1,262,138
Fund Balances - January 1, 2016	868,099	250,529	781,470	20,788	18,954,798
Fund Balances - December 31, 2016	\$ 867,522	\$ 253,135	\$ 636,562	\$ 8,796	\$ 20,216,936

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Special Revenue Funds				
	Energy Management	Tourism Tax	Public Facility and Program	Home Investment Partnerships Program	Community Development
Revenues					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	11,344,909	-	-	-
Other taxes	-	-	9,926	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	-	-	617,917	3,179,117
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	(2,550)	(1,863)	(120)	142	1,057
Miscellaneous revenues	40,770	-	-	-	165,586
Total Revenues	38,220	11,343,046	9,806	618,059	3,345,760
Expenditures					
Current					
General government	205,982	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	3,748,329	-	627,007	3,183,418
Debt service					
Principal retirement	-	-	-	-	5,000
Interest and fiscal fees	-	-	-	-	152,209
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	-	-	-	-	-
Total Expenditures	205,982	3,748,329	-	627,007	3,340,627
Excess (Deficiency) of Revenues Over (Under) Expenditures	(167,762)	7,594,717	9,806	(8,948)	5,133
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Issuance of refunding bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	575,000	-	-	-	-
Transfers out	-	(7,645,776)	-	-	-
Total Other Financing Sources (Uses)	575,000	(7,645,776)	-	-	-
Net Change in Fund Balances	407,238	(51,059)	9,806	(8,948)	5,133
Fund Balances - January 1, 2016	163,844	1,228,188	31,762	(21,530)	88,612
Fund Balances - December 31, 2016	\$ 571,082	\$ 1,177,129	\$ 41,568	\$ (30,478)	\$ 93,745

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Special Revenue Funds			
	Workforce Development	Senior Employment	Street System Maintenance Utility	Public Arts
Revenues				
Taxes				
Property taxes	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental revenues	2,016,776	339,076	-	-
Charges for services	-	-	2,650,959	-
Fines and forfeits	-	-	-	-
Special assessments	-	-	-	-
Investment income	(59)	-	31	(334)
Miscellaneous revenues	234,638	-	9,713	-
Total Revenues	2,251,355	339,076	2,660,703	(334)
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	1,041,038	-
Culture and recreation	-	-	-	14,745
Urban and economic development	2,278,739	341,094	-	-
Debt service				
Principal retirement	-	-	-	-
Interest and fiscal fees	-	-	-	-
Bond issuance costs	-	-	-	-
Capital outlay				
Capital outlay	-	-	-	-
Total Expenditures	2,278,739	341,094	1,041,038	14,745
Excess (Deficiency) of Revenues Over (Under) Expenditures	(27,384)	(2,018)	1,619,665	(15,079)
Other Financing Sources (Uses)				
Issuance of bonds	-	-	-	-
Issuance of refunding bonds	-	-	-	-
Premium on issuance of bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfers in	-	-	-	40,000
Transfers out	-	-	(1,897,223)	-
Total Other Financing Sources (Uses)	-	-	(1,897,223)	40,000
Net Change in Fund Balances	(27,384)	(2,018)	(277,558)	24,921
Fund Balances - January 1, 2016	245,684	10	681,697	107,814
Fund Balances - December 31, 2016	\$ 218,300	\$ (2,008)	\$ 404,139	\$ 132,735

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Debt Service Funds			
	DECC Revenue	General Obligation	Special Assessment Debt Service	Street Improvement Debt Service
Revenues				
Taxes				
Property taxes	\$ -	\$ 6,573,311	\$ -	\$ -
Sales taxes	-	-	-	-
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental revenues	-	222,561	-	-
Charges for services	-	-	-	-
Fines and forfeits	-	-	-	-
Special assessments	-	-	674,619	283,338
Investment income	(6,980)	(37,213)	(1,932)	(13,760)
Miscellaneous revenues	-	2,373,331	-	-
Total Revenues	(6,980)	9,131,990	672,687	269,578
Expenditures				
Current				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Urban and economic development	678,806	-	-	-
Debt service				
Principal retirement	-	7,185,000	791,000	1,550,000
Interest and fiscal fees	-	3,895,830	78,460	296,440
Bond issuance costs	-	330,213	-	-
Capital outlay				
Capital outlay	-	-	-	-
Total Expenditures	678,806	11,411,043	869,460	1,846,440
Excess (Deficiency) of Revenues Over (Under) Expenditures	(685,786)	(2,279,053)	(196,773)	(1,576,862)
Other Financing Sources (Uses)				
Issuance of bonds	-	-	-	-
Issuance of refunding bonds	-	33,470,000	-	-
Premium on issuance of bonds	-	6,729,694	-	-
Payment to refunded bond escrow agent	-	(39,861,356)	-	-
Transfers in	3,548,034	4,433,535	-	2,717,154
Transfers out	(2,872,304)	(341,415)	-	-
Total Other Financing Sources (Uses)	675,730	4,430,458	-	2,717,154
Net Change in Fund Balances	(10,056)	2,151,405	(196,773)	1,140,292
Fund Balances - January 1, 2016	2,856,831	11,773,092	1,326,640	3,540,210
Fund Balances - December 31, 2016	\$ 2,846,775	\$ 13,924,497	\$ 1,129,867	\$ 4,680,502

(continued)

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Capital Projects Funds				
	Capital Equipment	Special Assessment	Permanent Improvement	Cirrus Building	Spirit Mountain Capital Improvement
Revenues					
Taxes					
Property taxes	\$ -	\$ -	\$ 280,067	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	-	3,074,554	3,799,898	3,400,000
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	45,963	-	-	-
Investment income	6,474	-	3,656	(7,933)	-
Miscellaneous revenues	-	-	360,428	-	(5,199)
Total Revenues	6,474	45,963	3,718,705	3,791,965	3,394,801
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	281,479	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	-	-	10,438,925	-
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	52,212	-	-	174,499	-
Capital outlay					
Capital outlay	3,496,974	6,348	4,708,207	18,760	(3,660)
Total Expenditures	3,549,186	6,348	4,989,686	10,632,184	(3,660)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,542,712)	39,615	(1,270,981)	(6,840,219)	3,398,461
Other Financing Sources (Uses)					
Issuance of bonds	3,565,000	-	-	7,820,000	-
Issuance of refunding bonds	-	-	-	-	-
Premium on issuance of bonds	317,321	-	-	(11,360)	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers in	-	-	422,898	-	368,276
Transfers out	(995)	-	(49,443)	(170,423)	-
Total Other Financing Sources (Uses)	3,881,326	-	373,455	7,638,217	368,276
Net Change in Fund Balances	338,614	39,615	(897,526)	797,998	3,766,737
Fund Balances - January 1, 2016	2,378,618	(236,059)	517,753	(138,021)	(3,766,737)
Fund Balances - December 31, 2016	\$ 2,717,232	\$ (196,444)	\$ (379,773)	\$ 659,977	\$ -

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Capital Projects Funds</u>			Total Nonmajor Governmental Funds
	Street Improvement Program	Capital Improvement	Tourism and Recreational Projects	
Revenues				
Taxes				
Property taxes	\$ -	\$ -	\$ -	\$ 9,461,586
Sales taxes	-	-	-	11,344,909
Other taxes	-	-	-	9,926
Licenses and permits	-	-	-	112,744
Intergovernmental revenues	-	1,590,387	144,906	25,768,207
Charges for services	-	-	-	3,520,722
Fines and forfeits	-	-	-	127,971
Special assessments	636,532	-	-	1,640,452
Investment income	(2,515)	23,231	96,926	1,760,798
Miscellaneous revenues	-	91,059	34,000	4,959,092
Total Revenues	<u>634,017</u>	<u>1,704,677</u>	<u>275,832</u>	<u>58,706,407</u>
Expenditures				
Current				
General government	-	959,148	-	1,169,371
Public safety	-	421,227	-	1,548,143
Public works	10,336	104,825	-	1,887,544
Culture and recreation	-	108,672	-	5,014,598
Urban and economic development	-	-	-	21,935,047
Debt service				
Principal retirement	-	-	-	9,531,000
Interest and fiscal fees	-	-	-	4,422,939
Bond issuance costs	-	38,765	-	595,689
Capital outlay				
Capital outlay	49,002	2,270,816	1,634,702	15,016,363
Total Expenditures	<u>59,338</u>	<u>3,903,453</u>	<u>1,634,702</u>	<u>61,120,694</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>574,679</u>	<u>(2,198,776)</u>	<u>(1,358,870)</u>	<u>(2,414,287)</u>
Other Financing Sources (Uses)				
Issuance of bonds	-	1,135,000	-	12,520,000
Issuance of refunding bonds	-	-	-	33,470,000
Premium on issuance of bonds	-	149,665	-	7,185,320
Payment to refunded bond escrow agent	-	-	-	(39,861,356)
Transfers in	172,436	1,097,440	-	14,718,094
Transfers out	(300,000)	(209)	(1,086,524)	(16,301,750)
Total Other Financing Sources (Uses)	<u>(127,564)</u>	<u>2,381,896</u>	<u>(1,086,524)</u>	<u>11,730,308</u>
Net Change in Fund Balances	447,115	183,120	(2,445,394)	9,316,021
Fund Balances - January 1, 2016	368,556	3,641,222	12,768,843	56,349,333
Fund Balances - December 31, 2016	<u>\$ 815,671</u>	<u>\$ 3,824,342</u>	<u>\$ 10,323,449</u>	<u>\$ 65,665,354</u>

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
Taxes:				
General property				
Current	\$ 13,978,900	\$ 13,978,900	\$ 13,893,385	\$ (85,515)
Delinquent	150,000	150,000	261,974	111,974
Mobile home	58,700	58,700	54,311	(4,389)
Forfeited tax sale apportionment	19,400	19,400	45,401	26,001
Franchise	2,001,300	2,001,300	1,998,457	(2,843)
Sales taxes	14,175,000	14,175,000	13,240,215	(934,785)
Charitable gambling	60,000	60,000	59,498	(502)
Other	50,000	50,000	83,721	33,721
Total Taxes	30,493,300	30,493,300	29,636,962	(856,338)
Licenses and Permits:				
Liquor and non-intoxicating liquor	469,000	469,000	522,815	53,815
Health	25,000	25,000	29,357	4,357
Police protective	32,500	32,500	36,959	4,459
Amusement	1,000	1,000	1,410	410
Manufacturing and merchandising	39,200	39,200	49,886	10,686
Other	916,200	916,200	1,033,301	117,101
Total Licenses and Permits	1,482,900	1,482,900	1,673,728	190,828
Intergovernmental revenues:				
Shared revenues				
Local government aid	29,264,100	29,264,100	29,264,120	20
PERA aid	124,400	124,400	124,428	28
Insurance premium	1,775,000	1,775,000	1,950,416	175,416
State grants				
Minnesota Library Information Network	-	4,500	5,020	520
Cross country ski trail	11,000	11,000	11,000	-
Snowmobile trail	13,900	13,900	15,750	1,850
Post training reimbursement	50,000	50,000	45,649	(4,351)
HAZMAT Regional Response Team	285,000	285,000	-	(285,000)
Bulletproof vests	-	17,123	17,929	806
Disaster Aid	-	-	977,935	977,935
Market value credit	-	-	6,402	6,402
MSA street maintenance allotment	1,533,400	1,533,400	1,533,400	-
Federal grants				
Fair Housing Assistance Program	-	-	43,800	43,800
Historic Preservation Fund Grants-In-Aid	-	1,017	1,017	-
Alcohol, Tobacco, and Firearms - Training Assistance	-	55,732	55,379	(353)
Local Law Enforcement Block Grant Program	-	44,776	52,633	7,857
Bulletproof Vest Partnership Program	-	17,930	17,930	-
Other grants				
St. Louis County	164,400	143,500	143,500	-
Payments in lieu of taxes -				
Housing and Redevelopment Authority	109,400	109,400	57,492	(51,908)
Independent School District #709	225,200	225,200	251,941	26,741
Total Intergovernmental Revenues	33,555,800	33,675,978	34,575,741	899,763

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Actual to Modified Budget Favorable (Unfavorable)</u>
Charges for Services:				
Departmental fees and services				
Fire	4,200	4,200	4,200	-
Police	106,600	106,600	90,961	(15,639)
Engineering	55,000	55,000	97,021	42,021
Building inspection services	2,353,700	2,353,700	1,954,409	(399,291)
Attorney services	4,000	4,000	3,725	(275)
MIS services	4,600	4,600	15,849	11,249
Grant administration services	87,200	87,200	63,947	(23,253)
Hydrant maintenance services	30,000	30,000	30,000	-
Assessment fees	54,600	54,600	54,944	344
Other services	-	-	150	150
Departmental sales				
Copier and microfilm prints	25,700	25,700	21,209	(4,491)
Print and plan sales	6,000	6,000	70	(5,930)
Book sales	200	200	144	(56)
Share of general expenses				
Duluth Airport Authority	45,200	45,200	45,200	-
Water and Gas	872,400	872,400	876,600	4,200
Sewer	306,900	306,900	308,000	1,100
Stormwater	150,700	150,700	151,800	1,100
Steam	49,500	49,500	49,500	-
Duluth Entertainment and Convention Center Authority	25,000	25,000	25,000	-
Duluth Transit Authority	10,300	10,300	10,300	-
Golf	66,800	66,800	55,000	(11,800)
Duluth Economic Development Authority	365,000	365,000	365,000	-
Fleet Services	108,200	108,200	108,200	-
Group Health	255,000	255,000	255,000	-
Self-Insurance	283,200	283,200	283,200	-
Spirit Mountain Recreation Area Authority	37,700	37,700	37,700	-
Parking	23,300	23,300	23,300	-
Street Lighting	59,000	59,000	59,000	-
Total Charges for Services	5,390,000	5,390,000	4,989,429	(400,571)
Fines and Forfeits:				
Library fines	75,000	75,000	76,438	1,438
Parking fines	19,000	19,000	29,689	10,689
Court fees	410,000	410,000	427,225	17,225
License penalties	2,000	2,000	10,160	8,160
Felony forfeitures	-	-	48,445	48,445
Total Fines and Forfeits	506,000	506,000	591,957	85,957
Special Assessments	440,200	505,200	454,750	(50,450)

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
Investment Income:				
Earnings on investments	-	-	1,062	1,062
Fair value adjustment	-	-	(20,873)	(20,873)
Total Investment Income	-	-	(19,811)	(19,811)
Miscellaneous Revenues:				
Commission and concessions	9,000	9,000	12,648	3,648
Payments in lieu of taxes	16,000	16,000	32,172	16,172
Fond du Luth proceeds	-	-	150,000	150,000
Police auction proceeds	-	-	9,190	9,190
Rent and lease	82,900	82,900	119,042	36,142
Damage claims	-	-	15,472	15,472
Sale of equipment	70,000	70,000	47,006	(22,994)
Sale of land	55,000	75,900	-	(75,900)
Sale of scrap	6,000	6,000	6,097	97
Surcharge retainage	1,500	1,500	1,182	(318)
Refunds and reimbursements	94,700	442,770	590,952	148,182
Gifts and donations	-	1,500	4,649	3,149
Interest temporary loans	-	-	1,267	1,267
Miscellaneous sales and services	64,800	64,800	32,002	(32,798)
Total Miscellaneous Revenues	399,900	770,370	1,021,679	251,309
Total Revenues	72,268,100	72,823,748	72,924,435	100,687
Other Financing Sources:				
Transfers in:				
Special Projects	71,900	25,000	258,907	233,907
Duluth Police Grant Programs	740,900	920,185	920,184	(1)
Community Investment Trust	400,000	400,000	454,862	54,862
Tourism Taxes	1,095,000	1,154,269	1,105,698	(48,571)
Permanent Improvement	-	-	911	911
Parking	1,326,700	1,326,700	1,326,700	-
Water	222,900	222,900	179,385	(43,515)
Gas	3,036,700	3,036,700	2,618,840	(417,860)
Sewer	160,500	160,500	134,257	(26,243)
Stormwater	548,300	548,300	522,933	(25,367)
Steam	135,200	135,200	136,815	1,615
Street Lighting Utility	-	-	7,850	7,850
Total Other Financing Sources	7,738,100	7,929,754	7,667,342	(262,412)
Total Revenues and Other Financing Sources	<u>\$ 80,006,200</u>	<u>\$ 80,753,502</u>	<u>\$ 80,591,777</u>	<u>\$ (161,725)</u>
Reconciliation:				
Original budget as approved by Duluth City Council		\$ 80,006,200		
Adjustments made in accordance with budget ordinance provisions:				
Grants, gifts, and donations		387,064		
Ordinance allowable		360,238		
Total adjustments		<u>747,302</u>		
Modified budget as reported above		<u>\$ 80,753,502</u>		

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
Legislative and Executive							
City Council							
Personal services - salaries	\$ 90,000	\$ 90,000		\$ 89,964	\$ -	\$ 89,964	\$ 36
Personal services - benefits	7,000	8,500		7,761	-	7,761	739
Other expenditures	82,200	80,700		56,352	-	56,352	24,348
Total City Council	179,200	179,200		154,077	-	154,077	25,123
Mayor's Office							
Personal services - salaries	308,200	297,680		264,327	-	264,327	33,353
Personal services - benefits	115,000	115,000		96,662	-	96,662	18,338
Other expenditures	14,600	18,127		23,414	-	23,414	(5,287)
Total Mayor's Office	437,800	430,807	1,4	384,403	-	384,403	46,404
Chief Administrative Officer							
Personal services - salaries	200,800	191,800		200,906	-	200,906	(9,106)
Personal services - benefits	69,500	87,000		87,321	-	87,321	(321)
Other expenditures	10,600	10,600		5,711	-	5,711	4,889
Total Chief Administrative Officer	280,900	289,400	1	293,938	-	293,938	(4,538)
Attorney and Human Rights							
Personal services - salaries	1,602,000	1,602,000		1,596,650	-	1,596,650	5,350
Personal services - benefits	507,700	507,700		500,044	-	500,044	7,656
Other expenditures	41,100	41,100		35,952	-	35,952	5,148
Total Attorney and Human Rights	2,150,800	2,150,800		2,132,646	-	2,132,646	18,154
Total Legislative and Executive	3,048,700	3,050,207		2,965,064	-	2,965,064	85,143
Public Administration							
Human Resources							
Personal services - salaries	769,500	769,500		723,156	-	723,156	46,344
Personal services - benefits	333,100	333,100		302,954	-	302,954	30,146
Other expenditures	81,500	81,500		59,070	-	59,070	22,430
Total Human Resources	1,184,100	1,184,100		1,085,180	-	1,085,180	98,920
Management Information Services							
Personal services - salaries	1,469,800	1,403,800		1,402,077	-	1,402,077	1,723
Personal services - benefits	573,900	528,900		516,229	-	516,229	12,671
Other expenditures	896,200	828,200		808,580	-	808,580	19,620
Total Management Information Services	2,939,900	2,760,900	1	2,726,886	-	2,726,886	34,014
Clerk							
Personal services - salaries	539,400	572,200		582,679	-	582,679	(10,479)
Personal services - benefits	213,900	213,900		216,959	-	216,959	(3,059)
Other expenditures	54,500	141,800		106,240	38,597	144,837	(3,037)
Total Clerk	807,800	927,900	1	905,878	38,597	944,475	(16,575)
Maintenance Operations							
Personal services - salaries	4,106,900	4,154,900		4,226,004	-	4,226,004	(71,104)
Personal services - benefits	1,668,200	1,668,200		1,640,768	-	1,640,768	27,432
Other expenditures	4,659,800	5,017,230		4,973,745	-	4,973,745	43,485
Capital outlay	-	18,670		18,452	-	18,452	218
Total Maintenance Operations	10,434,900	10,859,000	1,2,4	10,858,969	-	10,858,969	31

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
Public Administration (continued)							
Library Services							
Personal services - salaries	2,672,200	2,643,400		2,522,443	-	2,522,443	120,957
Personal services - benefits	936,300	936,300		907,394	-	907,394	28,906
Other expenditures	632,700	674,702		673,418	-	673,418	1,284
Total Library Services	4,241,200	4,254,402	1,3	4,103,255	-	4,103,255	151,147
Facilities Management							
Personal services - salaries	1,454,600	1,398,750		1,392,736	-	1,392,736	6,014
Personal services - benefits	580,900	610,370		580,306	-	580,306	30,064
Other expenditures	2,153,200	2,068,200		2,044,702	11,982	2,056,684	11,516
Total Facilities Management	4,188,700	4,077,320	1	4,017,744	11,982	4,029,726	47,594
Total Public Administration	23,796,600	24,063,622		23,697,912	50,579	23,748,491	315,131
Finance							
Budget							
Personal services - salaries	242,900	242,900		262,545	-	262,545	(19,645)
Personal services - benefits	96,500	96,500		86,669	-	86,669	9,831
Other expenditures	7,100	7,100		5,178	-	5,178	1,922
Total Budget	346,500	346,500		354,392	-	354,392	(7,892)
Auditor							
Personal services - salaries	739,300	739,300		648,232	-	648,232	91,068
Personal services - benefits	262,600	262,600		256,483	-	256,483	6,117
Other expenditures	333,300	333,300		301,800	-	301,800	31,500
Total Auditor	1,335,200	1,335,200		1,206,515	-	1,206,515	128,685
Purchasing							
Personal services - salaries	124,700	124,700		125,724	-	125,724	(1,024)
Personal services - benefits	47,500	54,500		51,522	-	51,522	2,978
Other expenditures	5,700	5,700		528	-	528	5,172
Total Purchasing	177,900	184,900	1	177,774	-	177,774	7,126
Treasurer							
Personal services - salaries	539,900	539,900		516,074	-	516,074	23,826
Personal services - benefits	215,900	208,900		199,397	-	199,397	9,503
Other expenditures	44,000	44,000		3,869	-	3,869	40,131
Total Treasurer	799,800	792,800	1	719,340	-	719,340	73,460
Total Finance	2,659,400	2,659,400		2,458,021	-	2,458,021	201,379

