

2018

Comprehensive Annual Financial Report



CITY OF DULUTH, MINNESOTA

For the Fiscal Year Ended December 31, 2018



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Department of Finance

For the Fiscal Year Ended December 31, 2018

**CITY OF DULUTH, MINNESOTA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 DECEMBER 31, 2018**

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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 28, 2019

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, 2018.

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, 2018. 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. Duluth's unemployment averaged 2.9% for 2018, which was lower than the previous year's average unemployment rate of 3.8%. The total number of jobs reported to the state in 2018 peaked at 58,715.

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

The Port of Duluth-Superior has been one of the backbones of the region's economy, and has been long known as the Great Lakes' "Bulk Cargo Capital." It is the #1 tonnage port on the Great Lakes, and is the farthest-inland freshwater seaport. The Duluth-Superior port moves an average of 35 million short tons of cargo annually, ranking among the nation's top 25 ports. It accommodates the maritime transportation needs of a wide range of industries ranging from agriculture, forestry, mining and manufacturing to construction, power generation, and passenger cruising. The Seaway Port Authority of Duluth reported that 821 ships visited the Port of Duluth-Superior in 2018, and moved 35.9 million tons of cargo including iron ore, coal, grain, limestone, cement, salt, wood pulp, steel, and wind turbine components, plus a variety of heavy-lift and project cargo. As the largest tonnage port on the Great Lakes-St. Lawrence Seaway, cargo movements through the Port of Duluth-Superior support approximately 7,881 jobs and \$504.1 million in wages, and contribute over \$1.4 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 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. 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. Duluth's 104 mile Traverse Mountain Biking Trail system is close to completion, and is rated as 1 of only 6 "Gold Level" Ride Centers in the world by the International Mountain Bicycling Association (IMBA). 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. Duluth has been nationally recognized by various publications and was rated by Money magazine as one of the top four Midwestern small cities, based on livability. In 2015, Duluth was voted as America's "Best Town" by an online poll conducted by Outside Magazine. In 2017, Duluth was named as America's fittest City by Fitbit; and, SmartAsset's 2017 edition name Duluth as the least stressed city in America. In 2018, Duluth was recognized by the New York Post as one of the "Best 10 Christmas Cities in America." Indeed.com ranked Duluth #1 for "US Cities Where Salaries Go Furthest: 2018" based upon high adjusted salaries, low unemployment, and good future prospects. Lake Superior, the city's unique history, premier trails, natural beauty, and quality of life continue to define Duluth as a family friendly vacation destination and place to live.

The Duluth Entertainment Convention Center (DECC) remains a leader in convention center business and environmental stewardship. The DECC's Executive Director Chelly Townsend continues to lead and operate the DECC at full strength. In 2018 the DECC hosted 494 events with 46 conventions in the CitySide and the HarborSide Convention Centers. Pioneer Hall provided space for many tradeshow, expos, sporting events and ice for the Curling Club and the USA's Olympic Gold Medal Curling team. The DECC Arena held numerous events including the FIRST Robotics Competition, ice for the Northland Figure Skaters, and many exhibits and tradeshow. Symphony Hall serves as the home to the Duluth-Superior Symphony Orchestra (DSSO) and to the Minnesota Ballet, and held varied events such as dance competitions and recitals, the Banff Mountain Film Festival, Martin Luther King Day, Broadway Kinky Boots, A Charlie Brown Christmas, and many conventions keynote speakers. Bayfront Park was under the management of the DECC for the seventh year with a full roster of events, including Bentleyville, Duluth Fourth Fest, Blues Fest, Pride Festival, Tributefest, Trampled by Turtles, All Pints North Brewfest, and Hot Air Balloon Festival. AMSOIL Arena had its eighth 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) Men's Bulldog Hockey to their 3rd NCAA Championship. The Women's hockey competed in the Western Collegiate Hockey Conference (WCHA). The silver LEED certified Arena featured youth and high school hockey, University commencements, Temple Shrine Circus, Old Dominion, and Little Big Town, to name a few. The Irvin Floating Maritime Museum and Haunted Ship was successfully moved after being anchored since 1989. The retired freighter SS William A. Irvin was relocated from the Minnesota Slip overnight on September 21st/22nd to make room for a Great Lakes Legacy Act sediment cleanup in the Slip. The DECC continues to focus on sustainability efforts, ongoing innovative projects, and energy efficiency upgrades. The DECC continues to divert at least 65% of their waste from the landfill through recycling, composting, and creating environmentally low-impact events.