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
Planning and Construction Services							
Planning and Development							
Personal services - salaries	461,400	461,400		425,786	-	425,786	35,614
Personal services - benefits	173,500	173,500		164,423	-	164,423	9,077
Other expenditures	48,400	97,602		87,568	-	87,568	10,034
Total Planning and Development	683,300	732,502	4	677,777	-	677,777	54,725
Construction Services and Inspection							
Personal services - salaries	1,076,100	1,076,100		1,012,796	-	1,012,796	63,304
Personal services - benefits	440,800	440,800		387,448	-	387,448	53,352
Other expenditures	185,300	396,587		345,866	15,480	361,346	35,241
Total Construction Services and Inspection	1,702,200	1,913,487	2,4	1,746,110	15,480	1,761,590	151,897
Total Planning and Construction Services	2,385,500	2,645,989		2,423,887	15,480	2,439,367	206,622
Business and Community Development							
Business and Community Development							
Personal services - salaries	421,700	421,700		402,658	-	402,658	19,042
Personal services - benefits	151,500	151,500		130,798	-	130,798	20,702
Other expenditures	23,300	23,300		21,518	-	21,518	1,782
Total Business and Community Development	596,500	596,500		554,974	-	554,974	41,526
Fire							
Administration							
Personal services - salaries	387,700	323,900		262,078	-	262,078	61,822
Personal services - benefits	126,600	95,600		87,077	-	87,077	8,523
Other expenditures	65,000	65,000		56,193	-	56,193	8,807
Total Administration	579,300	484,500	1,3	405,348	-	405,348	79,152
Operations							
Personal services - salaries	9,601,000	10,192,447		10,192,487	-	10,192,487	(40)
Personal services - benefits	3,735,300	3,771,000		4,011,028	-	4,011,028	(240,028)
Other expenditures	599,900	611,793		549,444	-	549,444	62,349
Total Operations	13,936,200	14,575,240	1,3,4	14,752,959	-	14,752,959	(177,719)
Life Safety							
Personal services - salaries	665,200	665,200		622,148	-	622,148	43,052
Personal services - benefits	289,200	289,200		273,813	-	273,813	15,387
Other expenditures	76,700	82,470		42,247	-	42,247	40,223
Total Life Safety	1,031,100	1,036,870	2	938,208	-	938,208	98,662
Total Fire	15,546,600	16,096,610		16,096,515	-	16,096,515	95

(continued)

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget		Note	Actual			Favorable (Unfavorable)
	Original	Modified		Expended	Encumbered	Totals	
Police							
Administration and Investigation							
Personal services - salaries	13,487,400	13,746,293		13,863,369	-	13,863,369	(117,076)
Personal services - benefits	5,260,000	5,487,700		5,537,844	-	5,537,844	(50,144)
Other expenditures	1,581,300	1,571,116		1,403,885	21,500	1,425,385	145,731
Total Administration and Investigation	<u>20,328,700</u>	<u>20,805,109</u>	1,2,3,4	<u>20,805,098</u>	<u>21,500</u>	<u>20,826,598</u>	<u>(21,489)</u>
Police Special Accounts							
Other expenditures	-	74,467	2	74,464	-	74,464	3
Total Police	<u>20,328,700</u>	<u>20,879,576</u>		<u>20,879,562</u>	<u>21,500</u>	<u>20,901,062</u>	<u>(21,486)</u>
Public Works and Utilities							
Public Works Director's Office							
Personal services - salaries	41,500	41,500		42,323	-	42,323	(823)
Personal services - benefits	9,700	9,700		9,358	-	9,358	342
Other expenditures	800	800		451	-	451	349
Total Public Works Director's Office	<u>52,000</u>	<u>52,000</u>		<u>52,132</u>	<u>-</u>	<u>52,132</u>	<u>(132)</u>
Engineering							
Personal services - salaries	1,176,800	1,176,800		1,178,587	-	1,178,587	(1,787)
Personal services - benefits	437,700	437,700		426,859	-	426,859	10,841
Other expenditures	150,000	150,000		111,701	7,437	119,138	30,862
Total Engineering	<u>1,764,500</u>	<u>1,764,500</u>		<u>1,717,147</u>	<u>7,437</u>	<u>1,724,584</u>	<u>39,916</u>
Total Public Works and Utilities	<u>1,816,500</u>	<u>1,816,500</u>		<u>1,769,279</u>	<u>7,437</u>	<u>1,776,716</u>	<u>39,784</u>
Transfers and Other Functions:							
Business improvement district	300,000	365,000	4	359,772	-	359,772	5,228
Public access television	182,000	182,000		182,000	-	182,000	-
State sales tax administration	120,000	120,000		107,278	-	107,278	12,722
Capital maintenance/lease purchase	-	5,000	1	3,752	-	3,752	1,248
Flexible benefits	100,000	100,000		71,399	-	71,399	28,601
Retiree insurance	6,950,000	6,950,000		6,748,892	-	6,748,892	201,108
Self-insurance	1,000,000	1,000,000		1,000,000	-	1,000,000	-
Street improvement program debt	-	700,000	2	688,202	-	688,202	11,798
Transfers and accruals	501,300	517,200	1	-	-	-	517,200
Other functions	674,400	1,218,194	2	1,091,040	21,067	1,112,107	106,087
Total Transfers and Other Functions	<u>9,827,700</u>	<u>11,157,394</u>		<u>10,252,335</u>	<u>21,067</u>	<u>10,273,402</u>	<u>883,992</u>
Total Expenditures and encumbrances	<u>\$ 80,006,200</u>	<u>\$ 82,965,798</u>		<u>\$ 81,097,549</u>	<u>\$ 116,063</u>	<u>\$ 81,213,612</u>	<u>\$ 1,752,186</u>
Reconciliation:							
Original budget as approved by Duluth City Council	\$ 80,006,200						
Adjustments made in accordance with Budget Ordinance							
Note 1	-	-		-	-	-	-
Note 2	2,212,296	-		-	-	-	-
Note 3	387,064	-		-	-	-	-
Note 4	360,238	-		-	-	-	-
Total adjustments	<u>2,959,598</u>						
Modified budget as reported above	<u>\$ 82,965,798</u>						

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
General Government:						
Legislative and Executive						
City Council	\$ 89,964	\$ 7,761	\$ 56,352	\$ -	\$ -	\$ 154,077
Mayor's Office	264,327	96,662	23,414	-	-	384,403
Chief Administrative Officer	200,906	87,321	5,711	-	-	293,938
City Attorney and Human Rights	1,596,650	500,044	35,952	-	-	2,132,646
Total Legislative and Executive	2,151,847	691,788	121,429	-	-	2,965,064
Public Administration						
Human Resources	723,156	302,954	59,070	-	-	1,085,180
Management Information Services	1,402,077	516,229	808,580	-	-	2,726,886
Clerk	582,679	216,959	106,240	-	-	905,878
Facilities Management	1,392,736	580,306	2,031,166	-	13,536	4,017,744
Other functions	-	1,030,930	1,212,912	-	1,188,202	3,432,044
Total Public Administration	4,100,648	2,647,378	4,217,968	-	1,201,738	12,167,732
Finance						
Budget	262,545	86,669	5,178	-	-	354,392
Auditor	648,232	256,483	301,800	-	-	1,206,515
Purchasing	125,724	51,522	528	-	-	177,774
Treasurer	516,074	199,397	3,869	-	-	719,340
Total Finance	1,552,575	594,071	311,375	-	-	2,458,021
Benefits						
Flexible Benefits	-	71,399	-	-	-	71,399
Retiree Insurance	-	6,748,892	-	-	-	6,748,892
Total Benefits	-	6,820,291	-	-	-	6,820,291
Total General Government	7,805,070	10,753,528	4,650,772	-	1,201,738	24,411,108
Public Safety:						
Fire						
Administration	262,078	87,077	56,193	-	-	405,348
Operations	10,192,487	4,011,028	549,444	-	-	14,752,959
Life Safety	622,148	273,813	42,247	-	-	938,208
Total Fire	11,076,713	4,371,918	647,884	-	-	16,096,515
Police						
Administration and Investigation	13,863,369	5,537,844	1,403,885	-	-	20,805,098
Police Special Accounts	-	-	74,464	-	-	74,464
Total Police	13,863,369	5,537,844	1,478,349	-	-	20,879,562
Total Public Safety	24,940,082	9,909,762	2,126,233	-	-	36,976,077

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
Public Works:						
Public Administration						
Maintenance Operations	4,226,004	1,640,768	4,973,745	18,452	-	10,858,969
Total Public Administration	4,226,004	1,640,768	4,973,745	18,452	-	10,858,969
Public Works						
Public Works Director's Office	42,323	9,358	451	-	-	52,132
Engineering	1,178,587	426,859	111,701	-	-	1,717,147
Total Public Works	1,220,910	436,217	112,152	-	-	1,769,279
Total Public Works	5,446,914	2,076,985	5,085,897	18,452	-	12,628,248
Culture and Recreation:						
Public Administration						
Library Services	2,522,443	907,394	673,418	-	-	4,103,255
Total Public Administration	2,522,443	907,394	673,418	-	-	4,103,255
Total Culture and Recreation	2,522,443	907,394	673,418	-	-	4,103,255
Urban and Economic Development:						
Planning and Construction Services						
Planning and Development	425,786	164,423	87,568	-	-	677,777
Construction Services and Inspection	1,012,796	387,448	345,866	-	-	1,746,110
Total Planning and Construction Services	1,438,582	551,871	433,434	-	-	2,423,887
Business and Community Development						
Business and Community Development	402,658	130,798	21,518	-	-	554,974
Total Business and Community Development	402,658	130,798	21,518	-	-	554,974
Total Urban and Economic Development	1,841,240	682,669	454,952	-	-	2,978,861
Total Expenditures/Transfers Out	\$ 42,555,749	\$ 24,330,338	\$ 12,991,272	\$ 18,452	\$ 1,201,738	\$ 81,097,549

Proprietary Funds

**CITY OF DULUTH, MINNESOTA
NONMAJOR PROPRIETARY FUNDS
DECEMBER 31, 2016**

ENTERPRISE FUNDS

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

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

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

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

Steam – to account for the generation and distribution of steam in the downtown area.

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

INTERNAL SERVICE FUNDS

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

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

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

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

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

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2016

	<u>Golf</u>	<u>Parking</u>	<u>Stormwater</u>	<u>Steam</u>	<u>Street Lighting</u>	<u>Total Nonmajor Enterprise Funds</u>
Assets						
Current assets						
Cash and cash equivalents	\$ -	\$ 4,288,350	\$ 94,781	\$ -	\$ 1,909,774	\$ 6,292,905
Restricted cash and cash equivalents						
Construction	-	-	-	945,807	-	945,807
Receivables, net						
Accounts	6,691	108,734	491,830	1,081,223	175,539	1,864,017
Assessments	-	-	34,238	-	-	34,238
Due from other funds	-	-	9,628	26,400	-	36,028
Due from other governments	-	-	1,401	-	47,128	48,529
Inventories	46,990	-	71,332	372,833	-	491,155
Prepays	2,400	-	74,337	-	-	76,737
Total current assets	<u>56,081</u>	<u>4,397,084</u>	<u>777,547</u>	<u>2,426,263</u>	<u>2,132,441</u>	<u>9,789,416</u>
Noncurrent assets						
Assessments receivable	-	-	982	-	-	982
Restricted loans receivable	-	-	-	12,182	-	12,182
Capital assets, net	1,648,110	19,989,332	17,300,878	9,681,344	2,169,877	50,789,541
Total noncurrent assets	<u>1,648,110</u>	<u>19,989,332</u>	<u>17,301,860</u>	<u>9,693,526</u>	<u>2,169,877</u>	<u>50,802,705</u>
Total Assets	<u>1,704,191</u>	<u>24,386,416</u>	<u>18,079,407</u>	<u>12,119,789</u>	<u>4,302,318</u>	<u>60,592,121</u>
Deferred Outflows of Resources						
Deferred loss from debt refunding	-	470,076	3,895	166,304	-	640,275
Deferred pension obligation outflows	-	181,157	864,197	-	176,672	1,222,026
Total Deferred Outflows of Resources	<u>-</u>	<u>651,233</u>	<u>868,092</u>	<u>166,304</u>	<u>176,672</u>	<u>1,862,301</u>
Liabilities						
Current liabilities						
Accounts payable	59,965	25,316	33,295	356,082	67,486	542,144
Contracts payable	-	13,765	135,692	465,742	1,238	616,437
Due to other funds	-	2,014	14,847	1,734	4,153	22,748
Interfund loan payable	469,584	-	-	367,017	-	836,601
Due to other governments	949	100	5,442	27,634	-	34,125
Accrued interest payable	-	75,553	11,084	74,649	-	161,286
Accrued salaries payable	-	8,195	32,466	-	7,120	47,781
Compensated absences	-	11,576	109,809	-	13,991	135,376
Unearned revenue	141,285	-	13,816	-	4,619	159,720
Revenue bonds payable	-	785,000	228,121	635,000	-	1,648,121
Total current liabilities	<u>671,783</u>	<u>921,519</u>	<u>584,572</u>	<u>1,927,858</u>	<u>98,607</u>	<u>4,204,339</u>
Noncurrent liabilities						
Loans payable	162,493	-	-	-	-	162,493
Interfund loan payable	1,550,000	-	-	-	-	1,550,000
Pension liability	-	431,213	2,057,072	-	420,538	2,908,823
Revenue bonds payable	-	7,791,856	828,963	7,057,636	-	15,678,455
Total noncurrent liabilities	<u>1,712,493</u>	<u>8,223,069</u>	<u>2,886,035</u>	<u>7,057,636</u>	<u>420,538</u>	<u>20,299,771</u>
Total Liabilities	<u>2,384,276</u>	<u>9,144,588</u>	<u>3,470,607</u>	<u>8,985,494</u>	<u>519,145</u>	<u>24,504,110</u>
Deferred Inflows of Resources						
Deferred pension obligation inflows	-	60,832	290,196	-	59,326	410,354
Net Position						
Net investment in capital assets	1,485,617	11,882,552	16,247,689	3,100,819	2,169,877	34,886,554
Unrestricted	(2,165,702)	3,949,677	(1,060,993)	199,780	1,730,642	2,653,404
Total Net Position	<u>\$ (680,085)</u>	<u>\$15,832,229</u>	<u>\$15,186,696</u>	<u>\$ 3,300,599</u>	<u>\$ 3,900,519</u>	<u>\$37,539,958</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Golf</u>	<u>Parking</u>	<u>Stormwater</u>	<u>Steam</u>	<u>Street Lighting</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating Revenues						
Sales	\$ 511,350	\$ -	\$ -	\$ -	\$ -	\$ 511,350
Charges for services	1,311,588	3,169,109	5,213,783	6,876,725	1,495,427	18,066,632
Fines and forfeits	-	1,230,649	-	-	-	1,230,649
Miscellaneous revenues	-	173,719	35,219	187,676	38,811	435,425
Total Operating Revenues	<u>1,822,938</u>	<u>4,573,477</u>	<u>5,249,002</u>	<u>7,064,401</u>	<u>1,534,238</u>	<u>20,244,056</u>
Operating Expenses						
Cost of sales and services	247,985	-	-	-	-	247,985
Personal services	-	544,893	2,484,018	-	516,948	3,545,859
Supplies	-	28,201	337,206	2,868,538	550,046	3,783,991
Utilities	-	168,079	19,174	468,590	664,508	1,320,351
Other services and charges	1,716,260	1,108,878	830,241	3,559,499	347,530	7,562,408
Depreciation	104,405	546,372	422,186	1,190,539	225,374	2,488,876
Total Operating Expenses	<u>2,068,650</u>	<u>2,396,423</u>	<u>4,092,825</u>	<u>8,087,166</u>	<u>2,304,406</u>	<u>18,949,470</u>
Operating Income (Loss)	<u>(245,712)</u>	<u>2,177,054</u>	<u>1,156,177</u>	<u>(1,022,765)</u>	<u>(770,168)</u>	<u>1,294,586</u>
Nonoperating Revenues (Expenses)						
Property taxes	-	-	-	-	647,013	647,013
Investment income	-	(10,050)	4,322	4,976	(4,436)	(5,188)
Intergovernmental revenue	-	-	1,401	-	22,235	23,636
Gain (loss) on sale or disposition of capital assets	(1,582)	-	1,850	(58,341)	-	(58,073)
Interest and fiscal fees	-	(234,182)	(20,594)	(216,284)	-	(471,060)
Total Nonoperating Revenues (Expenses)	<u>(1,582)</u>	<u>(244,232)</u>	<u>(13,021)</u>	<u>(269,649)</u>	<u>664,812</u>	<u>136,328</u>
Income (Loss) Before Contributions and Transfers	<u>(247,294)</u>	<u>1,932,822</u>	<u>1,143,156</u>	<u>(1,292,414)</u>	<u>(105,356)</u>	<u>1,430,914</u>
Capital contributions	-	387,257	196	-	-	387,453
Transfers in	-	-	11,200	-	13,536	24,736
Transfers out	-	(1,326,700)	(522,933)	(136,815)	(45,100)	(2,031,548)
Change in Net Position	<u>(247,294)</u>	<u>993,379</u>	<u>631,619</u>	<u>(1,429,229)</u>	<u>(136,920)</u>	<u>(188,445)</u>
Total Net Position - January 1, 2016	<u>(432,791)</u>	<u>14,838,850</u>	<u>14,555,077</u>	<u>4,729,828</u>	<u>4,037,439</u>	<u>37,728,403</u>
Total Net Position - December 31, 2016	<u>\$ (680,085)</u>	<u>\$15,832,229</u>	<u>\$15,186,696</u>	<u>\$ 3,300,599</u>	<u>\$ 3,900,519</u>	<u>\$37,539,958</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Golf	Parking	Stormwater	Steam	Street Lighting	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities						
Cash received from customers	\$ 1,840,160	\$ 4,412,650	\$ 5,189,008	\$ 6,876,789	\$ 1,534,480	\$ 19,853,087
Cash paid to suppliers	(1,965,705)	(1,534,649)	(1,201,563)	(6,603,252)	(1,629,688)	(12,934,857)
Cash paid to employees	-	(531,547)	(2,388,247)	-	(480,651)	(3,400,445)
Other operating revenues	-	173,719	23,915	7,739	8,183	213,556
Net cash provided (used) by operating activities	<u>(125,545)</u>	<u>2,520,173</u>	<u>1,623,113</u>	<u>281,276</u>	<u>(567,676)</u>	<u>3,731,341</u>
Cash Flows from Noncapital Financing Activities						
Transfers from other funds	-	-	11,200	111,123	13,536	135,859
Transfers to other funds	-	(1,326,700)	(520,689)	(130,109)	(45,100)	(2,022,598)
Property taxes	-	-	-	-	635,595	635,595
Operating grants	-	-	-	-	22,235	22,235
Interfund financing	175,549	-	-	367,017	-	542,566
Net cash provided (used) by noncapital financing activities	<u>175,549</u>	<u>(1,326,700)</u>	<u>(509,489)</u>	<u>348,031</u>	<u>626,266</u>	<u>(686,343)</u>
Cash Flows from Capital and Related Financing Activities						
Capital grants and contributions	-	387,257	196	-	-	387,453
Principal paid on bonds, notes and capitalized leases	(50,004)	(780,000)	(109,695)	(635,000)	-	(1,574,699)
Interest paid on bonds, notes and capitalized leases	-	(187,319)	(23,132)	(153,681)	-	(364,132)
Sale of capital assets	-	-	7,592	368	-	7,960
Acquisition or construction of capital assets	-	(432,248)	(2,540,319)	(1,614,550)	-	(4,587,117)
Net cash provided (used) by capital and related financing activities	<u>(50,004)</u>	<u>(1,012,310)</u>	<u>(2,665,358)</u>	<u>(2,402,863)</u>	<u>-</u>	<u>(6,130,535)</u>
Cash Flows from Investing Activities						
Investment earnings	-	(10,050)	4,322	4,976	(4,436)	(5,188)
Net increase (decrease) in cash and cash equivalents	-	171,113	(1,547,412)	(1,768,580)	54,154	(3,090,725)
Cash and cash equivalents - January 1, 2016	-	4,117,237	1,642,193	2,714,387	1,855,620	10,329,437
Cash and cash equivalents - December 31, 2016	<u>\$ -</u>	<u>\$ 4,288,350</u>	<u>\$ 94,781</u>	<u>\$ 945,807</u>	<u>\$ 1,909,774</u>	<u>\$ 7,238,712</u>
Reconciliation of operating income to net cash provided (used) by operating activities:						
Net operating income (loss)	\$ (245,712)	\$ 2,177,054	\$ 1,156,177	\$ (1,022,765)	\$ (770,168)	\$ 1,294,586
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:						
Depreciation	104,405	546,372	422,186	1,190,539	225,374	2,488,876
Change in assets and liabilities:						
Decrease (increase) in receivables	(5,604)	21,262	(78,928)	(173,873)	8,692	(228,451)
Decrease (increase) in inventories	(4,166)	-	(6,208)	25,788	-	15,414
Decrease (increase) in prepaids	(2,400)	-	-	-	-	(2,400)
Decrease (increase) in deferred pension obligation outflows	-	(140,144)	(675,867)	-	(138,876)	(954,887)
Increase (decrease) in payables	5,106	(236,671)	(18,749)	261,587	(64,891)	(53,618)
Increase (decrease) in unearned revenues	22,826	(8,370)	(1,137)	-	(2,296)	11,023
Increase (decrease) in deferred pension obligation inflows	-	21,902	111,427	-	23,456	156,785
Increase (decrease) in pension liability	-	138,768	714,212	-	151,033	1,004,013
Total adjustments	<u>120,167</u>	<u>343,119</u>	<u>466,936</u>	<u>1,304,041</u>	<u>202,492</u>	<u>2,436,755</u>
Net cash provided (used) by operating activities	<u>\$ (125,545)</u>	<u>\$ 2,520,173</u>	<u>\$ 1,623,113</u>	<u>\$ 281,276</u>	<u>\$ (567,676)</u>	<u>\$ 3,731,341</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
DECEMBER 31, 2016