According to the Minnesota Department of Employment and Economic Development (DEED), the Duluth metro has more than 20,000 college and university students. 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. 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. The University of Minnesota Duluth (UMD) is a comprehensive regional university, and had an enrollment of 11, 040 students in 2018. Undergraduate students can choose from 15 bachelor degrees in 83 majors and 70 minors as well as five certificates. UMD also offers graduate programs in 26 fields, 13 minors, and five certificates. The University of Minnesota Medical School and the University of Minnesota College of Pharmacy, both have programs on the UMD campus. In addition to offering the EdD, UMD participates in two all-university PhD programs (one of which is located primarily on the UMD campus) and cooperates significantly in the delivery of a number of Twin Cities-based PhD programs. 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. Forbes Magazine named CSS in its "Top Colleges" list for 2017 based on outcomes, measured by student satisfaction, post-graduate success and academic success. CSS has 6 academic schools, and offers degrees in more than 75 undergraduate majors, minors and pre-professionals; 12 masters, and 4 doctoral programs, with a total 2018 enrollment of 4,043 students. Lake Superior College (LSC) is a two-year community and technical college in Duluth, and is a member of the Minnesota State Colleges and Universities System (MnSCU). LSC has a student population of over 5,800. The college offers pre-baccalaureate majors for students interested in transferring to 4-year

educational institutions as well as more than 90 certificate, diploma and degree programs in career and technical fields. LSC's Continuing Education/Customized Training division collaborates with area businesses and industry to design specialized opportunities for entry-level and advanced education. While courses are typically offered in traditional classroom and lab settings, LSC also offers over 150 courses via the internet, through its e-campus.

LONG-TERM FINANCIAL PLANNING

Unassigned fund balance in the General Fund (15.6 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, 2018, the Community Investment Fund reported a fund balance of \$21.9 million.

In 2007, the City established an irrevocable trust to pre-fund the City's other postemployment benefit liability. Contributions totaling \$28.0 million have been made to the irrevocable trust. The irrevocable trust balance including cumulative investment earnings was \$56.4 million at December 31, 2018. 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, 2018, retiree health care premium costs of \$244,470 were funded by the irrevocable trust. City pooled investment earnings were also dedicated as an additional funding source for future contributions to the irrevocable trust.

MAJOR INITIATIVES

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

In November 2017, a transportation sales tax referendum was overwhelmingly approved by voters. The new ½% sales tax, if approved by the legislature, will garner an estimated \$7 million to be designated for the City's Street Improvement Program. Minnesota legislative approval is expected by May 2019.

Plans to create a Duluth Regional Exchange District are being finalized that will support the two regional health care systems headquartered in downtown Duluth. Essentia Health and St. Luke's Hospital have announced plans for new facilities that will result in a combined investment exceeding \$1 billion in downtown Duluth. This investment will be the largest private development in Duluth's history and will act as a catalyst for additional development activity in the downtown area. Site work will begin in the Fall of 2019.

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, 2017. This was the forty-second consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City had to publish an easily readable and efficiently organized CAFR, whose contents conform to both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City of Duluth also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the year 2018. 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

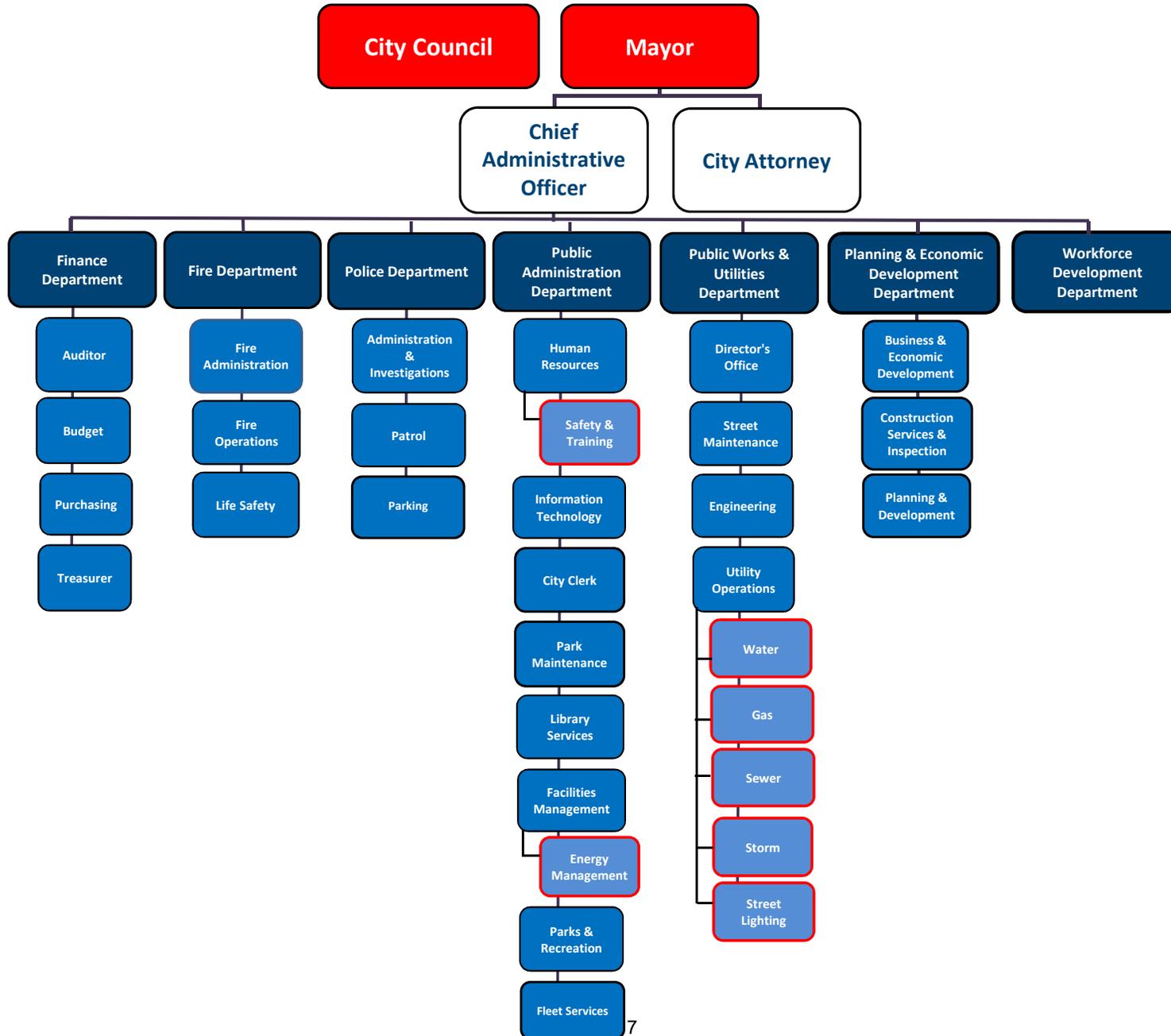
ELECTED POSITIONS	DISTRICT	TERM EXPIRES *
Mayor Emily Larson		2020
City Council		
Zack Filipovich	At large	2022
Arik Forsman	At large	2020
Noah Hobbs	At large	2020
Barb Russ	At large	2022
Gary Anderson	1	2020
Joel Sipress	2	2022
Em Westerlund	3	2020
Renee Van Nett	4	2022
Jay Fosle	5	2020

*All terms expire in January

APPOINTED POSITION

Attorney	Gunnar Johnson
Auditor	Joshua Bailey
Chief Administrative Officer	Noah Schuchman
Chief Financial Officer	Wayne Parson
Chief of Police	Michael Tusken
Clerk	Chelsea Helmer
Director of Planning and Economic Development	Keith Hamre
Director of Public Administration	Jim Filby Williams
Director of Workforce Development	Elena Foshay
Director of Public Works and Utilities	James Benning
Acting Fire Chief	Shawn Krizaj

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, 2017

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION



JULIE BLAHA
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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents. The financial statements and related notes of the Spirit Mountain Recreation Area Authority component unit's activities are included as of and for the year ended April 30, 2018.