	<u>Self-Insurance</u>	<u>Group Health</u>	<u>Employee Vacation Compensation</u>	<u>Fleet Services</u>	<u>Total Governmental Activities - Internal Service Funds</u>
Assets					
Current assets					
Cash and cash equivalents	\$ 3,440,039	\$ -	\$ 2,883,737	\$ -	\$ 6,323,776
Restricted cash and cash equivalents					
Restricted assets held by trustee	-	6,683,739	-	-	6,683,739
Receivables, net					
Accounts	-	49,514	-	73	49,587
Due from other funds	-	6,679	130,575	265,846	403,100
Inventories	-	-	-	271,173	271,173
Prepays	50,000	-	-	-	50,000
Total current assets	<u>3,490,039</u>	<u>6,739,932</u>	<u>3,014,312</u>	<u>537,092</u>	<u>13,781,375</u>
Noncurrent assets					
Capital assets, net	-	-	-	375,290	375,290
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,290</u>	<u>375,290</u>
Total Assets	<u>3,490,039</u>	<u>6,739,932</u>	<u>3,014,312</u>	<u>912,382</u>	<u>14,156,665</u>
Deferred Outflows of Resources					
Deferred pension obligation outflows	<u>41,729</u>	<u>-</u>	<u>-</u>	<u>517,798</u>	<u>559,527</u>
Liabilities					
Current liabilities					
Accounts payable	9,960	40,539	-	228,837	279,336
Contracts payable	-	-	-	83	83
Claims payable	151,763	1,272,366	-	-	1,424,129
Due to other funds	-	-	9,415	-	9,415
Interfund loan payable	-	9,407	-	317,692	327,099
Due to other governments	17,959	-	-	-	17,959
Accrued salaries payable	1,809	-	-	22,893	24,702
Compensated absences	4,105	-	3,019,776	84,213	3,108,094
Total current liabilities	<u>185,596</u>	<u>1,322,312</u>	<u>3,029,191</u>	<u>653,718</u>	<u>5,190,817</u>
Noncurrent liabilities					
Claims payable	709,835	-	-	-	709,835
Pension liability	99,329	-	-	1,232,531	1,331,860
Total noncurrent liabilities	<u>809,164</u>	<u>-</u>	<u>-</u>	<u>1,232,531</u>	<u>2,041,695</u>
Total Liabilities	<u>994,760</u>	<u>1,322,312</u>	<u>3,029,191</u>	<u>1,886,249</u>	<u>7,232,512</u>
Deferred Inflows of Resources					
Deferred pension obligation inflows	<u>14,013</u>	<u>-</u>	<u>-</u>	<u>173,876</u>	<u>187,889</u>
Net Position					
Net investment in capital assets	-	-	-	375,290	375,290
Restricted for health insurance trust	-	5,417,620	-	-	5,417,620
Unrestricted	2,522,995	-	(14,879)	(1,005,235)	1,502,881
Total Net Position	<u>\$ 2,522,995</u>	<u>\$ 5,417,620</u>	<u>\$ (14,879)</u>	<u>\$ (629,945)</u>	<u>\$ 7,295,791</u>

CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Self-Insurance</u>	<u>Group Health</u>	<u>Employee Vacation Compensation</u>	<u>Fleet Services</u>	<u>Total Governmental Activities - Internal Service Funds</u>
Operating Revenues					
Sales	\$ -	\$ -	\$ -	\$ 1,732,112	\$ 1,732,112
Charges for services	1,359,290	13,582,440	3,019,776	1,568,147	19,529,653
Miscellaneous revenues	158,749	274,488	-	932	434,169
Total Operating Revenues	<u>1,518,039</u>	<u>13,856,928</u>	<u>3,019,776</u>	<u>3,301,191</u>	<u>21,695,934</u>
Operating Expenses					
Cost of sales and services	-	-	-	1,691,296	1,691,296
Personal services	593,937	-	3,019,776	1,515,850	5,129,563
Supplies	4,336	-	-	46,623	50,959
Utilities	-	-	-	26,479	26,479
Other services and charges	716,674	1,664,870	-	354,294	2,735,838
Depreciation	-	-	-	56,666	56,666
Medical and insurance	656,438	14,495,995	-	-	15,152,433
Total Operating Expenses	<u>1,971,385</u>	<u>16,160,865</u>	<u>3,019,776</u>	<u>3,691,208</u>	<u>24,843,234</u>
Operating Income (Loss)	<u>(453,346)</u>	<u>(2,303,937)</u>	<u>-</u>	<u>(390,017)</u>	<u>(3,147,300)</u>
Nonoperating Revenues (Expenses)					
Investment income	(6,030)	76,897	(6,452)	-	64,415
Intergovernmental revenue	-	-	-	5,835	5,835
Total Nonoperating Revenues (Expenses)	<u>(6,030)</u>	<u>76,897</u>	<u>(6,452)</u>	<u>5,835</u>	<u>70,250</u>
Income (Loss) Before Contributions and Transfers	<u>(459,376)</u>	<u>(2,227,040)</u>	<u>(6,452)</u>	<u>(384,182)</u>	<u>(3,077,050)</u>
Change in Net Position	<u>(459,376)</u>	<u>(2,227,040)</u>	<u>(6,452)</u>	<u>(384,182)</u>	<u>(3,077,050)</u>
Total Net Position - January 1, 2016	<u>2,982,371</u>	<u>7,644,660</u>	<u>(8,427)</u>	<u>(245,763)</u>	<u>10,372,841</u>
Total Net Position - December 31, 2016	<u>\$ 2,522,995</u>	<u>\$ 5,417,620</u>	<u>\$ (14,879)</u>	<u>\$ (629,945)</u>	<u>\$ 7,295,791</u>

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF CASH FLOWS
 GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Self- Insurance	Group Health	Employee Vacation Compensation	Fleet Services	Total Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities					
Cash received from customers	\$ 1,520,301	\$ 13,840,754	\$ 2,916,077	\$ 3,276,504	\$ 21,553,636
Cash paid to suppliers	(1,487,155)	(16,319,652)	-	(1,973,598)	(19,780,405)
Cash paid to employees	(582,742)	-	(2,898,615)	(1,408,305)	(4,889,662)
Other operating revenues	-	-	-	932	932
Net cash provided (used) by operating activities	<u>(549,596)</u>	<u>(2,478,898)</u>	<u>17,462</u>	<u>(104,467)</u>	<u>(3,115,499)</u>
Cash Flows from Noncapital Financing Activities					
Operating grants	-	-	-	5,835	5,835
Interfund financing	-	-	-	185,291	185,291
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>191,126</u>	<u>191,126</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition or construction of capital assets	-	-	-	(86,659)	(86,659)
Cash Flows from Investing Activities					
Investment earnings	(6,030)	76,897	(6,453)	-	64,414
Net increase (decrease) in cash and cash equivalents	(555,626)	(2,402,001)	11,009	-	(2,946,618)
Cash and cash equivalents - January 1, 2016	3,995,665	9,085,740	2,872,728	-	15,954,133
Cash and cash equivalents - December 31, 2016	<u>\$ 3,440,039</u>	<u>\$ 6,683,739</u>	<u>\$ 2,883,737</u>	<u>\$ -</u>	<u>\$ 13,007,515</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	\$ (453,346)	\$ (2,303,937)	\$ -	\$ (390,017)	\$ (3,147,300)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation	-	-	-	56,666	56,666
Change in assets and liabilities:					
Decrease (increase) in receivables	2,262	(16,174)	(82,238)	(23,755)	(119,905)
Decrease (increase) in inventories	-	-	-	24,706	24,706
Decrease (increase) in deferred pension obligation outflows	(33,034)	-	-	(404,559)	(437,593)
Increase (decrease) in payables	(108,566)	(158,787)	99,700	141,006	(26,647)
Increase (decrease) in deferred pension obligation inflows	5,759	-	-	66,387	72,146
Increase (decrease) in pension liability	37,329	-	-	425,099	462,428
Total adjustments	<u>(96,250)</u>	<u>(174,961)</u>	<u>17,462</u>	<u>285,550</u>	<u>31,801</u>
Net cash provided (used) by operating activities	<u>\$ (549,596)</u>	<u>\$ (2,478,898)</u>	<u>\$ 17,462</u>	<u>\$ (104,467)</u>	<u>\$ (3,115,499)</u>

Fiduciary Funds

**CITY OF DULUTH, MINNESOTA
FIDUCIARY FUNDS
AGENCY FUNDS
DECEMBER 31, 2016**

AGENCY FUNDS

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

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

**CITY OF DULUTH, MINNESOTA
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Balance 01/01/16</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/16</u>
<u>DULUTH 1200 FUND</u>				
Assets				
Cash and cash equivalents	\$ 2,478,337	\$ 89,069	\$ 17,834	\$ 2,549,572
Loans receivable	850,726	36,956	104,931	782,751
Total Assets	<u>\$ 3,329,063</u>	<u>\$ 126,025</u>	<u>\$ 122,765</u>	<u>\$ 3,332,323</u>
Liabilities				
Accounts payable	\$ -	\$ 41,898	\$ 7,215	\$ 34,683
Due to agency	3,329,063	16,362	47,785	3,297,640
Total Liabilities	<u>\$ 3,329,063</u>	<u>\$ 58,260</u>	<u>\$ 55,000</u>	<u>\$ 3,332,323</u>

Supplementary
Information

**CITY OF DULUTH, MINNESOTA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY SOURCE*
 DECEMBER 31, 2016**

Governmental Funds Capital Assets:

Land and land improvements	\$	22,467,642
Buildings		84,944,766
Equipment		35,289,573
Infrastructure		335,895,062
Construction in Progress		17,687,191
		<hr/>

Total Governmental Funds Capital Assets	\$	496,284,234
		<hr/> <hr/>

Investments in Governmental Funds Capital Assets:

General fund	\$	10,566,568
Special revenue fund		29,415,315
Capital projects fund		454,336,865
Donations		1,965,486
		<hr/>

Total Governmental Funds Capital Assets	\$	496,284,234
		<hr/> <hr/>

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

CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY*
DECEMBER 31, 2016

	Land and Land Improvements	Buildings	Equipment	Infrastructure	Construction in Progress	Total
Function and Activity						
General Government						
Legislative and Executive	\$ -	\$ -	\$ 6,319	\$ -	\$ -	\$ 6,319
Public Administration	-	-	508,647	-	-	508,647
Management Information Systems	-	-	3,691,037	-	-	3,691,037
Facilities Management	1,636,325	15,263,530	1,915,376	14,390,994	725,041	33,931,266
Finance	-	-	325,708	-	-	325,708
Total General Government	1,636,325	15,263,530	6,447,087	14,390,994	725,041	38,462,977
Public Safety						
Fire	83,005	3,114,984	9,570,093	-	-	12,768,082
Police	2,000	16,627,233	4,914,029	562,251	-	22,105,513
Total Public Safety	85,005	19,742,217	14,484,122	562,251	-	34,873,595
Public Works						
Street Construction	-	-	-	315,382,195	12,944,267	328,326,462
Maintenance Operations	54,435	1,258,641	12,915,778	60,403	-	14,289,257
Engineering	5,145,615	1,956,385	190,665	-	-	7,292,665
Total Public Works	5,200,050	3,215,026	13,106,443	315,442,598	12,944,267	349,908,384
Culture and Recreation						
Libraries	51,585	7,545,988	154,981	-	-	7,752,554
Parks and Recreation	12,447,764	38,080,975	599,235	5,499,219	4,017,883	60,645,076
Total Culture and Recreation	12,499,349	45,626,963	754,216	5,499,219	4,017,883	68,397,630
Urban and Economic Development						
Planning and Construction Services	3,046,913	1,097,030	497,705	-	-	4,641,648
Total Governmental Funds Capital Assets	\$ 22,467,642	\$ 84,944,766	\$ 35,289,573	\$ 335,895,062	\$ 17,687,191	\$ 496,284,234

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

CITY OF DULUTH, MINNESOTA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY*
FOR THE YEAR ENDED DECEMBER 31, 2016

Function and Activity	Governmental Funds Capital Assets 01/01/16	Additions	Deductions	Governmental Funds Capital Assets 12/31/16
General Government				
Legislative and Executive	\$ 6,319	\$ -	\$ -	\$ 6,319
Public Administration	1,251,142	22,450	764,945	508,647
Management Information Systems	3,028,944	1,007,192	345,099	3,691,037
Facilities Management	33,244,949	886,234	199,917	33,931,266
Finance	325,708	-	-	325,708
Total General Government	37,857,062	1,915,876	1,309,961	38,462,977
Public Safety				
Fire	12,678,987	652,240	563,145	12,768,082
Police	21,825,210	724,631	444,328	22,105,513
Total Public Safety	34,504,197	1,376,871	1,007,473	34,873,595
Public Works				
Street Construction	323,087,641	19,677,656	14,438,835	328,326,462
Maintenance Operations	13,783,222	732,682	226,647	14,289,257
Engineering	7,351,243	-	58,578	7,292,665
Total Public Works	344,222,106	20,410,338	14,724,060	349,908,384
Culture and Recreation				
Libraries	7,753,397	11,440	12,283	7,752,554
Parks and Recreation	54,417,977	12,355,701	6,128,602	60,645,076
Total Culture and Recreation	62,171,374	12,367,141	6,140,885	68,397,630
Urban and Economic Development				
Planning and Construction Services	4,681,914	48,111	88,377	4,641,648
Total Governmental Funds Capital Assets	\$ 483,436,653	\$ 36,118,337	\$ 23,270,756	\$ 496,284,234

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

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2016**

	Issue Amount	Issue Date	Final Maturity	Jan 1 Balance
Governmental Activities:				
General Obligation Bonds Payable				
General Obligation				
Airpark Improvement	\$ 945,000	9/1/2004	2/1/2020	\$ 390,000
Capital Improvement	895,000	9/7/2006	2/1/2016	115,000
Capital Improvement	1,240,000	12/13/2007	2/1/2017	315,000
Aerial Lift Bridge Improvement	1,475,000	8/7/2008	2/1/2019	650,000
Duluth Entertainment and Convention Center Improvement	40,635,000	8/7/2008	2/1/2034	38,970,000
Capital Improvement	1,600,000	12/9/2008	2/1/2018	600,000
Capital Improvement	7,085,000	12/17/2009	2/1/2020	4,225,000
Capital Improvement - Law Enforcement Center	11,905,000	12/17/2009	2/1/2032	11,905,000
Capital Improvement	2,175,000	11/23/2010	2/1/2021	1,375,000
Airport Improvement Refunding	1,850,000	11/23/2010	2/1/2017	645,000
Capital Improvement	1,870,000	11/29/2011	2/1/2022	1,370,000
Airport Improvement	7,650,000	5/24/2012	2/1/2028	6,770,000
Airport Improvement	3,400,000	12/18/2013	2/1/2029	3,400,000
Capital Improvement	1,795,000	12/18/2013	2/1/2024	1,640,000
Capital Improvement - Lakewalk	1,460,000	12/18/2013	2/1/2029	1,385,000
Wade Stadium Improvement	2,330,000	10/30/2014	2/1/2030	2,330,000
Spirit Mountain Improvement	2,150,000	10/30/2014	2/1/2035	2,150,000
Capital Improvement	1,115,000	10/30/2014	2/1/2025	1,115,000
Capital Improvement	1,615,000	11/5/2015	2/1/2026	1,615,000
Airport Improvement	2,855,000	11/5/2015	2/1/2031	2,855,000
Capital Improvement - 1/2 & 1/2	13,520,000	11/5/2015	2/1/2032	13,520,000
Duluth Entertainment and Convention Center Improvement Refunding	33,470,000	3/22/2016	2/1/2034	-
Capital Improvement	1,135,000	11/9/2016	2/1/2027	-
Total General Obligation				\$ 97,340,000
General Obligation - Tax Abatement				
Spirit Mountain Tax Abatement Bonds	\$ 7,055,000	2/23/2012	2/1/2030	\$ 6,350,000
GO Tax Abatement (Cirrus)	7,820,000	3/22/2016	2/1/2032	-
Total General Obligation - Tax Abatement				\$ 6,350,000
Total General Obligation Bonds Payable				\$ 103,690,000
Special Assessment Debt with Government Commitment				
General Obligation Improvement	\$ 1,985,000	9/7/2006	2/1/2021	\$ 1,005,000
Street Improvement Refunding	3,190,000	12/19/2006	2/1/2016	405,000
Street Improvement	2,320,000	8/7/2008	2/1/2024	1,535,000
General Obligation Improvement Refunding	656,687	12/17/2009	2/1/2016	115,000
General Obligation Improvement Refunding	1,205,000	11/23/2010	2/1/2019	630,775
General Obligation Improvement Refunding	1,135,000	11/23/2010	2/1/2019	594,225
Street Improvement Refunding	6,905,000	11/27/2012	2/1/2021	5,300,000
General Obligation Improvement Refunding	865,000	10/30/2014	2/1/2020	865,000
Street Improvement Refunding	2,630,000	11/5/2015	2/1/2023	2,630,000
Total Special Assessment Debt with Government Commitment				\$ 13,080,000
General Obligation Certificates Payable				
Equipment	\$ 2,295,000	11/23/2010	2/1/2016	\$ 470,000
Equipment	3,095,000	11/29/2011	2/1/2017	1,280,000
Equipment	3,275,000	11/27/2012	2/1/2018	2,030,000
Equipment	3,835,000	12/18/2013	2/1/2019	3,105,000
Equipment	2,460,000	10/30/2014	2/1/2020	2,460,000
Equipment	3,325,000	11/5/2015	2/1/2021	3,325,000
Equipment	3,565,000	11/9/2016	2/1/2022	-
Total General Obligation Certificates Payable				\$ 12,670,000
Total Governmental Activities Bonds and Certificates Payable				\$ 129,440,000

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2016**

	Issued	Retired	Dec 31 Balance	Principal Due in 2017	Interest Due in 2017
Governmental Activities:					
General Obligation Bonds Payable					
General Obligation					
Airpark Improvement	\$ -	\$ 70,000	\$ 320,000	\$ 75,000	\$ 11,670
Capital Improvement	-	115,000	-	-	-
Capital Improvement	-	155,000	160,000	160,000	3,200
Aerial Lift Bridge Improvement	-	155,000	495,000	160,000	17,520
Duluth Entertainment and Convention Center Improvement	-	37,445,000	1,525,000	720,000	46,600
Capital Improvement	-	190,000	410,000	200,000	12,925
Capital Improvement	-	830,000	3,395,000	855,000	105,625
Capital Improvement - Law Enforcement Center	-	-	11,905,000	-	682,282
Capital Improvement	-	215,000	1,160,000	220,000	31,500
Airport Improvement Refunding	-	320,000	325,000	325,000	3,981
Capital Improvement	-	180,000	1,190,000	185,000	32,925
Airport Improvement	-	455,000	6,315,000	465,000	155,632
Airport Improvement	-	-	3,400,000	220,000	117,277
Capital Improvement	-	165,000	1,475,000	170,000	40,850
Capital Improvement - Lakewalk	-	80,000	1,305,000	85,000	44,663
Wade Stadium Improvement	-	105,000	2,225,000	130,000	69,825
Spirit Mountain Improvement	-	70,000	2,080,000	85,000	58,050
Capital Improvement	-	95,000	1,020,000	105,000	20,712
Capital Improvement	-	-	1,615,000	140,000	32,868
Airport Improvement	-	-	2,855,000	130,000	89,088
Capital Improvement - 1/2 & 1/2	-	-	13,520,000	1,800,000	407,945
Duluth Entertainment and Convention Center Improvement Refunding	33,470,000	-	33,470,000	-	1,486,300
Capital Improvement	1,135,000	-	1,135,000	-	33,041
Total General Obligation	\$ 34,605,000	\$ 40,645,000	\$ 91,300,000	\$ 6,230,000	\$ 3,504,479
General Obligation - Tax Abatement					
Spirit Mountain Tax Abatement Bonds	\$ -	\$ 365,000	\$ 5,985,000	\$ 370,000	\$ 142,819
GO Tax Abatement (Cirrus)	7,820,000	-	7,820,000	-	196,525
Total General Obligation - Tax Abatement	\$ 7,820,000	\$ 365,000	\$ 13,805,000	\$ 370,000	\$ 339,344
Total General Obligation Bonds Payable	\$ 42,425,000	\$ 41,010,000	\$ 105,105,000	\$ 6,600,000	\$ 3,843,823
Special Assessment Debt with Government Commitment					
General Obligation Improvement	\$ -	\$ 150,000	\$ 855,000	\$ 155,000	\$ 31,100
Street Improvement Refunding	-	405,000	-	-	-
Street Improvement	-	145,000	1,390,000	1,390,000	30,691
General Obligation Improvement Refunding	-	115,000	-	-	-
General Obligation Improvement Refunding	-	175,100	455,675	180,250	8,366
General Obligation Improvement Refunding	-	164,900	429,325	169,750	7,879
Street Improvement Refunding	-	1,000,000	4,300,000	1,035,000	113,475
General Obligation Improvement Refunding	-	160,000	705,000	170,000	10,650
Street Improvement Refunding	-	-	2,630,000	345,000	98,300
Total Special Assessment Debt with Government Commitment	\$ -	\$ 2,315,000	\$ 10,765,000	\$ 3,445,000	\$ 300,461
General Obligation Certificates Payable					
Equipment	\$ -	\$ 470,000	\$ -	\$ -	\$ -
Equipment	-	635,000	645,000	645,000	6,450
Equipment	-	660,000	1,370,000	675,000	30,975
Equipment	-	750,000	2,355,000	770,000	39,400
Equipment	-	470,000	1,990,000	485,000	30,012
Equipment	-	-	3,325,000	620,000	80,850
Equipment	3,565,000	-	3,565,000	-	103,781
Total General Obligation Certificates Payable	\$ 3,565,000	\$ 2,985,000	\$ 13,250,000	\$ 3,195,000	\$ 291,468
Total Governmental Activities Bonds and Certificates Payable	\$ 45,990,000	\$ 46,310,000	\$ 129,120,000	\$ 13,240,000	\$ 4,435,752

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2016**

	Issue Amount	Issue Date	Final Maturity	Jan 1 Balance
Business-type Activities:				
Revenue and General Obligation Bonds Payable				
Parking Fund				
Parking Improvement Tax Increment Refunding	\$ 10,270,000	11/27/2012	2/1/2026	\$ 9,345,000
410 West First Street Ramp				
Parking Improvement Tax Increment (Note 1)	\$ 11,500,000	5/15/2014	4/1/2044	\$ 12,150,044
Water Fund				
Water Utility Revenue and General Obligation Refunding	\$ 950,000	12/13/2007	2/1/2016	\$ 140,000
Water Utility Revenue and General Obligation	196,000	2/19/2009	2/1/2024	128,000
Water Utility Revenue and General Obligation Refunding	1,625,000	11/23/2010	2/1/2018	730,420
Water Utility Revenue and General Obligation Refunding	515,000	11/5/2015	2/1/2022	515,000
Total Water Fund				<u>\$ 1,513,420</u>
Gas Fund				
Gas Utility Revenue and General Obligation Refunding	\$ 2,846,814	12/17/2009	2/1/2017	\$ 857,886
Gas Utility Revenue and General Obligation Refunding	3,125,000	11/29/2011	2/1/2019	1,900,000
Total Gas Fund				<u>\$ 2,757,886</u>
Steam Fund				
Steam Utility Revenue and General Obligation Refunding	\$ 5,475,000	11/27/2012	2/1/2022	\$ 4,250,000
Steam Utility Revenue and General Obligation	4,015,000	11/5/2015	2/1/2027	4,015,000
Total Steam Fund				<u>\$ 8,265,000</u>
Sewer Fund				
Sewer Utility Revenue and General Obligation Refunding	\$ 1,325,000	12/13/2007	2/1/2016	\$ 50,000
Sewer Utility Revenue and General Obligation	1,444,000	2/19/2009	2/1/2024	947,000
Sewer Utility Revenue and General Obligation Refunding	713,186	12/17/2009	2/1/2017	212,112
Sewer Utility Revenue and General Obligation	905,000	12/17/2009	2/1/2025	650,000
Sewer Utility Revenue and General Obligation Refunding	2,025,000	11/23/2010	2/1/2018	910,218
Sewer Utility Revenue and General Obligation Refunding	2,265,000	11/29/2011	2/1/2020	1,635,000
Sewer Utility Revenue and General Obligation Refunding	2,000,000	11/27/2012	2/1/2020	1,735,000
Sewer Utility Revenue and General Obligation Refunding	1,110,000	11/5/2015	2/1/2023	1,110,000
Sewer Utility Revenue and General Obligation Refunding	350,000	11/5/2015	2/1/2022	350,000
Total Sewer Fund				<u>\$ 7,599,330</u>
Stormwater Fund				
Stormwater Utility Revenue and General Obligation Refunding	\$ 755,000	11/23/2010	2/1/2018	\$ 339,365
Stormwater Utility Revenue and General Obligation Refunding	790,000	11/5/2015	2/1/2022	790,000
Total Stormwater Fund				<u>\$ 1,129,365</u>
Total Business-type Activities Bonds Payable				<u>\$ 42,760,045</u>

(continued)

Note 1: Issue amount does not include capitalized interest of \$1,030,015.

CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2016

	Issued	Retired	Dec 31 Balance	Principal Due in 2017	Interest Due in 2017
Business-type Activities:					
Revenue and General Obligation Bonds Payable					
Parking Fund					
Parking Improvement Tax Increment Refunding	\$ -	\$ 780,000	\$ 8,565,000	\$ 785,000	\$ 178,993
410 West First Street Ramp					
Parking Improvement Tax Increment	\$ 421,987	\$ -	\$ 12,572,031	\$ -	\$ 485,878
Water Fund					
Water Utility Revenue and General Obligation Refunding	\$ -	\$ 140,000	\$ -	\$ -	\$ -
Water Utility Revenue and General Obligation	-	12,000	116,000	13,000	3,965
Water Utility Revenue and General Obligation Refunding	-	236,096	494,324	243,473	11,211
Water Utility Revenue and General Obligation Refunding	-	-	515,000	80,000	12,150
Total Water Fund	\$ -	\$ 388,096	\$ 1,125,324	\$ 336,473	\$ 27,326
Gas Fund					
Gas Utility Revenue and General Obligation Refunding	\$ -	\$ 424,955	\$ 432,931	\$ 432,931	\$ 6,494
Gas Utility Revenue and General Obligation Refunding	-	445,000	1,455,000	470,000	48,800
Total Gas Fund	\$ -	\$ 869,955	\$ 1,887,931	\$ 902,931	\$ 55,294
Steam Fund					
Steam Utility Revenue and General Obligation Refunding	\$ -	\$ 635,000	\$ 3,615,000	\$ 635,000	\$ 55,165
Steam Utility Revenue and General Obligation	-	-	4,015,000	-	122,388
Total Steam Fund	\$ -	\$ 635,000	\$ 7,630,000	\$ 635,000	\$ 177,553
Sewer Fund					
Sewer Utility Revenue and General Obligation Refunding	\$ -	\$ 50,000	\$ -	\$ -	\$ -
Sewer Utility Revenue and General Obligation	-	93,000	854,000	97,000	29,147
Sewer Utility Revenue and General Obligation Refunding	-	105,045	107,067	107,068	8,752
Sewer Utility Revenue and General Obligation	-	55,000	595,000	55,000	15,279
Sewer Utility Revenue and General Obligation Refunding	-	294,212	616,006	303,406	13,938
Sewer Utility Revenue and General Obligation Refunding	-	310,000	1,325,000	320,000	30,100
Sewer Utility Revenue and General Obligation Refunding	-	270,000	1,465,000	280,000	26,500
Sewer Utility Revenue and General Obligation Refunding	-	-	1,110,000	140,000	27,450
Sewer Utility Revenue and General Obligation Refunding	-	-	350,000	55,000	8,250
Total Sewer Fund	\$ -	\$ 1,177,257	\$ 6,422,073	\$ 1,357,474	\$ 159,416
Stormwater Fund					
Stormwater Utility Revenue and General Obligation Refunding	\$ -	\$ 109,695	\$ 229,670	\$ 113,121	\$ 5,151
Stormwater Utility Revenue and General Obligation Refunding	-	-	790,000	115,000	18,850
Total Stormwater Fund	\$ -	\$ 109,695	\$ 1,019,670	\$ 228,121	\$ 24,001
Total Business-type Activities Bonds Payable	\$ 421,987	\$ 3,960,003	\$ 39,222,029	\$ 4,244,999	\$ 1,108,461

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2016**

	Issue Amount	Issue Date	Final Maturity	Jan. 1 Balance
Governmental Activities:				
General Obligation				
Public Facilities Authority Note	\$ 364,195	8/8/2002	8/20/2018	\$ 79,000
Revenue Note				
U.S. Dept. of Housing and Urban Development	\$ 7,876,000	8/1/2005	8/1/2025	\$ 2,656,000
Total Governmental Activities				\$ 2,735,000
Business-type Activities:				
General Obligation				
Water Fund -				
Public Facilities Authority Note	\$ 870,000	8/25/2003	8/20/2018	\$ 207,186
Public Facilities Authority Note	1,971,532	7/23/2004	8/20/2018	462,000
Public Facilities Authority Note	1,668,813	10/28/2009	8/20/2019	684,000
Public Facilities Authority Note	1,293,200	7/28/2010	8/20/2025	876,000
Public Facilities Authority Note	3,344,131	12/7/2010	8/20/2025	2,352,000
Public Facilities Authority Note	1,221,631	11/18/2011	8/20/2026	882,975
Public Facilities Authority Note	4,778,806	2/25/2014	8/20/2029	4,310,896
Total Water Fund				\$ 9,775,057
Sewer Fund -				
Public Facilities Authority Note	\$ 100,000	8/25/2003	8/20/2018	\$ 23,814
Public Facilities Authority Note	1,179,115	12/12/2003	8/20/2018	276,000
Public Facilities Authority Note	1,973,033	7/12/2007	8/20/2022	1,060,000
Public Facilities Authority Note	796,835	8/20/2009	8/20/2024	516,000
Public Facilities Authority Note	2,414,150	11/25/2009	8/20/2024	1,611,000
Public Facilities Authority Note	3,753,059	7/28/2010	8/20/2025	2,581,000
Public Facilities Authority Note	8,504,224	7/28/2010	8/20/2025	5,758,000
Public Facilities Authority Note	279,117	11/18/2011	8/20/2021	159,566
Public Facilities Authority Note	265,418	11/30/2011	8/20/2021	168,000
Public Facilities Authority Note	278,149	11/18/2011	8/20/2021	180,000
Public Facilities Authority Note	476,537	9/10/2012	8/20/2022	331,000
Public Facilities Authority Note (Note 1)	1,255,464	10/29/2014	8/20/2024	594,375
Total Sewer Fund				\$ 13,258,755
Total Business-type Activities				\$ 23,033,812
Component Unit:				
Duluth Airport Authority				
Revenue Note	\$ 497,379	11/1/2005	6/1/2019	\$ 221,584

(continued)

Note 1: Only \$ 738,533 has been drawn on the Public Facilities Authority Note dated 10/29/2014.

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2016**

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2017</u>	<u>Interest Due in 2017</u>
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	\$ -	\$ 26,000	\$ 53,000	\$ 26,000	\$ 530
Revenue Note					
U.S. Dept. of Housing and Urban Development	\$ -	\$ 5,000	\$ 2,651,000	\$ 5,000	\$ 151,954
Total Governmental Activities	\$ -	\$ 31,000	\$ 2,704,000	\$ 31,000	\$ 152,484
Business-type Activities:					
General Obligation					
Water Fund -					
Public Facilities Authority Note	\$ -	\$ 67,268	\$ 139,918	\$ 69,062	\$ 3,944
Public Facilities Authority Note	-	150,000	312,000	154,000	7,894
Public Facilities Authority Note	-	168,000	516,000	170,000	5,557
Public Facilities Authority Note	-	83,000	793,000	84,000	9,976
Public Facilities Authority Note	-	224,000	2,128,000	226,000	22,897
Public Facilities Authority Note	-	75,975	807,000	76,000	9,854
Public Facilities Authority Note	-	288,896	4,022,000	291,000	40,220
Total Water Fund	\$ -	\$ 1,057,139	\$ 8,717,918	\$ 1,070,062	\$ 100,342
Sewer Fund -					
Public Facilities Authority Note	\$ -	\$ 7,732	\$ 16,082	\$ 7,938	\$ 453
Public Facilities Authority Note	-	91,000	185,000	92,000	2,479
Public Facilities Authority Note	-	146,000	914,000	148,000	10,511
Public Facilities Authority Note	-	53,000	463,000	54,000	9,116
Public Facilities Authority Note	-	165,000	1,446,000	168,000	29,166
Public Facilities Authority Note	-	244,000	2,337,000	247,000	29,400
Public Facilities Authority Note	-	544,000	5,214,000	551,000	65,592
Public Facilities Authority Note	-	25,566	134,000	26,000	1,340
Public Facilities Authority Note	-	27,000	141,000	28,000	1,410
Public Facilities Authority Note	-	29,000	151,000	30,000	1,510
Public Facilities Authority Note	-	46,000	285,000	46,000	2,850
Public Facilities Authority Note	43,694	123,000	515,069	125,000	10,979
Total Sewer Fund	\$ 43,694	\$ 1,501,298	\$ 11,801,151	\$ 1,522,938	\$ 164,806
Total Business-type Activities	\$ 43,694	\$ 2,558,437	\$ 20,519,069	\$ 2,593,000	\$ 265,148
Component Unit:					
Duluth Airport Authority					
Revenue Note	\$ -	\$ 56,615	\$ 164,969	\$ 61,737	\$ 13,263

CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNIT - GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General Operating	Loan Programs	Debt Service	Capital Projects	Total
Assets					
Cash and cash equivalents	\$ 1,578,999	\$ 43,420	\$ 765,701	\$ 1,249,801	\$ 3,637,921
Taxes receivable, net	-	-	47,925	-	47,925
Accounts receivable, net	104,872	-	500	1,542	106,914
Loans receivable, net	677,188	3,680,947	-	3,725,536	8,083,671
Due from other funds	138,831	-	-	518,012	656,843
Due from primary government	15,401	-	-	-	15,401
Due from other governments	204,768	-	-	-	204,768
Capital assets held for resale	192,500	-	-	-	192,500
Total Assets	<u>\$ 2,912,559</u>	<u>\$ 3,724,367</u>	<u>\$ 814,126</u>	<u>\$ 5,494,891</u>	<u>\$ 12,945,943</u>
Liabilities					
Accounts payable	\$ 183,608	\$ 1,257	\$ 257,444	\$ -	\$ 442,309
Contracts payable	178,656	-	-	-	178,656
Due to other funds	-	-	518,012	138,831	656,843
Due to primary government	635,560	-	-	17,704	653,264
Due to other governments	138	-	-	5,918	6,056
Total Liabilities	<u>997,962</u>	<u>1,257</u>	<u>775,456</u>	<u>162,453</u>	<u>1,937,128</u>
Deferred Inflows of Resources					
Unavailable revenue	762,762	-	36,545	3,725,536	4,524,843
Fund Balances					
Nonspendable	192,500	3,655,910	-	-	3,848,410
Restricted	-	-	2,125	1,606,902	1,609,027
Committed	-	-	-	-	-
Assigned	-	67,200	-	-	67,200
Unassigned	959,335	-	-	-	959,335
Total Fund Balances	<u>1,151,835</u>	<u>3,723,110</u>	<u>2,125</u>	<u>1,606,902</u>	<u>6,483,972</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,912,559</u>	<u>\$ 3,724,367</u>	<u>\$ 814,126</u>	<u>\$ 5,494,891</u>	

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

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	15,905,663
Other long-term assets are not available to pay for current-period expenditures, and therefore are deferred in the funds.	4,173,453
Other assets that are not available to pay for current period expenditures, and therefore are not reported in the funds.	315
Net position of governmental activities	<u>\$ 26,563,403</u>

CITY OF DULUTH, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNIT - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>General Operating</u>	<u>Loan Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues					
Taxes					
Tax increments	\$ -	\$ -	\$ 1,476,231	\$ -	\$ 1,476,231
Intergovernmental revenues					
Federal government	212,999	-	-	-	212,999
State of Minnesota grants	1,468,905	-	-	-	1,468,905
Charges for services					
Parking meters	642,017	-	-	-	642,017
Other	2,750	-	-	-	2,750
Miscellaneous revenues					
Earnings on investments	20,319	15,564	4,892	22,066	62,841
Interest	-	6,190	-	-	6,190
Building rent	376,549	-	-	-	376,549
Other	205,637	-	-	300,000	505,637
Total Revenues	<u>2,929,176</u>	<u>21,754</u>	<u>1,481,123</u>	<u>322,066</u>	<u>4,754,119</u>
Expenditures					
Current					
Urban and economic development					
Other services and charges	2,838,700	-	-	1,316,236	4,154,936
Economic development projects	-	247,000	417,722	1,695,071	2,359,793
Capital Outlay					
Urban and economic development					
Land	55,599	-	-	-	55,599
Buildings and structures	-	-	-	98,306	98,306
Debt Service					
Interest and fiscal fees	-	-	501,817	-	501,817
Total Expenditures	<u>2,894,299</u>	<u>247,000</u>	<u>919,539</u>	<u>3,109,613</u>	<u>7,170,451</u>
Excess of Revenues Over (Under) Expenditures	<u>34,877</u>	<u>(225,246)</u>	<u>561,584</u>	<u>(2,787,547)</u>	<u>(2,416,332)</u>
Other Financing Sources (Uses)					
Transfers in					
DEDA Capital Projects	138,831	-	-	-	138,831
DEDA Debt Service	-	-	-	560,606	560,606
Total Transfers In	<u>138,831</u>	<u>-</u>	<u>-</u>	<u>560,606</u>	<u>699,437</u>
Transfers out					
DEDA General Operating	-	-	-	(138,831)	(138,831)
DEDA Capital Projects	-	-	(560,606)	-	(560,606)
Total Transfers Out	<u>-</u>	<u>-</u>	<u>(560,606)</u>	<u>(138,831)</u>	<u>(699,437)</u>
Total Other Financing Sources (Uses)	<u>138,831</u>	<u>-</u>	<u>(560,606)</u>	<u>421,775</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	173,708	(225,246)	978	(2,365,772)	(2,416,332)
Fund Balance - January 1, 2016	<u>978,127</u>	<u>3,948,356</u>	<u>1,147</u>	<u>3,972,674</u>	<u>8,900,304</u>
Fund Balance - December 31, 2016	<u>\$ 1,151,835</u>	<u>\$ 3,723,110</u>	<u>\$ 2,125</u>	<u>\$ 1,606,902</u>	<u>\$ 6,483,972</u>

**CITY OF DULUTH, MINNESOTA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 DULUTH ECONOMIC DEVELOPMENT AUTHORITY
 COMPONENT UNIT - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

Net change in fund balances - total governmental funds	\$ (2,416,332)
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(898,173)
In the statement of activities, only the gain on the sale of property is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the land sold.	(1,428,716)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, some revenues provide current financial resources to governmental funds but do not have any effect on net position. This amount is the net effect of these differences.	2,002,875
Change in net position of governmental activities	<u>\$ (2,740,346)</u>