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, 2018, including the Spirit Mountain Recreation Area Authority component unit as of April 30, 2018, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Also, as discussed in Note 1 to the financial statements, in 2018, the Duluth Economic Development Authority, a discretely presented component unit of the City of Duluth, changed the method of accounting for long-term receivables. Our opinion is not modified with respect to this matter.

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 GASB, 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 reports dated May 28, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.



JULIE BLAHA
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 28, 2019

**Management's
Discussion and Analysis**

**CITY OF DULUTH, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**
(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, 2018, 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, 2018, by \$364.8 million; this amount is identified as net position.
- As of December 31, 2018, the City's governmental funds reported combined ending fund balances of \$80.6 million.
- Restricted fund balances were \$42.0 million of fund balance or 52.1%. These fund balances are not available for appropriation because of constraints placed on the use of these funds. The remaining fund balances of \$38.6 million, or 47.9%, are unrestricted and classified as committed, assigned, or unassigned.
- In 2007, the City created an irrevocable trust to pre-fund a portion of the City's other postemployment benefits. As of December 31, 2018, the trust reported net position totaling \$56.4 million.
- As of December 31, 2018, the General Fund's unrestricted, unassigned fund balance was \$13.4 million, or 15.7% 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, Disaster Recovery Special Revenue Fund, and Community Investment Trust Special Revenue Fund, all of which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are included in the combining and individual fund section of this report.

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

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Proprietary Funds

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

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

Fiduciary Funds

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

Notes to the Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

An additional portion of the City's net position (12.3%) represents resources that are subject to external restrictions on how they may be used, with the largest amount set aside for debt service. The following table presents a summary of the City's net position at December 31 for the past two fiscal years (dollars in thousands):

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	Governmental Activities		Business-type Activities		Total	
	2017		2017			
	2018	(Restated)	2018	(Restated)	2018	2017
Current and other assets	\$ 131,904	\$ 134,895	\$ 43,315	\$ 39,227	\$ 175,219	\$ 174,122
Capital assets	296,706	289,994	292,371	284,633	589,077	574,627
Total assets	\$ 428,610	\$ 424,889	\$ 335,686	\$ 323,860	\$ 764,296	\$ 748,749
Deferred outflows of resources	\$ 42,160	\$ 66,959	\$ 5,006	\$ 6,384	\$ 47,166	\$ 73,343
Long-term liabilities outstanding	\$ 291,519	\$ 303,598	\$ 72,624	\$ 77,251	\$ 364,143	\$ 380,849
Other liabilities	13,634	10,783	10,809	9,960	24,443	20,743
Total liabilities	\$ 305,153	\$ 314,381	\$ 83,433	\$ 87,211	\$ 388,586	\$ 401,592
Deferred inflows of resources	\$ 54,624	\$ 71,229	\$ 3,407	\$ 4,784	\$ 58,031	\$ 76,013
Net position:						
Net investment in capital assets	\$ 249,613	\$ 245,733	\$ 240,474	\$ 227,779	\$ 490,087	\$ 473,512
Restricted	42,919	46,203	2,115	2,120	45,034	48,323
Unrestricted	(181,539)	(185,698)	11,263	8,350	(170,276)	(177,348)
Total net position	\$ 110,993	\$ 106,238	\$ 253,852	\$ 238,249	\$ 364,845	\$ 344,487

Overall, the City's net position improved in 2018. The City's total net position increased \$20.4 million, an increase of 5.9%. Net position invested in capital assets continues to increase largely due to the City's utility infrastructure replacement and the pay down of debt associated with those capital asset additions.