DULUTH JPE TRUST
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2016

	<u>Health Fund</u>	<u>Dental Fund</u>	<u>JPE Trust Total</u>
Assets			
Investments:			
Money market	\$ 894,481	\$ 135,337	\$ 1,029,818
US government treasury securities	1,257,405	-	1,257,405
US government agency securities	4,219,972	176,544	4,396,516
Receivables:			
Other	<u>32,870</u>	<u>23,323</u>	<u>56,193</u>
Total assets	<u>\$ 6,404,728</u>	<u>\$ 335,204</u>	<u>\$ 6,739,932</u>
Liabilities			
Claims payable	\$ 1,187,016	\$ 85,350	\$ 1,272,366
Accounts payable	<u>49,946</u>	<u>-</u>	<u>49,946</u>
Total liabilities	<u>\$ 1,236,962</u>	<u>\$ 85,350</u>	<u>\$ 1,322,312</u>
Net Position			
Held in trust	<u>\$ 5,167,766</u>	<u>\$ 249,854</u>	<u>\$ 5,417,620</u>

DULUTH JPE TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Health Fund</u>	<u>Dental Fund</u>	<u>JPE Trust Total</u>
Additions			
Health premiums:			
Active employees	\$ 13,324,072	\$ -	\$ 13,324,072
Inactive employees	8,617,063	-	8,617,063
Dental premiums	-	870,007	870,007
Refunds and reimbursements:			
Stop loss reimbursements	110,830	-	110,830
Prescription drug rebates	155,052	-	155,052
Flexible benefit forfeitures	6,679	-	6,679
Blue Cross Blue Shield recoveries	1,927	-	1,927
Investment earnings	75,716	1,181	76,897
Total additions	<u>22,291,339</u>	<u>871,188</u>	<u>23,162,527</u>
Deductions			
Medical and drug claims:			
Active employees	13,874,455	-	13,874,455
Inactive employees	5,676,782	-	5,676,782
Medical insurance - medicare supplement	3,421,038	-	3,421,038
Dental claims	-	752,422	752,422
Administrative fees:			
Health Partners	604,465	-	604,465
Clearscript	87	-	87
Delta Dental	-	60,774	60,774
City of Duluth	320,968	-	320,968
Trust services	24,964	607	25,571
Consulting services	92,320	-	92,320
Wellness activities	82,859	-	82,859
Transitional reinsurance fee	61,058	-	61,058
Patient centered outcomes research fee	4,666	-	4,666
Stop loss insurance	379,097	-	379,097
Miscellaneous	33,005	-	33,005
Total deductions	<u>24,575,764</u>	<u>813,803</u>	<u>25,389,567</u>
Change in Net Position	(2,284,425)	57,385	(2,227,040)
Net Position - January 1, 2016	<u>7,452,191</u>	<u>192,469</u>	<u>7,644,660</u>
Net Position - December 31, 2016	<u>\$ 5,167,766</u>	<u>\$ 249,854</u>	<u>\$ 5,417,620</u>

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary and Internal Service Funds	Totals
Shared Revenue:						
State of Minnesota						
Local Government Aid	\$ 29,264,120	\$ -	\$ -	\$ -	\$ -	\$ 29,264,120
PERA Aid	124,428	-	-	-	54,402	178,830
MSA Street Construction Allotment	-	-	-	2,659,065	-	2,659,065
MSA Street Maintenance Allotment	1,533,400	-	-	-	-	1,533,400
Insurance Premium	1,950,416	-	-	-	-	1,950,416
Total Shared Revenue	32,872,364	-	-	2,659,065	54,402	35,585,831
State Grants:						
State of Minnesota, Department of						
Commerce						
Auto Theft Prevention Program	-	9,315	-	-	-	9,315
MN Petroleum Tank Release Compensation Board	-	102,314	-	-	-	102,314
Commerce Total	-	111,629	-	-	-	111,629
Education						
Minnesota Library Information Network	5,020	-	-	-	-	5,020
Employment and Economic Development						
Cirrus Gas Main Development and Assessment	-	-	-	-	127,326	127,326
Contamination Cleanup Program	-	197,860	-	-	-	197,860
Dislocated Workers	-	250,567	-	-	-	250,567
Minnesota Investment Fund Grant	-	-	-	3,799,898	-	3,799,898
Spirit Mountain Recreation Area Authority Grant	-	-	-	3,400,000	-	3,400,000
Wade Stadium	-	-	-	122,611	-	122,611
Youth Program	-	227,873	-	-	-	227,873
Employment and Economic Development Total	-	676,300	-	7,322,509	127,326	8,126,135
Historical Society						
Historical and Cultural Grants	-	73,076	-	-	-	73,076
Natural Resources						
Conservation Partners Legacy						
Grant Program	-	-	-	144,906	-	144,906
Cooperative Trail Program	-	-	-	650,000	-	650,000
Cross Country Ski Trail	11,000	-	-	-	-	11,000
Flood Hazard Mitigation	-	47,042	-	-	-	47,042
Lake Superior Zoo	-	200,000	-	-	-	200,000
Minnesota Flood Relief 2012	-	772,734	-	-	-	772,734
Parks Legacy Grant	-	628,469	-	-	-	628,469
Snowmobile Trail	15,750	-	-	-	-	15,750
Stream Debris & Sediment Removal	-	18,305	-	-	-	18,305
Natural Resources Total	26,750	1,666,550	-	794,906	-	2,488,206
Peace Officers Board						
Post Training Reimbursement	45,649	-	-	-	-	45,649
Public Safety						
Bulletproof Vests	17,929	-	-	-	-	17,929
Extreme Cold Weather Oil Spill Response Training	-	2,642	-	-	-	2,642
Firefighter Education Reimbursement	-	72,790	-	-	-	72,790
HAZMAT Regional Response Team	-	373,744	-	-	-	373,744
Narcotic/Gang Strike Force	-	300,813	-	-	-	300,813
Sex Trafficking Investigations and Training	-	62,500	-	-	-	62,500
State of Minnesota Disaster Funds	977,935	(65,159)	-	-	31,575	944,351
Public Safety Total	995,864	747,330	-	-	31,575	1,774,769

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary and Internal Service Funds	Totals
Revenue						
Market Value Credit	6,402	-	-	-	-	6,402
Transportation						
Bridge Bonding	-	-	-	22,406	-	22,406
Local Road & Bridge Disaster Relief	-	2,215,767	-	-	-	2,215,767
Municipal State Aid Disaster Aid	-	12,120	-	-	-	12,120
Transportation Total	-	2,227,887	-	22,406	-	2,250,293
Total State Grants	1,079,685	5,502,772	-	8,139,821	158,901	14,881,179
Other Grants:						
St. Louis County						
Job Training Services	-	908,221	-	-	-	908,221
Other	143,500	18,901	-	136,303	-	298,704
St. Louis County Total	143,500	927,122	-	136,303	-	1,206,925
Housing and Redevelopment Authority	57,492	64,557	-	-	-	122,049
Duluth Transit Authority	-	95,513	-	-	-	95,513
Independent School District #709	251,941	-	-	-	-	251,941
Total Other Grants	452,933	1,087,192	-	136,303	-	1,676,428
Federal Grants:						
Federal, Department of						
Agriculture						
Emergency Watershed Protection Program	-	27,799	-	-	-	27,799
Urban and Community Forestry Program	-	11,913	-	-	-	11,913
Agriculture Total	-	39,712	-	-	-	39,712
Defense						
Military Construction, National Guard	-	-	-	154,311	-	154,311
Environmental Protection Agency						
Brownfields Assessment and Cleanup Cooperative	-	72,817	-	-	-	72,817
Brownfields Training, Research, and Technical Assistance Grants	-	59,513	-	-	-	59,513
Great Lakes Program	-	248,772	-	-	-	248,772
Urban Waters Small Grants	-	27,463	-	-	-	27,463
Environmental Protection Agency Total	-	408,565	-	-	-	408,565
Health and Human Services						
Temporary Assistance to Needy Families	-	10,000	-	-	-	10,000
Homeland Security						
Emergency Management Performance Grants	-	25,615	-	-	-	25,615
FEMA Disaster Assistance	-	490,074	-	-	-	490,074
Homeland Security Grant Program	-	27,759	-	-	-	27,759
Port Security Grant Program	-	100,970	-	-	-	100,970
Homeland Security Total	-	644,418	-	-	-	644,418

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary and Internal Service Funds	Totals
Housing and Urban Development						
Community Development Block Grant	-	2,162,721	-	-	-	2,162,721
Emergency Solutions Grant Program	-	172,574	-	-	-	172,574
Fair Housing Enforcement	43,800	-	-	-	-	43,800
Home Investment Partnerships Program	-	617,917	-	-	-	617,917
Lead-Based Paint Hazard Control Grant Program	-	770,695	-	-	-	770,695
Neighborhood Stabilization Program	-	51	-	-	-	51
Housing and Urban Development Total	43,800	3,723,958	-	-	-	3,767,758
Interior						
Historic Preservation Fund Grants-in-Aid	1,017	-	-	-	-	1,017
Justice						
ATF (Alcohol Tobacco Firearms) Task Force	55,379	-	-	-	-	55,379
Blueprint for Safety	-	72,407	-	-	-	72,407
Bulletproof Vest Partnership Program	17,930	-	-	-	-	17,930
Edward Bryne Memorial Formula Grant	-	15,000	-	-	-	15,000
Grants to Encourage Arrest Policies	-	56,493	-	-	-	56,493
National Sexual Assault Kit Initiative	-	235,735	-	-	-	235,735
Organized Crime Drug Enforcement Task Force	52,633	-	-	-	-	52,633
Justice Total	125,942	379,635	-	-	-	505,577
Labor						
WIA Dislocated Workers Formula Grant	-	80,376	-	-	-	80,376
Senior Community Service Employment	-	339,076	-	-	-	339,076
Temporary Assistance to Needy Families	-	-	-	-	-	-
Workforce Investment Act	-	539,739	-	-	-	539,739
Labor Total	-	959,191	-	-	-	959,191
Transportation						
Federal Highway Assistance	-	337,922	-	-	-	337,922
Highway Planning and Construction	-	-	-	920,245	-	920,245
Interagency Hazardous Materials Public Sector	-	4,611	-	-	-	4,611
NHTSA: DWI Officers	-	128,864	-	-	-	128,864
National Priority Safety Programs	-	23,180	-	-	-	23,180
Recreational Trails Program	-	17,124	-	-	-	17,124
2015 Toward Zero Deaths Law Enforcement Grant	-	268,757	-	-	-	268,757
Transportation Total	-	780,458	-	920,245	-	1,700,703
Total Federal Grants	170,759	6,945,937	-	1,074,556	-	8,191,252
Other Federal:						
Treasury						
Build America Interest Rebate	-	-	222,561	-	-	222,561
Total Intergovernmental Revenue	\$ 34,575,741	\$ 13,535,901	\$ 222,561	\$ 12,009,745	\$ 213,303	\$ 60,557,251

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
Urban and Community Forestry Program		10.675	\$ 13,673	\$ -
Passed Through Minnesota Department of Natural Resources Emergency Watershed Protection Program	P12-5586	10.923	27,799	-
Total U.S. Department of Agriculture			\$ 41,472	\$ -
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	15-306A	11.419	\$ 183,542	-
U.S. Department of Defense				
Direct				
Military Construction, National Guard		12.400	\$ 174,045	\$ -
U.S. Department of Housing and Urban Development				
Direct				
Community Development Block Grants/Entitlement Grants		14.218	\$ 2,227,389	\$ 1,570,539
Emergency Solutions Grant Program		14.231	176,586	169,294
Home Investment Partnerships Program		14.239	627,007	611,202
Fair Housing Assistance Program - State and Local		14.401	43,800	-
Lead-Based Paint Hazard Control in Privately-Owned Housing		14.900	670,325	651,046
Total U.S. Department of Housing and Urban Development			\$ 3,745,107	\$ 3,002,081
U.S. Department of the Interior				
Passed Through Minnesota Historical Society Historic Preservation Fund Grants-In-Aid	P16AF00068.026	15.904	\$ 1,017	\$ -
U.S. Department of Justice				
Direct				
Alcohol, Tobacco, and Firearms - Training Assistance		16.012	\$ 55,379	\$ -
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		16.590	155,109	-
Local Law Enforcement Block Grant Program		16.592	52,633	-
Bulletproof Vest Partnership Program		16.607	17,930	-
Edward Byrne Memorial Justice Assistance Grant Program		16.738	15,000	-
National Sexual Assault Kit Initiative		16.833	235,735	-
Total U.S. Department of Justice			\$ 531,786	\$ -
U.S. Department of Labor				
Passed Through Senior Service America, Inc.				
Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$341,094)	116	17.235	\$ 233,424	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	6045100	17.235	56,756	-
Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$341,094)	7045100	17.235	50,914	-
Workforce Investment Act (WIA) National				
Incentive Grants - WIA Section 503 WIOA National Dislocated Worker Grants/WIA	5043400	17.267	4,558	-
National Emergency Grants				
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	5047200	17.277	13,048	-
	5047201	17.277	4,524	-
Total CFDA # 17.277			17,572	-

(continued)

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

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
(U.S. Department of Labor)				
Workforce Investment Act (WIA) Cluster				
WIA/WIOA Adult Program	4043100	17.258	835	-
WIA/WIOA Adult Program	5043100	17.258	171,400	-
WIA/WIOA Adult Program	6043100	17.258	57,716	-
Total CFDA # 17.258			<u>229,951</u>	<u>-</u>
WIA/WIOA Youth Activities	4043600	17.259	336	-
WIA/WIOA Youth Activities	5043600	17.259	179,400	-
WIA/WIOA Youth Activities	6043600	17.259	117,927	-
Total CFDA # 17.259			<u>297,663</u>	<u>-</u>
WIA/WIOA Dislocated Worker Formula Grants	4048000	17.278	2,738	-
WIA/WIOA Dislocated Worker Formula Grants	5048000	17.278	69,274	-
WIA/WIOA Dislocated Worker Formula Grants	6048000	17.278	13,745	-
Total CFDA # 17.278			<u>85,757</u>	<u>-</u>
(Total expenditures for Workforce Investment Act (WIA) Cluster \$613,371)				
Total U.S. Department of Labor			\$ 976,595	\$ -
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	99887	20.205	\$ 448,501	\$ -
Highway Planning and Construction	94505	20.205	59,616	-
(Total Highway Planning and Construction 20.205 \$617,113)				
Passed Through Minnesota Department of Public Safety				
Highway Planning and Construction Cluster				
Highway Planning and Construction - Emergency Relief Program	ER MN 12	20.205	108,996	-
(Total Highway Planning and Construction 20.205 \$617,113)				
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	47856	20.219	17,124	-
(Total expenditures for Highway Planning and Construction Cluster \$634,237)				
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	A-ENFRC16-2016-DULUTHPD-00063	20.600	20,837	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-ENFRC16-2016-DULUTHPD-00063	20.608	181,336	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-ENFRC17-2017-DULUTHPD-014	20.608	43,427	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-OFFICR16-2016-DULUTHPD-0002	20.608	35,671	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-OFFICR17-2017-DULUTHPD-0002	20.608	17,046	-
Total CFDA # 20.608			<u>277,480</u>	<u>-</u>
Highway Safety Cluster				
National Priority Safety Programs	A-ENFRC16-2016-DULUTHPD-00063	20.616	14,585	-
National Priority Safety Programs	A-ENFRC17-2017-DULUTHPD-014	20.616	8,572	-
National Priority Safety Programs	A-OFFICR16-2016-DULUTHPD-0002	20.616	34,129	-
National Priority Safety Programs	A-OFFICR17-2017-DULUTHPD-0002	20.616	8,396	-
National Priority Safety Programs	A-CMPTR16-2016-DULUTHPD-00014	20.616	23,180	-
Total CFDA # 20.616			<u>88,862</u>	<u>-</u>
(Total expenditures for Highway Safety Cluster \$109,699)				
Passed through Minnesota Department of Homeland Security and Emergency Management				
Interagency Hazardous Materials Public Sector Training and Planning Grants	A-HMEP-2015-DULUTHFD-012	20.703	4,611	-
Total U.S. Department of Transportation			\$ 1,026,027	\$ -

(continued)

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

**CITY OF DULUTH, MINNESOTA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Environmental Protection Agency				
Direct				
Urban Waters Small Grants		66.440	\$ 27,463	-
Great Lakes Program		66.469	208,528	-
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements		66.814	59,513	-
Brownfields Assessment and Cleanup Cooperative Agreements		66.818	299,280	-
Passed through Minnesota Department of Employment and Economic Development Capitalization Grants for Clean Water State Revolving Funds	MPFA-13-0050-R-FY15	66.458	7,124	-
Total U.S. Environmental Protection Agency			\$ 601,908	\$ -
U.S. Department of Health and Human Services				
Passed Through Minnesota Department of Employment and Economic Development				
Temporary Assistance for Needy Families	7047400	93.558	\$ 10,000	\$ -
Corporation for National and Community Service				
Passed Through SOAR Career Solutions Social Innovation Fund				
	15SIHMN001	94.019	\$ 1,939	\$ -
U.S. Department of Homeland Security				
Direct				
Port Security Grant Program		97.056	\$ 100,970	\$ -
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	4069DRMNP0000001	97.036	\$ 411,771	-
Emergency Management Performance Grants	A-EMPG-2015-DULUTHCI-00022	97.042	18,186	-
Emergency Management Performance Grants	A-EMPG-2015-DULUTHCI-106	97.042	7,429	-
Total CFDA # 97.042			437,386	-
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$110,979)	A-DECN-SHSP-2014-NERRB-0003	97.067	83,220	-
Passed Through Minnesota Homeland Security and Management				
Hazard Mitigation Grant	FEMA-4069-DR-MN	97.039	(6,221)	-
Passed Through St. Louis County				
Homeland Security Grant Program	A-OSGP-2014-STLOUICO-0007	97.067	24,158	-
Homeland Security Grant Program (Total Homeland Security Grant Program 97.067 \$110,979)	A-OSGP-2015-STLOUICO-0007	97.067	3,601	-
Total U.S. Department of Homeland Security			\$ 643,114	\$ -
Total Federal Awards			\$ 7,936,552	\$ 3,002,081

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

CITY OF DULUTH, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Duluth. It does not include \$3,792,475 and \$2,880,263 and \$962,869 in federal awards expended by the Duluth Airport Authority and Duluth Transit Authority and Spirit Mountain Recreation Area Authority, respectively, component units of the City, which had separate single audits. The City's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to, and does not present the financial position, changes in net position, or cash flows of the City.

3. Summary of Significant Accounting Policies

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

4. Reconciliation to Schedule of Intergovernmental Revenues

Federal grant revenue per Schedule of Intergovernmental Revenues	\$ 8,191,252
Grants received more than 45 days after year-end, unavailable in 2016	
Urban and Community Forestry Program	1,760
Brownfields Assessment and Cleanup Cooperative Agreements	14,848
Coastal Zone Management Administration Awards	183,542
Community Development Block Grants	149,319
Disaster Grants - Public Assistance	1,444,950
Emergency Solutions Grant Program	6,028
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	26,209
Highway Planning and Construction	220,935
Highway Planning and Construction - Emergency Relief Program	42,371
Home Investment Partnerships Program	10,517
Homeland Security Grant Programs	83,220
Lead-Based Paint Hazard Control in Privately-Owned Housing	39,289
Military Construction, National Guard	19,734
Social Initiative Fund	1,939
Senior Community Service Employment Program	2,018
WIOA National Dislocated Worker Grants/WIA	1,382
WIA/WIOA Adult Program	14,255
WIA/WIOA Youth Program	11,291
WIA/WIOA Dislocated Worker Formula Grant	5,804

CITY OF DULUTH, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016

Unavailable in 2015, recognized as revenue in 2016	
Community Development Block Grants	(84,651)
Disaster Grants - Public Assistance	(1,523,253)
Emergency Solutions Grant Program	(2,315)
Great Lakes Program	(40,244)
Hazard Mitigation Grant	(6,221)
Highway Planning and Construction	(633,063)
Highway Planning and Construction - Emergency Relief Program	(271,298)
Home Investment Partnerships Program	(1,427)
Lead-Based Paint Hazard Control in Privately-Owned Housing	(139,659)
Minimum Penalties for Repeat Offenders for Driving	
While Intoxicated	(33,622)
WIA/WIOA Adult Program	(14,177)
WIA/WIOA Youth Program	(2,748)
WIA/WIOA Dislocated Worker Formula Grant	(422)
Timing Differences Between Expenditures and Related Reimbursements	250
Capital grants received in enterprise funds	
Capitalization Grants for Clean Water State Revolving Funds	7,124
Grant received by Component Unit - DEDA	
Brownfields Assessment and Cleanup Cooperative Agreements	<u>211,615</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 7,936,552</u>

STATISTICAL SECTION

STATISTICAL SECTION

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

Guide to Statistical Section

Financial Trends - Pages 156-163

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 164-166

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

Debt Capacity - Pages 167-171

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

Demographic and Economic Information - Page 172

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 173-178

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

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental activities					
Net investment in capital assets	\$ 183,581,640	\$ 188,129,975	\$ 202,558,996	\$ 197,355,610	\$ 213,619,166
Restricted	23,911,854	24,241,591	23,345,567	22,294,675	43,113,335
Unrestricted *	<u>76,555,455</u>	<u>73,230,385</u>	<u>53,057,668</u>	<u>9,970,184</u>	<u>(22,596,696)</u>
Total governmental activities net position	<u>\$ 284,048,949</u>	<u>\$ 285,601,951</u>	<u>\$ 278,962,231</u>	<u>\$ 229,620,469</u>	<u>\$ 234,135,805</u>
Business-type activities					
Net investment in capital assets	\$ 112,994,409	\$ 119,657,883	\$ 117,943,713	\$ 136,180,485	\$ 150,333,747
Restricted	2,222,671	2,204,022	2,088,446	2,108,171	1,998,139
Unrestricted *	<u>17,076,630</u>	<u>17,998,534</u>	<u>24,767,225</u>	<u>22,771,757</u>	<u>21,865,404</u>
Total business-type activities net position	<u>\$ 132,293,710</u>	<u>\$ 139,860,439</u>	<u>\$ 144,799,384</u>	<u>\$ 161,060,413</u>	<u>\$ 174,197,290</u>
Primary government					
Net investment in capital assets	\$ 296,576,049	\$ 307,787,858	320,502,709	333,536,095	363,952,913
Restricted	26,134,525	26,445,613	25,434,013	24,402,846	45,111,474
Unrestricted *	<u>93,632,085</u>	<u>91,228,919</u>	<u>77,824,893</u>	<u>32,741,941</u>	<u>(731,292)</u>
Total primary government net position	<u>\$ 416,342,659</u>	<u>\$ 425,462,390</u>	<u>\$ 423,761,615</u>	<u>\$ 390,680,882</u>	<u>\$ 408,333,095</u>
	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Governmental activities					
Net investment in capital assets	\$ 209,484,876	\$ 210,631,129	\$ 235,177,972	\$ 242,346,774	\$ 242,875,012
Restricted	36,781,284	40,778,013	46,063,716	43,143,639	45,703,757
Unrestricted *	<u>(21,202,511)</u>	<u>(27,519,849)</u>	<u>(45,926,755)</u>	<u>(100,062,238)</u>	<u>(113,329,374)</u>
Total governmental activities net position	<u>\$ 225,063,649</u>	<u>\$ 223,889,293</u>	<u>\$ 235,314,933</u>	<u>\$ 185,428,175</u>	<u>\$ 175,249,395</u>
Business-type activities					
Net investment in capital assets	\$ 158,415,070	\$ 168,290,764	\$ 182,656,056	\$ 204,789,234	\$ 218,517,664
Restricted	1,864,068	1,877,950	2,881,659	2,892,969	2,072,379
Unrestricted *	<u>24,618,744</u>	<u>26,878,191</u>	<u>28,779,936</u>	<u>14,843,438</u>	<u>11,153,671</u>
Total business-type activities net position	<u>\$ 184,897,882</u>	<u>\$ 197,046,905</u>	<u>\$ 214,317,651</u>	<u>\$ 222,525,641</u>	<u>\$ 231,743,714</u>
Primary government					
Net investment in capital assets	367,899,946	378,921,893	417,834,028	447,136,008	461,392,676
Restricted	38,645,352	42,655,963	48,945,375	46,036,608	47,776,136
Unrestricted *	<u>3,416,233</u>	<u>(641,658)</u>	<u>(17,146,819)</u>	<u>(85,218,800)</u>	<u>(102,175,703)</u>
Total primary government net position	<u>\$ 409,961,531</u>	<u>\$ 420,936,198</u>	<u>\$ 449,632,584</u>	<u>\$ 407,953,816</u>	<u>\$ 406,993,109</u>

* Implemented GASB Statement No. 68 January 1, 2015 which required restatement of Unrestricted Net Position.

Source: Statement of Net Position

Unaudited

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

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Expenses					
Governmental activities:					
General government	\$ 35,023,700	\$ 25,028,329	\$ 35,376,090	\$ 36,014,153	\$ 38,577,305
Public safety	30,350,398	36,478,984	36,397,795	38,100,958	37,895,850
Public works	15,232,820	15,817,121	7,616,214	13,657,626	9,040,308
Culture and recreation	6,851,355	13,962,001	24,655,278	25,434,289	7,986,366
Urban and economic development	13,178,400	18,180,805	15,722,245	14,549,117	15,446,838
Interest	<u>7,762,355</u>	<u>4,749,041</u>	<u>5,175,178</u>	<u>5,409,679</u>	<u>4,692,654</u>
Total governmental activities expenses	<u>108,399,028</u>	<u>114,216,281</u>	<u>124,942,800</u>	<u>133,165,822</u>	<u>113,639,321</u>
Business-type activities:					
Water	10,865,334	11,325,128	10,717,468	10,810,875	11,218,488
Gas	47,107,309	54,336,765	38,462,243	35,800,001	36,217,536
Sewer	15,023,848	16,747,150	17,569,046	16,259,669	17,291,803
Stormwater	2,865,872	2,876,181	3,308,604	3,333,875	3,474,137
Steam district #1	5,367,034	5,851,628	5,994,665	6,258,368	6,974,162
Steam district #2	11,397,738	10,024,789	9,031,530	-	-
Golf	1,887,795	1,886,874	1,895,162	2,006,633	2,056,166
Parking	1,871,344	2,030,206	1,881,852	1,957,414	1,939,941
410 West First Street ramp	-	-	-	-	-
Street lighting	-	<u>309,920</u>	<u>1,391,981</u>	<u>1,557,525</u>	<u>1,480,674</u>
Total business-type activities expenses	<u>96,386,274</u>	<u>105,388,641</u>	<u>90,252,551</u>	<u>77,984,360</u>	<u>80,652,907</u>
Total primary government expenses	<u>\$ 204,785,302</u>	<u>\$ 219,604,922</u>	<u>\$ 215,195,351</u>	<u>\$ 211,150,182</u>	<u>\$ 194,292,228</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 4,008,714	\$ 3,846,472	\$ 4,514,042	\$ 4,619,911	\$ 4,673,037
Public safety	2,451,449	2,434,033	2,555,541	3,330,905	2,975,998
Public works	353,575	392,155	349,364	369,068	370,237
Culture and recreation	815,732	797,188	1,108,600	1,297,370	1,273,472
Urban and economic development	922,159	910,181	525,437	280,880	310,839
Operating grants and contributions	11,209,578	12,997,358	11,846,124	14,164,865	15,685,467
Capital grants and contributions	<u>13,674,386</u>	<u>8,200,343</u>	<u>7,095,416</u>	<u>17,075,628</u>	<u>13,067,199</u>
Total governmental activities program revenues	<u>33,435,593</u>	<u>29,577,730</u>	<u>27,994,524</u>	<u>41,138,627</u>	<u>38,356,249</u>
Business-type activities:					
Charges for services:					
Water	12,166,968	11,370,681	11,961,915	12,024,675	11,743,510
Gas	47,489,082	58,604,811	46,419,426	39,882,397	41,415,145
Sewer	15,771,516	17,224,701	20,320,378	20,347,330	20,040,992
Stormwater	3,916,525	4,563,498	5,222,917	4,730,608	4,632,541
Steam district #1	5,261,495	5,959,836	6,152,268	6,617,346	7,169,021
Steam district #2	8,985,844	8,834,290	8,384,720	-	-
Golf	1,887,737	1,879,530	1,945,446	1,967,401	1,872,577
Parking	2,138,316	4,136,535	2,524,682	2,563,215	2,567,703
West Superior Street parking facility	-	-	-	-	-
Street lighting	-	88,924	1,271,623	1,270,118	1,894,038
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	<u>4,468,083</u>	<u>1,970,497</u>	<u>3,836,174</u>	<u>9,104,643</u>	<u>5,135,700</u>
Total business-type activities program revenues	<u>102,085,566</u>	<u>114,633,303</u>	<u>108,039,549</u>	<u>98,507,733</u>	<u>96,471,227</u>
Total primary government program revenues	<u>\$ 135,521,159</u>	<u>\$ 144,211,033</u>	<u>\$ 136,034,073</u>	<u>\$ 139,646,360</u>	<u>\$ 134,827,476</u>

(continued)

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

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net (expense)/revenue					
Governmental activities	\$ (74,963,435)	\$ (84,638,551)	\$ (96,948,276)	\$ (92,027,195)	\$ (75,283,072)
Business-type activities	<u>5,699,292</u>	<u>9,244,662</u>	<u>17,786,998</u>	<u>20,523,373</u>	<u>15,818,320</u>
Total primary government net expense	<u>\$ (69,264,143)</u>	<u>\$ (75,393,889)</u>	<u>\$ (79,161,278)</u>	<u>\$ (71,503,822)</u>	<u>\$ (59,464,752)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
General Revenues:					
Property taxes	\$ 17,452,324	\$ 18,170,135	\$ 18,125,284	\$ 16,001,873	\$ 16,718,385
Market value credit aid	1,191,228	1,086,482	1,147,029	33,675	34,071
Sales taxes	17,509,877	18,363,052	18,009,914	19,252,407	20,071,454
Franchise taxes	1,803,561	1,851,406	1,889,796	1,917,379	1,922,796
Other taxes	247,612	198,442	684,088	97,549	159,416
Casino shared revenues	6,430,460	6,156,767	5,963,162	6,258,727	2,096,800
Grants and shared revenues not restricted to specific programs	31,725,087	30,311,915	31,498,519	29,130,992	29,154,013
Investment income	4,690,453	4,058,373	4,034,753	2,307,506	2,934,301
Gain on sale or disposition of capital assets	37,803	136,787	84,278	19,174	169,695
Miscellaneous	1,062,999	3,623,533	1,031,930	13,584	1,157,996
Special Items	12,708,044	-	-	-	-
Extraordinary items	-	-	-	-	-
Transfers	<u>(3,761,041)</u>	<u>2,234,661</u>	<u>7,839,803</u>	<u>4,552,145</u>	<u>5,379,481</u>
Total governmental activities	<u>91,098,407</u>	<u>86,191,553</u>	<u>90,308,556</u>	<u>79,585,011</u>	<u>79,798,408</u>
Business-type activities:					
General Revenues:					
Property taxes	-	-	-	-	-
Grants and shared revenues not restricted to specific programs	-	-	-	-	48,567
Investment income	878,763	545,151	320,540	282,545	349,471
Gain on sale or disposition of capital assets	22,127	11,577	112,447	7,256	-
Miscellaneous	-	-	-	-	2,300,000
Extraordinary items	-	-	(5,441,237)	-	-
Transfers	<u>3,761,041</u>	<u>(2,234,661)</u>	<u>(7,839,803)</u>	<u>(4,552,145)</u>	<u>(5,379,481)</u>
Total business-type activities	<u>4,661,931</u>	<u>(1,677,933)</u>	<u>(12,848,053)</u>	<u>(4,262,344)</u>	<u>(2,681,443)</u>
Total primary government	<u>\$ 95,760,338</u>	<u>\$ 84,513,620</u>	<u>\$ 77,460,503</u>	<u>\$ 75,322,667</u>	<u>\$ 77,116,965</u>
Change in Net Position					
Governmental activities	\$ 16,134,972	\$ 1,553,002	\$ (6,639,720)	\$ (12,442,184)	\$ 4,515,336
Business-type activities	<u>10,361,223</u>	<u>7,566,729</u>	<u>4,938,945</u>	<u>16,261,029</u>	<u>13,136,877</u>
Total primary government	<u>\$ 26,496,195</u>	<u>\$ 9,119,731</u>	<u>\$ (1,700,775)</u>	<u>\$ 3,818,845</u>	<u>\$ 17,652,213</u>

Source: Statement of Activities

(continued)

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

	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Expenses					
Governmental activities:					
General government	\$ 40,761,298	\$ 24,455,977	\$ 27,045,420	\$ 26,652,865	\$ 28,487,636
Public safety	38,190,780	39,860,955	40,104,416	40,798,398	55,526,260
Public works	12,320,891	26,286,454	21,622,112	22,230,628	25,219,128
Culture and recreation	15,125,570	11,872,741	11,584,949	18,319,587	10,407,695
Urban and economic development	13,275,120	14,922,283	14,294,290	14,265,141	17,688,597
Interest	<u>4,907,447</u>	<u>4,535,639</u>	<u>4,338,915</u>	<u>4,619,216</u>	<u>4,543,299</u>
Total governmental activities expenses	<u>124,581,106</u>	<u>121,934,049</u>	<u>118,990,102</u>	<u>126,885,835</u>	<u>141,872,615</u>
Business-type activities:					
Water	10,243,435	11,015,475	11,255,835	10,187,477	10,997,029
Gas	30,351,746	35,174,140	49,131,965	29,262,281	27,526,208
Sewer	18,216,008	17,882,780	16,963,128	16,284,112	16,034,063
Stormwater	3,447,389	3,581,689	3,701,827	3,764,611	4,208,833
Steam district #1	7,083,477	7,692,984	7,254,245	7,666,582	8,364,984
Steam district #2	-	-	-	-	-
Golf	2,192,560	2,059,673	2,020,655	2,309,016	2,068,650
Parking	2,923,741	2,901,617	2,701,445	2,550,028	2,630,605
410 West First Street ramp	-	-	-	-	768,011
Street lighting	<u>1,583,897</u>	<u>1,545,598</u>	<u>1,910,875</u>	<u>1,914,331</u>	<u>2,307,565</u>
Total business-type activities expenses	<u>76,042,253</u>	<u>81,853,956</u>	<u>94,939,975</u>	<u>73,938,438</u>	<u>74,905,948</u>
Total primary government expenses	<u>\$ 200,623,359</u>	<u>\$ 203,788,005</u>	<u>\$ 213,930,077</u>	<u>\$ 200,824,273</u>	<u>\$ 216,778,563</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 4,415,328	\$ 4,675,590	\$ 5,018,181	\$ 4,854,823	\$ 4,934,248
Public safety	2,925,524	1,948,070	1,501,647	1,562,794	1,698,161
Public works	394,422	111,061	1,320,130	2,801,089	2,723,412
Culture and recreation	1,082,261	1,332,448	1,299,671	1,310,840	1,182,738
Urban and economic development	347,895	2,816,814	3,383,810	3,095,554	2,655,700
Operating grants and contributions	13,668,138	13,309,497	11,487,629	10,096,446	12,402,217
Capital grants and contributions	<u>12,230,295</u>	<u>17,878,748</u>	<u>19,388,699</u>	<u>19,174,980</u>	<u>15,968,844</u>
Total governmental activities program revenues	<u>35,063,863</u>	<u>42,072,228</u>	<u>43,399,767</u>	<u>42,896,526</u>	<u>41,565,320</u>
Business-type activities:					
Charges for services:					
Water	13,911,617	14,866,657	14,529,002	14,426,316	14,479,884
Gas	34,071,373	40,587,986	58,291,132	35,495,409	31,209,095
Sewer	20,350,506	20,535,669	19,493,753	19,973,712	19,527,000
Stormwater	4,798,166	4,750,421	4,624,063	4,754,516	5,243,461
Steam district #1	7,239,203	7,858,968	6,820,043	6,725,164	7,064,402
Steam district #2	-	-	-	-	-
Golf	1,926,929	1,738,980	1,734,534	1,931,016	1,822,938
Parking	3,185,152	3,777,759	4,207,977	4,516,797	4,552,144
West Superior Street parking facility	-	-	-	-	339,417
Street lighting	2,272,395	2,147,449	2,146,270	1,922,930	1,501,926
Operating grants and contributions	-	60,699	76,493	-	164,101
Capital grants and contributions	<u>3,366,852</u>	<u>2,812,199</u>	<u>4,597,404</u>	<u>8,380,978</u>	<u>2,251,332</u>
Total business-type activities program revenues	<u>91,122,193</u>	<u>99,136,787</u>	<u>116,520,671</u>	<u>98,126,838</u>	<u>88,155,700</u>
Total primary government program revenues	<u>\$ 126,186,056</u>	<u>\$ 141,209,015</u>	<u>\$ 159,920,438</u>	<u>\$ 141,023,364</u>	<u>\$ 129,721,020</u>

(continued)

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

	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net (expense)/revenue					
Governmental activities	\$ (89,517,243)	\$ (79,861,821)	\$ (75,590,335)	\$ (83,989,309)	\$ (100,307,295)
Business-type activities	<u>15,079,940</u>	<u>17,282,831</u>	<u>21,580,696</u>	<u>24,188,400</u>	<u>13,249,752</u>
Total primary government net expense	<u>\$ (74,437,303)</u>	<u>\$ (62,578,990)</u>	<u>\$ (54,009,639)</u>	<u>\$ (59,800,909)</u>	<u>\$ (87,057,543)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
General Revenues:					
Property taxes	\$ 21,379,384	\$ 21,924,954	\$ 22,146,676	\$ 22,405,560	\$ 23,587,371
Market value credit aid	9,759	-	-	-	-
Sales taxes	20,888,940	20,388,588	22,031,014	24,305,293	24,585,124
Franchise taxes	1,928,149	1,958,297	2,013,126	2,008,194	1,998,457
Other taxes	141,927	134,580	622,015	255,491	198,546
Casino shared revenues	579,478	-	-	-	-
Grants and shared revenues not restricted to specific programs	29,148,898	29,401,345	30,995,305	31,232,887	31,345,365
Investment income	506,168	(1,632,312)	2,148,194	328,502	1,805,404
Gain on sale or disposition of capital assets	19,124	550,473	54,776	-	-
Miscellaneous	1,172,063	2,694,159	1,996,119	1,323,545	1,726,300
Special Items	-	-	-	-	-
Extraordinary items	-	-	-	(13,264,958)	-
Transfers	<u>4,671,197</u>	<u>4,714,434</u>	<u>5,008,750</u>	<u>6,336,860</u>	<u>4,881,948</u>
Total governmental activities	<u>80,445,087</u>	<u>80,134,518</u>	<u>87,015,975</u>	<u>74,931,374</u>	<u>90,128,515</u>
Business-type activities:					
General Revenues:					
Property taxes	-	-	-	220,293	647,013
Grants and shared revenues not restricted to specific programs	51,272	48,566	48,566	48,566	48,566
Investment income	184,954	33,206	468,471	124,243	99,045
Gain on sale or disposition of capital assets	55,623	(4,983)	58,974	79,246	2,220
Miscellaneous	-	69,099	122,789	56,606	53,425
Extraordinary items	-	-	-	-	-
Transfers	<u>(4,671,197)</u>	<u>(4,714,434)</u>	<u>(5,008,750)</u>	<u>(6,336,860)</u>	<u>(4,881,948)</u>
Total business-type activities	<u>(4,379,348)</u>	<u>(4,568,546)</u>	<u>(4,309,950)</u>	<u>(5,807,906)</u>	<u>(4,031,679)</u>
Total primary government	<u>\$ 76,065,739</u>	<u>\$ 75,565,972</u>	<u>\$ 82,706,025</u>	<u>\$ 69,123,468</u>	<u>\$ 86,096,836</u>
Change in Net Position					
Governmental activities	\$ (9,072,156)	\$ 272,697	\$ 11,425,640	\$ (9,057,935)	\$ (10,178,780)
Business-type activities	<u>10,700,592</u>	<u>12,714,285</u>	<u>17,270,746</u>	<u>18,380,494</u>	<u>9,218,073</u>
Total primary government	<u>\$ 1,628,436</u>	<u>\$ 12,986,982</u>	<u>\$ 28,696,386</u>	<u>\$ 9,322,559</u>	<u>\$ (960,707)</u>

Unaudited

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

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>
General fund					
Reserved	\$ 190,911	\$ 325,430	\$ 436,860	\$ 368,134	\$ -
Unreserved	1,423,116	(1,345,024)	1,962,587	5,579,282	-
Nonspendable*	-	-	-	-	138,012
Restricted*	-	-	-	-	120,766
Committed*	-	-	-	-	-
Assigned*	-	-	-	-	332,997
Unassigned*	-	-	-	-	7,664,417
Total general fund	<u>\$ 1,614,027</u>	<u>\$ (1,019,594)</u>	<u>\$ 2,399,447</u>	<u>\$ 5,947,416</u>	<u>\$ 8,256,192</u>
All other governmental funds					
Reserved	\$ 14,628,923	\$ 13,599,551	\$ 17,658,025	\$ 22,178,725	\$ -
Unreserved, reported in:					
Special revenue funds	63,097,631	67,075,700	55,293,268	38,712,371	-
Debt service funds	11,125,923	11,201,667	12,384,602	13,496,346	-
Capital projects funds	5,986,870	48,030,782	45,990,283	10,263,175	-
Restricted*	-	-	-	-	36,801,571
Committed*	-	-	-	-	144,721
Assigned*	-	-	-	-	27,983,067
Unassigned*	-	-	-	-	(255,786)
Total all other governmental funds	<u>\$ 94,839,347</u>	<u>\$ 139,907,700</u>	<u>\$ 131,326,178</u>	<u>\$ 84,650,617</u>	<u>\$ 64,673,573</u>