In governmental activities, the decrease in total liabilities of \$9.2 million was largely due to a pension liability decrease. This decrease is associated with the City's calculated share of the Minnesota Public Employees Retirement Association (PERA) unfunded liability. This liability calculation is also associated with the large variances in deferred inflows and outflows between 2018 and 2017. Changes in actuarial assumptions, differences between actual and projected investment earnings, and other factors are reported as deferred outflows and deferred inflows, and are amortized and expensed over several years in accordance with GASB accounting standards. Due to the large dollar amount that can be associated with these actuarially determined calculations, it is expected that substantial changes can occur from year to year in relation with accounting for this pension-related liability.

For business-type activities the decrease in total liabilities of \$3.8 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	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 11,928	\$ 12,064	\$ 94,246	\$ 90,737	\$ 106,174	\$ 102,801
Operating grants and contributions	12,019	11,759	-	104	12,019	11,863
Capital grants and contributions	12,913	11,096	5,603	2,832	18,516	13,928
General revenues:						
Property taxes	30,266	27,597	751	756	31,017	28,353
Other taxes	30,518	29,276	-	-	30,518	29,276
Grants and shared revenues not restricted to specific programs	31,810	31,420	49	60	31,859	31,480
Other	1,248	4,569	186	237	1,434	4,806
Total revenues	<u>130,702</u>	<u>127,781</u>	<u>100,835</u>	<u>94,726</u>	<u>231,537</u>	<u>222,507</u>
Expenses:						
General government	31,093	29,491	-	-	31,093	29,491
Public safety	43,353	47,269	-	-	43,353	47,269
Public works	24,997	23,999	-	-	24,997	23,999
Culture and recreation	13,170	12,497	-	-	13,170	12,497
Urban and economic development	13,664	15,406	-	-	13,664	15,406
Interest	4,025	3,951	-	-	4,025	3,951
Water	-	-	11,269	11,160	11,269	11,160
Gas	-	-	33,161	31,538	33,161	31,538
Sewer	-	-	16,835	16,019	16,835	16,019
Stormwater	-	-	3,430	3,564	3,430	3,564
Steam	-	-	8,185	8,299	8,185	8,299
Golf	-	-	1,853	1,940	1,853	1,940
Parking	-	-	2,980	2,749	2,980	2,749
Priley drive parking facility	-	-	1,254	1,267	1,254	1,267
Street lighting	-	-	1,910	2,123	1,910	2,123
Total expenses	<u>130,302</u>	<u>132,613</u>	<u>80,877</u>	<u>78,659</u>	<u>211,179</u>	<u>211,272</u>
Increase (decrease) in net position before transfers	400	(4,832)	19,958	16,067	20,358	11,235
Transfers	4,355	4,145	(4,355)	(4,145)	-	-
Increase in net position	<u>4,755</u>	<u>(687)</u>	<u>15,603</u>	<u>11,922</u>	<u>20,358</u>	<u>11,235</u>
Net position, January 1	<u>174,562</u>	<u>175,249</u>	<u>243,665</u>	<u>231,743</u>	<u>418,227</u>	<u>406,992</u>
Restatement - Note 1	<u>(68,324)</u>	<u>-</u>	<u>(5,416)</u>	<u>-</u>	<u>(73,740)</u>	<u>-</u>
Net position, January 1, restated	<u>106,238</u>	<u>175,249</u>	<u>238,249</u>	<u>231,743</u>	<u>344,487</u>	<u>406,992</u>
Net position, December 31	<u>\$ 110,993</u>	<u>\$ 174,562</u>	<u>\$ 253,852</u>	<u>\$ 243,665</u>	<u>\$ 364,845</u>	<u>\$ 418,227</u>

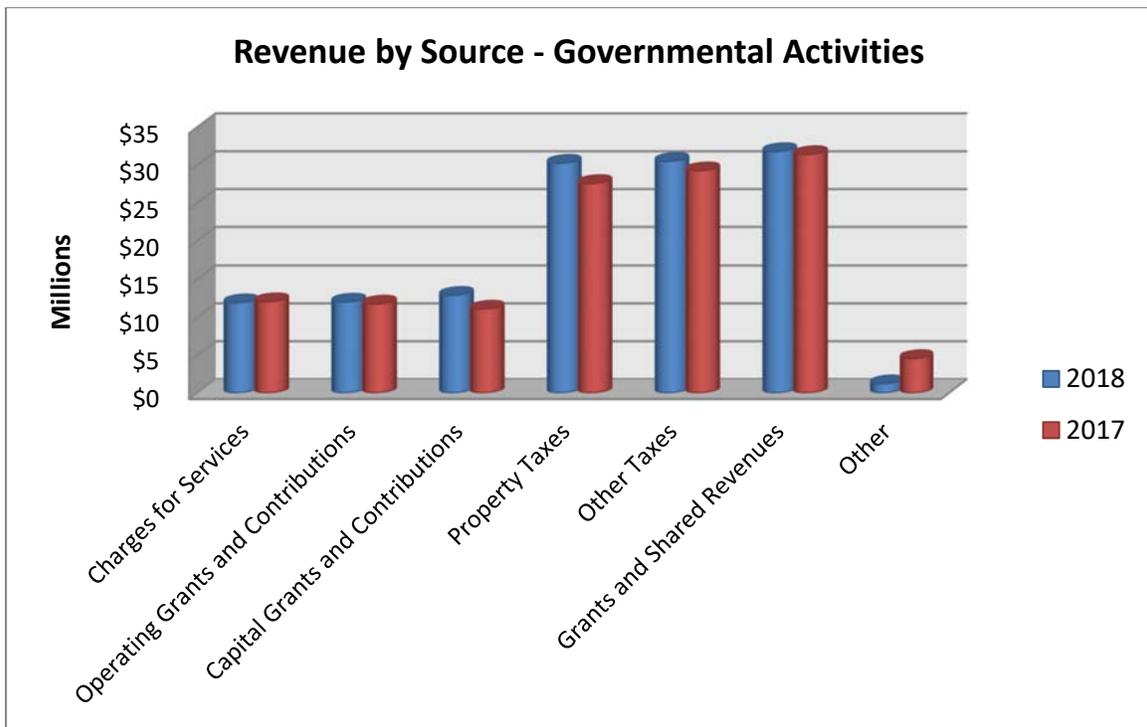
Governmental activities revenue increased by \$2.9 million in 2018. This increase is primarily due to increased property tax revenue and increased tourism tax based sales tax collections. The 2018 property tax levy was increased to provide additional funding for streets and fund a 10% increase in health insurance premiums. Tourism tax rates