	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	-
Nonspendable*	431,795	414,309	258,535	-	-
Restricted*	97,811	75,741	91,324	95,801	85,776
Committed*	9,067	13,454	13,129	21,781	32,075
Assigned*	583,777	821,114	1,634,029	2,132,059	1,616,063
Unassigned*	7,587,726	7,746,042	9,320,545	11,624,121	11,634,076
Total general fund	<u>\$ 8,710,176</u>	<u>\$ 9,070,660</u>	<u>\$ 11,317,562</u>	<u>\$ 13,873,762</u>	<u>\$ 13,367,990</u>
All other governmental funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Restricted*	29,787,935	31,790,209	31,233,325	44,269,018	45,235,185
Committed*	294,971	18,095,100	19,705,618	19,846,164	21,707,282
Assigned*	23,258,693	576,094	445,627	389,344	824,467
Unassigned*	(2,995,479)	(5,512,643)	(4,232,523)	(8,155,193)	(2,101,580)
Total all other governmental funds	<u>\$ 50,346,120</u>	<u>\$ 44,948,760</u>	<u>\$ 47,152,047</u>	<u>\$ 56,349,333</u>	<u>\$ 65,665,354</u>

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

Source: Balance Sheet & Combining Balance Sheet

Unaudited

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

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues					
Taxes:					
Property taxes	\$ 17,837,011	\$ 17,776,235	\$ 17,859,578	\$ 15,953,934	\$ 16,581,461
Sales taxes	17,509,877	18,363,052	18,009,914	19,252,407	20,071,454
Other taxes	2,051,173	2,049,848	2,573,884	2,014,928	2,082,212
Licenses and permits	1,111,727	985,506	1,149,265	1,182,044	1,407,951
Intergovernmental revenues	53,793,307	50,315,079	50,047,221	55,756,919	56,211,950
Charges for services	5,995,079	5,802,260	6,348,063	6,902,683	6,453,510
Fines and forfeits	1,086,304	1,056,783	1,770,427	1,791,604	1,579,021
Special assessments	2,941,244	2,609,585	2,948,975	2,741,754	2,837,628
Investment income	3,908,135	3,364,141	3,691,734	2,051,772	2,669,071
Miscellaneous revenues	<u>10,641,263</u>	<u>12,202,008</u>	<u>6,321,696</u>	<u>3,285,276</u>	<u>3,956,649</u>
Total revenues	<u>116,875,120</u>	<u>114,524,497</u>	<u>110,720,757</u>	<u>110,933,321</u>	<u>113,850,907</u>
Expenditures					
General government	32,109,525	23,062,581	32,743,783	32,628,277	33,469,098
Public safety	33,319,542	35,661,590	36,718,739	33,901,872	34,606,780
Public works	11,080,239	12,106,097	1,872,986	7,164,216	2,081,437
Culture and recreation	6,716,210	8,037,797	6,095,879	6,570,834	6,865,686
Urban and economic development	14,531,149	16,515,445	14,059,428	14,177,365	15,251,986
Debt service					
Principal retirement	11,454,452	9,984,002	12,354,000	10,254,000	11,395,000
Interest and fiscal fees	4,777,420	4,377,160	5,264,029	5,441,345	4,989,456
Revenue pledge	2,966,875	-	-	-	-
Bond issuance costs	205,336	544,187	442,358	140,135	80,184
Capital outlay	<u>13,496,052</u>	<u>15,749,543</u>	<u>36,274,174</u>	<u>37,344,799</u>	<u>33,452,857</u>
Total expenditures	<u>130,656,800</u>	<u>126,038,402</u>	<u>145,825,376</u>	<u>147,622,843</u>	<u>142,192,484</u>
Excess of revenues over (under) expenditures	<u>(13,781,680)</u>	<u>(11,513,905)</u>	<u>(35,104,619)</u>	<u>(36,689,522)</u>	<u>(28,341,577)</u>
Other financing sources (uses)					
Issuance of bonds	10,650,000	51,600,000	21,560,000	4,470,000	4,965,000
Proceeds from refundings	-	-	2,150,000	4,190,000	-
Premium on issuance of bonds	269,594	383,591	578,200	109,851	138,232
Payment to refunded bond escrow agent	(5,827,735)	(3,570,023)	(2,150,000)	(4,155,250)	-
Transfers in	29,700,237	25,900,738	37,591,473	26,903,985	23,957,020
Transfers out	<u>(25,190,223)</u>	<u>(20,365,669)</u>	<u>(29,787,535)</u>	<u>(22,207,637)</u>	<u>(18,386,943)</u>
Total other financing sources (uses)	<u>9,601,873</u>	<u>53,948,637</u>	<u>29,942,138</u>	<u>9,310,949</u>	<u>10,673,309</u>
Net change in fund balances	<u>\$ (4,179,807)</u>	<u>\$ 42,434,732</u>	<u>\$ (5,162,481)</u>	<u>\$ (27,378,573)</u>	<u>\$ (17,668,268)</u>
Debt service as a percentage of noncapital expenditures	13.8%	12.8%	13.7%	12.3%	14.8%

General Governmental includes Capital Projects Fund.

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

(continued)

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

	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Revenues					
Taxes:					
Property taxes	\$ 21,336,285	\$ 21,913,489	\$ 22,118,257	\$ 22,549,109	\$ 23,671,256
Sales taxes	20,888,940	20,388,588	22,031,014	24,305,293	24,585,124
Other taxes	2,070,076	2,092,877	2,635,141	2,263,685	2,197,003
Licenses and permits	1,625,826	1,863,333	1,737,068	1,783,741	1,786,472
Intergovernmental revenues	49,469,851	55,451,614	57,455,627	55,941,414	60,343,948
Charges for services	5,891,728	6,441,338	7,987,527	9,289,681	8,510,151
Fines and forfeits	1,075,167	699,846	709,213	652,033	719,928
Special assessments	2,884,597	2,328,821	2,458,912	1,983,776	2,095,202
Investment income	430,056	(1,675,875)	2,022,447	230,692	1,740,987
Miscellaneous revenues	<u>4,124,685</u>	<u>4,521,654</u>	<u>4,304,525</u>	<u>5,326,755</u>	<u>5,980,771</u>
Total revenues	<u>109,797,211</u>	<u>114,025,685</u>	<u>123,459,731</u>	<u>124,326,179</u>	<u>131,630,842</u>
Expenditures					
General government	34,625,147	22,290,793	23,174,447	24,004,445	24,378,741
Public safety	36,476,109	35,035,481	35,512,569	37,150,741	38,524,220
Public works	6,046,513	19,397,379	12,536,734	14,388,357	14,515,792
Culture and recreation	7,761,926	9,469,074	9,645,981	15,954,443	9,117,853
Urban and economic development	20,203,006	17,762,959	13,858,327	16,906,657	24,913,908
Debt service					
Principal retirement	13,045,000	8,655,000	11,350,000	10,501,000	9,531,000
Interest and fiscal fees	5,097,486	4,673,854	4,600,843	4,577,976	4,422,939
Revenue pledge	-	-	-	-	-
Bond issuance costs	280,600	203,741	223,753	361,424	595,689
Capital outlay	<u>23,247,154</u>	<u>17,169,385</u>	<u>21,355,037</u>	<u>16,962,641</u>	<u>15,016,363</u>
Total expenditures	<u>146,782,941</u>	<u>134,657,666</u>	<u>132,257,691</u>	<u>140,807,684</u>	<u>141,016,505</u>
Excess of revenues over (under) expenditures	<u>(36,985,730)</u>	<u>(20,631,981)</u>	<u>(8,797,960)</u>	<u>(16,481,505)</u>	<u>(9,385,663)</u>
Other financing sources (uses)					
Issuance of bonds	17,980,000	10,490,000	8,055,000	21,315,000	12,520,000
Proceeds from refundings	6,905,000	-	865,000	2,630,000	33,470,000
Premium on issuance of bonds	868,419	271,507	153,373	799,031	7,185,320
Payment to refunded bond escrow agent	(7,363,043)	-	(865,000)	(2,845,900)	(39,861,356)
Transfers in	19,166,548	16,753,906	16,540,403	19,136,245	22,385,436
Transfers out	<u>(14,444,663)</u>	<u>(11,988,958)</u>	<u>(11,500,627)</u>	<u>(12,799,385)</u>	<u>(17,503,488)</u>
Total other financing sources (uses)	<u>23,112,261</u>	<u>15,526,455</u>	<u>13,248,149</u>	<u>28,234,991</u>	<u>18,195,912</u>
Net change in fund balances	<u>\$ (13,873,469)</u>	<u>\$ (5,105,526)</u>	<u>\$ 4,450,189</u>	<u>\$ 11,753,486</u>	<u>\$ 8,810,249</u>
Debt service as a percentage of noncapital expenditures	14.0%	11.4%	14.1%	12.1%	11.0%

Unaudited

CITY OF DULUTH, MINNESOTA
ASSESSED AND ESTIMATED TAXABLE MARKET VALUE OF PROPERTY
LAST TEN FISCAL YEARS

Fiscal Year Ended December 31	Real Estate			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
2007	\$ 4,193,186,400	\$ 41,820,980	\$ 879,132,200	\$ 16,175,054
2008	4,448,018,800	44,960,335	914,966,520	16,708,234
2009	4,596,572,476	46,544,301	1,006,191,824	18,391,705
2010	4,545,577,900	46,457,611	1,041,761,700	19,131,580
2011	4,391,758,200	44,888,003	1,026,682,900	18,853,813
2012	4,399,683,300	40,350,188	1,033,199,600	19,007,636
2013	4,276,314,100	40,087,613	1,057,616,100	19,632,127
2014	4,338,067,800	39,838,986	1,113,116,900	20,463,377
2015	4,441,627,300	40,989,014	1,144,647,100	21,018,612
2016	4,561,213,000	42,373,863	1,202,773,500	22,169,916

Fiscal Year Ended December 31	Personal Property			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
2007	\$ 20,528,100	\$ 204,926	\$ 96,119,000	\$ 1,862,112
2008	26,327,800	237,536	94,105,200	1,816,792
2009	28,487,600	283,617	75,268,900	1,435,838
2010	30,139,300	307,525	78,621,200	1,447,720
2011	28,363,500	284,857	84,724,000	1,551,297
2012	28,591,200	208,707	107,565,700	1,966,342
2013	29,300,100	217,752	109,785,500	2,011,293
2014	28,448,100	221,073	104,465,800	1,906,608
2015	33,827,800	276,580	105,380,900	1,937,051
2016	33,899,000	271,921	105,806,200	1,961,029

Fiscal Year Ended December 31	Total		Percentage of Total Tax Capacity to Total Estimated Market Value	
	Estimated Market Value	Tax Capacity	Total Estimated Market Value	Tax Rate
	2007	\$ 5,188,965,700	\$ 60,063,072	1.16%
2008	5,483,418,320	63,722,897	1.16%	0.23259
2009	5,706,520,800	66,655,461	1.17%	0.25403
2010	5,696,100,100	67,344,436	1.18%	0.26331
2011	5,531,528,600	65,577,970	1.19%	0.27956
2012	5,569,039,800	61,532,873	1.10%	0.31597
2013	5,473,015,800	61,948,785	1.13%	0.33198
2014	5,584,098,600	62,430,044	1.12%	0.32338
2015	5,725,483,100	64,221,257	1.12%	0.32509
2016	5,903,691,700	66,776,729	1.13%	0.33378

Unaudited

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

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

Fiscal Year	City			Overlapping Rates			Total Direct & Overlapping Rates
	Operations	Debt Service	Total Direct	Schools	County	Special	
2007	0.14780	0.08159	0.22939	0.10881	0.63013	0.06615	1.03448
2008	0.14743	0.08516	0.23259	0.20874	0.59190	0.06298	1.09621
2009	0.16193	0.09210	0.25403	0.20940	0.57645	0.06497	1.10485
2010	0.18050	0.08281	0.26331	0.20971	0.55365	0.05654	1.08321
2011	0.18686	0.09270	0.27956	0.23373	0.56011	0.05829	1.13169
2012	0.21847	0.09750	0.31597	0.27706	0.62325	0.05975	1.27603
2013	0.22411	0.10787	0.33198	0.32886	0.63885	0.06180	1.36149
2014	0.23152	0.09186	0.32338	0.34314	0.63613	0.06319	1.36584
2015	0.23089	0.09420	0.32509	0.34108	0.64457	0.06216	1.37290
2016	0.24322	0.09056	0.33378	0.31825	0.61443	0.06193	1.32839

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

Source: St. Louis County web site

Unaudited

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

Taxpayer	Type of Business	2016			2007		
		Estimated Market Value	Rank	Percentage of Total Estimated Market Value	Estimated Market Value	Rank	Percentage of Total Estimated Market Value
Minnesota Power	Electric utility	130,646,500	1	2.21%	123,129,700	1	2.37%
Simon Property, Inc.	Shopping mall	52,705,900	2	0.89%	41,235,600	2	0.79%
Essentia Health	Healthcare & hospital	46,159,500	3	0.78%	40,428,100	3	0.78%
Wisconsin Central Ltd	Railway	35,080,100	4	0.59%	-		
Sherman Associates	Real estate development	22,971,400	5	0.39%	27,081,800	4	0.52%
Burlington Northern	Railroad	20,069,900	6	0.34%			
Hall Equities Group	Real estate development	19,337,900	7	0.33%			
NewPage (StoraEnso)	Paper mill	18,009,100	8	0.31%	22,393,900	5	0.43%
IRET Properties	Property management	15,589,800	9	0.26%	21,099,500	6	0.41%
Miner's, Inc.	Grocery wholesaler	15,379,800	10	0.26%			
ZMC Hotels	Hotels				14,119,800	7	0.27%
D M & I R Railroad	Railroad				13,400,800	8	0.26%
US Bank	Bank & office building				11,653,800	9	0.22%
JMM Limited Partnership	Retail & hotel				10,587,100	10	0.20%
		<u>\$375,949,900</u>		<u>6.36%</u>	<u>\$325,130,100</u>		<u>6.25%</u>

Unaudited

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

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

Fiscal Year Ended December 31	Net Tax ¹ Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
2007	11,124,247	10,799,240	97.1%	268,004	11,067,244	99.5%
2008	12,443,867	12,046,909	96.8%	318,112	12,365,021	99.4%
2009	14,366,814	13,790,094	96.0%	418,529	14,208,623	98.9%
2010	16,050,825	15,531,833	96.8%	399,209	15,931,042	99.3%
2011	16,648,242	16,102,214	96.7%	363,744	16,465,958	98.9%
2012	21,403,582	20,835,227	97.3%	380,685	21,215,912	99.1%
2013	21,966,088	21,396,584	97.4%	411,330	21,807,914	99.3%
2014	22,040,149	21,498,351	97.5%	287,352	21,785,703	98.8%
2015	22,686,100	22,310,465	98.3%	217,619	22,528,084	99.3%
2016	24,233,053	23,842,607	98.4%	-	23,842,607	98.4%

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

Unaudited

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

Fiscal Year	Governmental Activities						Special Assessment Debt with Government Commitment
	General Obligation Bonds	General Obligation Tax Increment Bonds	General Obligation Tax Abatement Bonds	Tax Increment Revenue Bonds	Lease Revenue Bonds		
2007	19,502	23	310	1,240	1,250	52,060	
2008	60,815	-	310	175	1,125	48,845	
2009	76,699	-	310	135	995	41,106	
2010	** 75,449	-	310	-	860	36,011	
2011	74,561	-	285	-	715	29,569	
2012	76,927	-	7,315	-	565	23,943	
2013	80,754	-	7,290	-	415	20,901	
2014	82,936	-	6,705	-	-	16,814	
2015	97,340	-	6,350	-	-	13,080	
2016	91,300	-	13,805	-	-	10,765	

(continued)

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

RATIOS OF OUTSTANDING DEBT BY TYPE

Fiscal Year	Governmental Activities				Business Activities		
	General Obligation Certificates	Deferred Amount for Bond Premium	Revenue and and General Obligation Notes	Capital Leases	Revenue Bonds	Revenue and and General Obligation Bonds	
2007	5,270	498	3,743	193	675	60,595	
2008	6,715	565	3,544	155	550	56,315	
2009	8,065	1,042	3,415	114	420	54,505	
2010	** 8,920	989	3,171	70	285	47,900	
2011	10,275	938	3,086	24	145	44,005	
2012	11,300	1,612	2,996	-	-	41,045	
2013	12,625	1,579	2,896	-	-	37,305	
2014	12,340	1,419	2,791	-	-	44,343	
2015	12,670	1,910	2,735	110	-	42,760	
2016	13,250	8,418	2,704	75	-	39,222	

Fiscal Year	Business Activities					
	Deferred Amount for Bond Discounts/ Premiums	General Obligation Notes	Capital Leases	Total Primary Government	Percentage of Personal Income*	Per Capita*
2007	(259)	4,946	282	150,328	6.45%	1,759
2008	(188)	4,892	8,999	192,817	8.07%	2,263
2009	(16)	5,906	9,120	201,816	8.83%	2,360
2010	** 67	10,766	8,725	193,523	8.56%	2,243
2011	127	20,562	8,672	192,964	8.30%	2,237
2012	608	23,084	8,041	197,436	8.34%	2,290
2013	505	21,904	7,385	193,559	7.71%	2,247
2014	401	24,581	6,704	199,034	7.64%	2,308
2015	496	23,034	5,995	206,480	7.48%	2,398
2016	377	20,519	5,385	205,820	7.55%	2,390

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

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

Unaudited

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

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

Fiscal Year	Population	Tax Capacity	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Percent of Net Bonded Debt to Tax Capacity	Net Bonded Debt per Capita
2007	85,439	60,063,072	25,105,000	13,943,940	11,161,060	18.58%	130.63
2008	85,220	63,722,897	67,840,000	14,636,181	53,203,819	83.49%	624.31
2009	85,530	66,655,461	85,074,118	18,612,250	66,461,868	99.71%	777.06
2010*	86,265	67,344,436	84,679,118	19,144,190	65,534,928	97.31%	759.69
2011	86,277	65,577,970	86,059,378	18,629,920	67,429,458	102.82%	781.55
2012	86,200	61,532,873	97,154,314	17,742,090	79,412,224	129.06%	921.26
2013	86,128	61,948,785	102,247,605	19,802,762	82,444,843	133.09%	957.24
2014	86,238	62,430,044	103,399,159	22,948,537	80,450,622	128.87%	932.89
2015	86,110	64,221,257	118,269,847	19,496,773	98,773,074	153.80%	1,147.06
2016	86,110	66,776,729	126,772,630	22,581,641	104,190,989	156.03%	1,209.98

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

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

Unaudited

**DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF DECEMBER 31, 2016**

Governmental Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$123,390,000	36.8%	\$ 45,380,425
Independent School District 704	16,375,000	6.2%	1,021,383
St. Louis County	93,785,000	88.3%	<u>82,849,023</u>
Subtotal, overlapping debt			129,250,831
City of Duluth direct debt			<u>131,824,000</u>
Total direct and overlapping debt			<u><u>\$ 261,074,831</u></u>

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

Unaudited

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

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Taxable market value	\$ 5,197,633,600	\$ 5,486,922,320	\$ 5,729,975,300	\$ 5,677,819,333	\$ 5,557,887,100
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 103,952,672</u>	<u>\$ 109,738,446</u>	<u>\$ 114,599,506</u>	<u>\$ 113,556,387</u>	<u>\$ 111,157,742</u>
Debt applicable to limit:					
Total bonds payable	\$ 140,925,002	\$ 174,850,000	\$ 182,235,000	\$ 169,735,000	\$ 159,554,999
Less: Deductions allowable	<u>(121,323,002)</u>	<u>(152,495,000)</u>	<u>(141,965,882)</u>	<u>(128,955,882)</u>	<u>(117,723,976)</u>
Total net debt applicable to limit	<u>\$ 19,602,000</u>	<u>\$ 22,355,000</u>	<u>\$ 40,269,118</u>	<u>\$ 40,779,118</u>	<u>\$ 41,831,023</u>
Total net debt applicable to the limit as a percentage of debt limit	18.86%	20.37%	35.14%	35.91%	37.63%

	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Taxable market value	\$ 5,571,357,700	\$ 5,473,015,800	\$ 5,584,098,600	\$ 5,725,483,100	\$ 5,903,691,700
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	<u>\$ 111,427,154</u>	<u>\$ 109,460,316</u>	<u>\$ 111,681,972</u>	<u>\$ 114,509,662</u>	<u>\$ 118,073,834</u>
Debt applicable to limit:					
Total bonds payable	\$ 161,095,000	\$ 159,290,002	\$ 163,138,242	\$ 172,200,045	\$ 168,342,029
Less: Deductions allowable	<u>(123,073,029)</u>	<u>(118,746,296)</u>	<u>(123,892,674)</u>	<u>(133,220,045)</u>	<u>(129,827,029)</u>
Total net debt applicable to limit	<u>\$ 38,021,971</u>	<u>\$ 40,543,706</u>	<u>\$ 39,245,568</u>	<u>\$ 38,980,000</u>	<u>\$ 38,515,000</u>
Total net debt applicable to the limit as a percentage of debt limit	34.12%	37.04%	35.14%	34.04%	32.62%

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>							
2007	\$ 12,393,947	\$ 9,545,749	\$ 2,848,198	\$ 613,000	\$ 173,606	\$ 786,606	3.62
2008	11,460,937	9,930,687	1,530,250	446,000	167,583	613,583	2.49
2009	11,997,431	9,250,685	2,746,746	460,000	157,856	617,856	4.45
2010	12,045,133	9,275,099	2,770,034	186,000	94,605	280,605	9.87
2011	11,747,715	9,395,019	2,352,696	399,428	97,166	496,594	4.74
2012	13,928,511	8,897,762	5,030,749	427,028	85,385	512,413	9.82
2013	14,892,290	9,394,544	5,497,746	433,873	73,085	506,958	10.84
2014	14,555,607	9,529,831	5,025,776	451,251	60,371	511,622	9.82
2015	14,440,052	8,528,252	5,911,800	388,095	33,951	422,046	14.01
2016	14,494,396	9,008,318	5,486,078	336,473	27,326	363,799	15.08
<u>GAS REVENUE BOND</u>							
2007	\$ 47,701,819	\$ 45,655,468	\$ 2,046,351	\$ 933,000	\$ 507,486	\$ 1,440,486	1.42
2008	58,737,875	52,926,055	5,811,820	964,000	473,807	1,437,807	4.04
2009	46,526,246	36,939,946	9,586,300	652,000	341,269	993,269	9.65
2010	39,970,909	34,319,333	5,651,576	821,000	255,813	1,076,813	5.25
2011	41,552,067	34,549,583	7,002,484	855,957	305,411	1,161,368	6.03
2012	34,148,624	28,790,209	5,358,415	857,980	185,574	1,043,554	5.13
2013	40,611,707	33,701,058	6,910,649	896,020	161,825	1,057,845	6.53
2014	58,554,131	47,699,256	10,854,875	922,972	136,104	1,059,076	10.25
2015	35,584,151	27,708,531	7,875,620	869,955	84,237	954,192	8.25
2016	31,767,073	25,294,510	6,472,563	902,931	55,294	958,225	6.75
<u>SEWER REVENUE BOND</u>							
2007	\$ 15,997,397	\$ 13,727,755	\$ 2,269,642	\$ 1,136,000	\$ 568,932	\$ 1,704,932	1.33
2008	17,368,159	15,398,048	1,970,111	1,365,000	574,828	1,939,828	1.02
2009	20,344,639	15,900,214	4,444,425	1,274,000	567,498	1,841,498	2.41
2010	20,388,169	14,482,465	5,905,704	1,008,000	482,913	1,490,913	3.96
2011	20,130,587	15,215,558	4,915,029	1,317,776	404,300	1,722,076	2.85
2012	20,387,041	15,946,629	4,440,412	1,390,440	324,927	1,715,367	2.59
2013	20,541,361	16,013,024	4,528,337	1,454,699	296,240	1,750,939	2.59
2014	19,545,030	14,653,139	4,891,891	1,506,941	257,061	1,764,002	2.77
2015	19,986,777	13,852,969	6,133,808	1,177,256	179,515	1,356,771	4.52
2016	20,670,314	13,608,142	7,062,172	1,357,475	159,416	1,516,891	4.66
<u>STORMWATER REVENUE BOND</u>							
2007	\$ 3,991,834	\$ 2,501,932	\$ 1,489,902	\$ 168,000	\$ 109,299	\$ 277,299	5.37
2008	4,576,883	2,559,032	2,017,851	170,000	103,169	273,169	7.39
2009	5,187,017	2,862,787	2,324,230	179,000	96,730	275,730	8.43
2010	4,734,525	2,845,983	1,888,542	95,000	67,887	162,887	11.59
2011	4,672,485	2,868,448	1,804,037	196,839	68,295	265,134	6.80
2012	4,820,629	2,897,725	1,922,904	204,552	62,297	266,849	7.21
2013	4,755,764	3,059,690	1,696,074	210,409	56,115	266,524	6.36
2014	4,670,074	3,248,954	1,421,120	218,837	49,690	268,527	5.29
2015	4,767,610	3,291,078	1,476,532	109,694	22,700	132,394	11.15
2016	5,253,324	3,670,639	1,582,685	228,121	24,001	252,122	6.28

(continued)

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

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
<u>STEAM DISTRICT #1 REVENUE BOND</u>							
2007	\$ 5,266,902	\$ 4,284,102	\$ 982,800	\$ 475,000	\$ 318,493	\$ 793,493	1.24
2008	5,959,836	4,576,313	1,383,523	510,000	299,986	809,986	1.71
2009	6,152,268	4,784,338	1,367,930	500,000	280,645	780,645	1.75
2010	6,497,846	5,032,398	1,465,448	515,000	260,912	775,912	1.89
2011	7,169,515	5,712,409	1,457,106	495,000	241,246	736,246	1.98
2012	7,239,954	5,867,609	1,372,345	-	52,148	52,148	26.32
2013	7,847,524	6,547,268	1,300,256	600,000	73,940	673,940	1.93
2014	6,861,228	6,060,699	800,529	625,000	67,815	692,815	1.16
2015	6,728,330	6,230,054	498,276	635,000	61,515	696,515	0.72
2016	7,069,377	6,896,627	172,750	635,000	55,165	690,165	0.25
<u>GOLF REVENUE BOND (3)</u>							
2007	\$ 1,895,981	\$ 1,675,892	\$ 220,089	\$ 125,000	\$ 23,185	\$ 148,185	1.49
2008	1,882,898	1,707,326	175,572	130,000	19,435	149,435	1.17
2009	1,945,535	1,723,055	222,480	135,000	15,210	150,210	1.48
2010	1,967,418	1,858,207	109,211	140,000	10,620	150,620	0.73
2011	1,872,594	1,789,906	82,688	145,000	5,510	150,510	0.55
<u>PARKING REVENUE BOND</u>							
2007	\$ 2,193,800	\$ 597,826	\$ 1,595,974	\$ 680,000	\$ 786,071	\$ 1,466,071	1.09
2008	4,200,392	816,515	3,383,877	430,000	694,889	1,124,889	3.01
2009	2,592,185	693,301	1,898,884	745,000	692,013	1,437,013	1.32
2010	2,610,111	789,126	1,820,985	790,000	657,056	1,447,056	1.26
2011	2,645,997	800,256	1,845,741	825,000	620,263	1,445,263	1.28
2012	3,216,205	1,860,989	1,355,216	860,000	211,266	1,071,266	1.27
2013	3,780,214	2,085,827	1,694,387	1,045,000	234,363	1,279,363	1.32
2014	4,286,789	1,983,869	2,302,920	1,130,000	201,694	1,331,694	1.73
2015	4,513,311	1,789,669	2,723,642	780,000	186,819	966,819	2.82
2016	4,563,427	1,850,051	2,713,376	785,000	178,994	963,994	2.81

Notes:

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

Unaudited

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

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

<u>Fiscal Year</u>	<u>Population</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2007	85,439	2,330,534,215	27,277	9,819	4.9%
2008	85,220	2,390,569,327	28,052	9,554	5.7%
2009	85,530	2,286,461,687	26,733	9,195	7.7%
2010	86,265	2,260,614,999	26,205	8,780	7.6%
2011	86,277	2,324,435,029	26,942	8,815	6.8%
2012	86,200	2,368,110,337	27,472	8,686	6.0%
2013	86,128	2,510,223,601	29,145	8,517	5.2%
2014	86,238	2,605,207,475	30,210	8,517	4.4%
2015	86,110	2,761,947,379	32,075	8,353	3.8%
2016	86,110 *	2,725,128,601 *	31,647	8,115	3.9%

Data sources:

The population figures are estimates of the US Census Bureau.

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

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

The unemployment rates were provided by the Minnesota Department of Employment and Economic Development.

*Estimates

Unaudited

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

<u>Employer</u>	<u>Type of Business</u>	<u>2016</u>			<u>2007</u>		
		<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Essentia Health (SMDC)	Healthcare / hospital	5,341	1	9.16%	4,693	1	7.75%
St. Louis County	Government	1,956	2	3.35%	1,640	4	2.71%
St. Luke's Hospital	Healthcare / hospital	1,934	3	3.32%	1,657	3	2.74%
University of Minnesota - Duluth	Education	1,700	4	2.92%	1,700	2	2.81%
Independent School District No. 709	Education	1,426	5	2.45%	1,426	5	2.36%
United Health Care	Insurance	1,368	6	2.35%	1,087	7	1.80%
Allete (Minnesota Power)	Electric utility	1,322	7	2.27%	1,400	6	2.31%
Duluth Air National Guard Base	Military	1,068	8	1.83%	1,028	8	1.70%
City of Duluth	Government	862	9	1.48%	866	10	1.43%
US Government	Government	850	10	1.46%			
Cirrus Design	Aviation				992	9	1.64%
		<u>17,827</u>		<u>30.59%</u>	<u>16,489</u>		<u>27.25%</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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General government	140.20	128.00	107.20	114.40	113.90
Public safety					
Police	174.00	179.00	182.00	187.00	185.00
Fire	134.00	134.00	134.00	140.00	140.00
Public works	83.40	83.40	100.20	123.80	118.60
Culture and recreation					
Parks and recreation	19.20	17.60	7.50	7.50	7.50
Zoo	12.00	11.00	-	-	-
Library	59.60	57.30	47.30	43.50	43.50
Urban and economic development	57.00	56.00	56.00	59.00	62.50
Water & Gas	124.90	122.50	120.50	124.80	128.20
Sewer	38.60	38.60	38.60	38.40	38.40
Stormwater	20.10	20.10	21.10	24.20	24.20
Golf	3.00	-	-	-	-
Parking	-	4.00	4.00	4.00	3.00
Street lighting	-	-	4.00	4.00	5.00
Total	<u>866.00</u>	<u>851.50</u>	<u>822.40</u>	<u>870.60</u>	<u>869.80</u>

Function:	Full-time Equivalent Employees as of December 31				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General government	115.90	125.75	127.65	131.65	132.40
Public safety					
Police	185.00	178.50	178.50	178.50	180.50
Fire	138.00	141.00	142.00	143.00	144.50
Public works	106.60	87.10	85.90	85.05	86.25
Culture and recreation					
Parks and recreation	9.00	10.00	10.00	9.75	11.75
Zoo	-	-	-	-	-
Library	48.50	49.00	49.00	46.50	46.50
Urban and economic development	61.50	60.25	59.53	55.50	54.05
Water & Gas	131.00	133.00	132.60	128.65	129.15
Sewer	39.20	40.20	39.33	36.93	35.80
Stormwater	26.00	26.00	25.52	26.87	27.30
Golf	-	-	-	-	-
Parking	3.00	8.00	8.00	8.00	9.00
Street lighting	5.00	5.00	5.10	5.10	5.10
Total	<u>868.70</u>	<u>863.80</u>	<u>863.13</u>	<u>855.50</u>	<u>862.30</u>

Source: City of Duluth Budget Office

Unaudited

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

Function:	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police					
Criminal offences	9,694	10,720	11,071	10,540	11,278
Cleared by arrest	3,164	3,777	4,393	4,436	4,231
Traffic violations	3,344	2,951	2,153	5,241	9,746
Parking violations	62,556	49,498	54,953	56,292	51,991
Fire					
Number of calls answered	8,090	8,552	9,319	8,484	9,262
Number of inspections conducted	1,200	1,200	1,200	1,200	1,200
Public works					
Construction permits:					
Permits issued	3,117	2,757	2,362	2,026	1,700
Estimated cost of construction during year	\$ 93,080,667	\$ 115,091,545	\$ 113,965,408	\$ 238,186,019	\$ 173,357,959
Culture and recreation					
Parks and recreation department					
Participation in special events	47,143	59,353	42,858	48,896	15,436
Participation in recreation	117,118	112,826	36,217	31,905	39,839
Zoo regular customers	117,269	92,218	91,606	102,986	93,705
Library					
Registered borrowers	49,660	49,233	47,662	46,592	47,965
Items in collection*	359,805	344,302	620,941	620,101	463,418
Items loaned	969,756	901,128	881,268	929,161	902,221
Library visits	462,950	404,724	362,719	380,982	376,817
Internet uses	52,545	40,187	43,907	62,379	66,394
Reference/research questions answered**	194,604	250,756	67,460	80,678	79,443
Water					
Meters in service	28,087	28,016	27,950	30,317	29,069
Average number of gallons treated per month	527,489,906	514,647,500	516,805,833	481,950,833	461,125,000
Water pumped - million cubic feet	846.00	826.00	829.10	773.10	739.80
Water sold - million cubic feet	746.00	601.00	658.00	665.50	589.60
Daily average consumption in gallons	17,342,134	16,919,918	16,973,333	15,844,958	15,160,274
Gas					
Meters in service	25,642	25,983	26,148	26,668	26,693
MMBTU sold	4,808,178	5,169,299	4,804,897	4,617,923	5,184,800
Sewer					
Number of service connections	28,845	28,845	28,845	28,845	28,845
Daily average treatment in gallons	13,150,675	15,249,900	13,740,000	14,859,000	13,284,575
Stormwater					
Cleaning storm sewer pipe (in feet)	9,409	21,254	23,358	14,734	14,750
Steam District #1					
Steam sold (in 1,000 lbs)	436,966	465,717	441,808	403,085	409,295
Golf					
Season passes	1,005	928	863	823	810
Daily tickets	34,274	35,230	33,815	32,252	32,101
Carts	13,255	12,811	11,128	10,670	12,553
Rounds played	84,185	83,390	80,987	79,430	75,480

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

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

Sources: Various government departments

(continued)

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

Function:	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Police					
Criminal offences	9,924	10,828	9,472	10,262	10,447
Cleared by arrest	3,785	4,473	4,070	4,081	4,062
Traffic violations	9,499	11,152	9,307	8,525	6,819
Parking violations	46,492	51,361	55,097	50,647	55,226
Fire					
Number of calls answered	9,857	10,816	11,114	12,231	12,799
Number of inspections conducted	1,200	1,200	1,200	1,200	1,200
Public works					
Construction permits:					
Permits issued	2,325	2,054	2,030	1,896	2,085
Estimated cost of construction during year	\$ 104,841,877	\$ 137,097,967	\$ 182,409,369	\$ 160,884,495	\$ 108,815,274
Culture and recreation					
Parks and recreation department					
Participation in special events	18,129	40,045	30,749	23,122	49,125
Participation in recreation	35,681	27,393	28,304	22,586	31,555
Zoo regular customers	71,842	58,306	65,270	64,071	76,316
Library					
Registered borrowers	50,171	50,491	48,147	47,086	45,424
Items in collection*	457,999	467,050	456,753	444,790	435,385
Items loaned	953,270	959,432	923,063	927,389	848,293
Library visits	460,918	484,917	492,106	474,982	461,403
Internet uses	89,070	106,662	118,825	109,965	92,656
Reference/research questions answered**	90,155	84,838	89,232	77,896	59,321
Water					
Meters in service	28,082	28,051	28,131	28,134	28,134
Average number of gallons treated per month	468,170,000	433,795,000	433,676,667	431,616,667	415,642,500
Water pumped - million cubic feet	756.10	695.90	695.74	692.4	666.8
Water sold - million cubic feet	644.40	605.95	591.00	589.8	565.6
Daily average consumption in gallons	13,206,643	12,418,716	14,257,863	14,190,136	11,590,274
Gas					
Meters in service	27,542	27,452	26,585	26,896	28,540
MMBTU sold	4,528,009	5,355,988	5,679,683	4,885,371	4,770,804
Sewer					
Number of service connections	27,250	27,956	27,956	27,963	27,985
Daily average treatment in gallons	12,137,000	12,843,000	14,257,000	13,000,530	13,729,690
Stormwater					
Cleaning storm sewer pipe (in feet)	230,165	31,658	2,700	3,330	20,017
Steam District #1					
Steam sold (in 1,000 lbs)	379,257	394,762	300,669	332,830	313,408
Golf					
Season passes	803	695	644	795	731
Daily tickets	35,121	31,401	28,860	46,700	38,894
Carts	14,751	14,019	15,056	42,606	39,846
Rounds played	84,740	63,196	60,172	81,082	75,544

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

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

Sources: Various government departments

Unaudited

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

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Function:					
Police					
Patrol units	96	96	91	96	94
Fire					
Fire stations	9	9	9	9	9
Public works					
Miles of streets and alleys:					
Miles of streets - paved	474.66	476.30	476.30	469.00	470.23
Miles of streets - unpaved	73.85	73.11	73.11	48.02	48.02
Miles of sidewalk	382.56	382.56	382.56	277.00	409.00
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,758	3,758	3,930	3,930	3,930
Overhead street lamps	3,732	3,732	3,657	3,665	3,665
Culture and recreation					
Parks and recreation department					
Number of parks	107	111	145	127	127
Park acreage	11,862	13,490	11,880	15,255	15,255
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	22	22	15	17	17
Community clubs/field houses operated	27	27	22	22	22
Number of athletic fields	36	36	57	57	57
Number of hiking trails	13	13	13	13	14
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	413.70	413.79	414.59	424.10	426.30
Number of hydrants	2,396	2,500	2,506	2,535	2,583
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	508.00	510.20	506.00	512.40	511.00
Sewer					
Miles of sanitary sewers	409.00	424.00	444.00	392.00	382.00
Stormwater					
Miles of storm sewers	288.00	431.00	431.00	431.00	431.00
Steam District #1					
Miles of line	11.00	11.00	11.00	11.00	11.00
Golf					
Number of municipal golf courses	2	2	2	2	2

Sources: Various government departments.

(continued)

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

Function:	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Police					
Patrol units	93	93	93	93	97
Fire					
Fire stations	8	8	8	8	8
Public works					
Miles of streets and alleys:					
Miles of streets - paved	470.43	470.49	472.51	473.80	475.77
Miles of streets - unpaved	48.02	47.96	47.96	47.96	47.96
Miles of sidewalk	409.90	410.98	410.98	410.98	411.08
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,930	3,930	3,930	3,930	3,940
Overhead street lamps	3,665	3,665	3,665	3,665	3,665
Culture and recreation					
Parks and recreation department					
Number of parks	128	128	128	128	129
Park acreage	12,000	12,000	12,000	12,000	12,000
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	17	17	19	19	17
Community clubs/field houses operated	21	21	19	19	19
Number of athletic fields	57	57	57	57	48
Number of hiking trails	14	14	14	14	14
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	426.74	428.30	429.50	430.40	428.30
Number of hydrants	2,597	2,671	2,677	2,688	2,699
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	520.00	527.00	534.70	534.10	538.20
Sewer					
Miles of sanitary sewers	406.20	398.00	402.00	395.30	397.60
Stormwater					
Miles of storm sewers	431.00	443.00	435.00	398.07	404.56
Steam District #1					
Miles of line	11.00	11.00	11.00	11.00	11.00
Golf					
Number of municipal golf courses	2	2	2	2	2

Sources: Various government departments.

Unaudited

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

	Fiscal Year				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
COMPONENT UNITS					
Duluth Entertainment and Convention Center Authority (DECC)					
Number of events	523	533	536	690	510
Number of conventions	45	57	48	49	46
Duluth Airport Authority					
Number of passengers	349,447	303,163	257,561	306,330	295,212
Duluth Transit Authority					
Number of buses	72	72	67	66	66
Number of routes	20	20	18	18	19
Number of passengers	2,854,467	3,219,758	3,173,485	3,171,087	3,264,479
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority					
Skier visits	166,304	181,365	153,287	144,579	155,450
Season passes	8,920	8,028	8,123	7,728	7,835

	Fiscal Year				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
COMPONENT UNITS					
Duluth Entertainment and Convention Center Authority (DECC)					
Number of events	515	471	516	519	506
Number of conventions	45	51	45	52	47
Duluth Airport Authority					
Number of passengers	322,208	313,839	310,893	266,500	251,459
Duluth Transit Authority					
Number of buses	66	66	67	66	67
Number of routes	20	19	19	19	20
Number of passengers	3,278,682	3,195,020	3,107,305	2,850,000	2,804,000
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority					
Skier visits	130,013	136,990	140,017	95,401	89,483
Season passes	6,915	6,773	6,728	5,697	4,275

Unaudited



“Sea Smoke” is a mystical looking fog that forms when cold winter air settles over the unfrozen waters of Lake Superior. The warmer lake air rises and interacts with the frigid air. Water vapor from the lake condenses, creating an ethereal phenomenon, and in a kaleidoscope of colors, when reacting to the changing colors of early morning skies.

Front Cover: In a breathtaking display of colors, “Sea Smoke” envelops the North pier lighthouse in Duluth’s Canal Park. Photo Credit: Steve Forslund, Steve Forslund Photography, Duluth, MN.

Back Cover: Cloaked in ice formed from “Sea Smoke” the Great Lakes freighter Mesabi Miner passes through the North and South ship canal piers in Duluth’s Canal Park. Photo Credit: Don Whitehead, Duluth, MN.