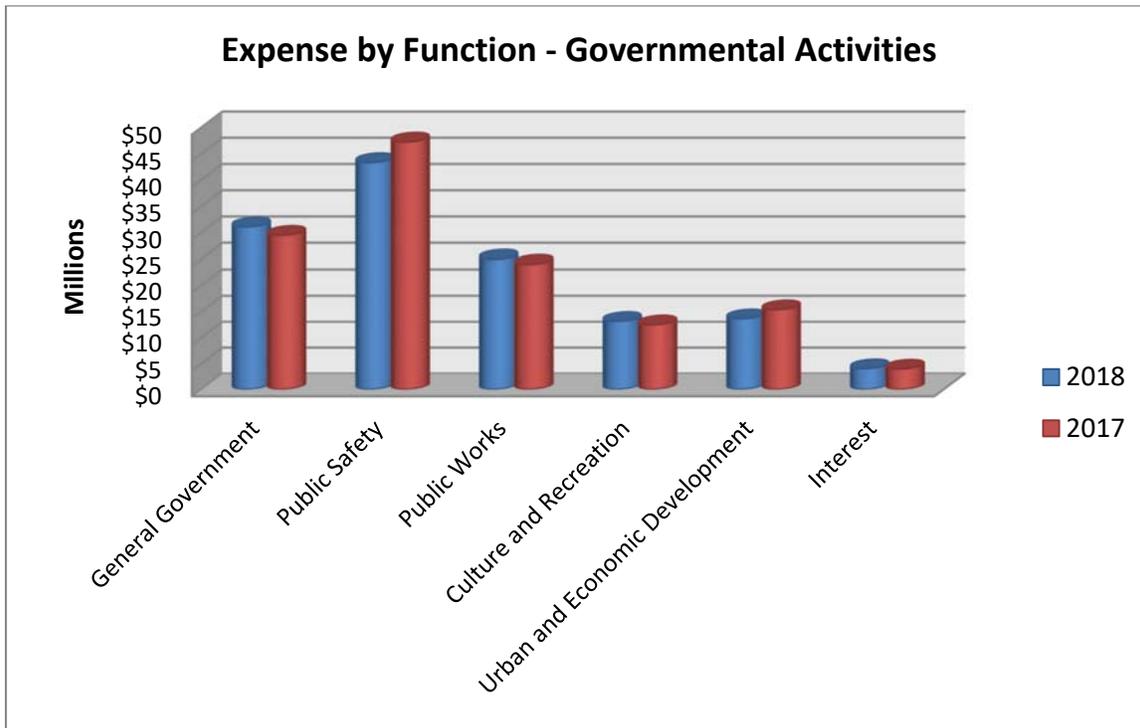
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were not increased, but instead the revenue increase was driven by the strong tourism industry present in the City of Duluth. Revenues were negatively impacted by the stock market performance in 2018. The Community Investment Trust Fund had \$0.75 million in negative investment earnings as it is substantially invested in the equity market. The business-type activities revenue increase of \$6.1 million was heavily impacted by the increase in the sale of natural gas associated with the 2018 heating season. The Steam Fund received slightly over \$5 million in State of Minnesota funding in 2018 associated with the steam upgrades being performed in conjunction with the multi-year Superior Street reconstruction project.

Total expenses decreased \$2.3 million for governmental activities. Changes in expenditures are becoming more difficult to easily analyze at the surface level due to the impact of GASB Statements number 68 (pension liability) and 75 (post-employment benefit liability). These liabilities, and associated deferred inflows and outflows, are actuarially determined. Changes in actuarial assumptions, investment performance, and other factors are not expensed immediately, but instead are reported as deferred inflows and outflows and expensed over future years. The future amortization of these deferred inflows and outflows are in the millions of dollars. In 2017 the City's GASB 68 related expenditures resulted in \$5.3 million in additional expenditures. In 2018 GASB 68 resulted in decreased expenditures of \$2.1 million. This is a swing of \$7.4 million. With the implementation of GASB 75 it is expected that expenditures will continue to vary significantly from year-to-year. In 2018, the City experienced a 10% increase in health insurance premiums. It is expected that health insurance costs will continue to increase based on current trends.

Business-type activities expenses increased \$2.2 million. This increase is largely due to an increase in the volume of natural gas that is resold to customers by the City's Gas Utility. In addition, the City's utility funds experience the same increase in health insurance costs that the City's governmental funds do.





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, 2018, the City’s governmental funds reported combined ending fund balances of \$80.6 million, an decrease of \$1.5 million from 2017. Of the total fund balance amount, \$38.6 million, or 47.9%, is reported as unrestricted fund balance, either committed, assigned, or unassigned. The unrestricted fund balance includes \$23.4 million in committed funds which are formally designated by City Council resolution for specific purposes. The Community Investment Trust Special Revenue fund makes up 93.4% of the committed fund balance. Restricted fund balance of \$42.0 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, 2018, fund balance of the General Fund was \$16.9 million, with \$13.4 million, or 79.5% reported as unassigned. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance is 15.7% and total fund balance is 19.7% of total General Fund expenditures. The General Fund’s fund balance increased \$1.3 million in 2018. Positive sales tax revenue along with savings in personal costs contributed to this outcome.

The Community Investment Trust Special Revenue fund balance decreased \$1.2 million in 2018. This decrease was due to the performance of the portfolio holdings in a down year for the stock market.

The Disaster Recovery Special Revenue fund balance decreased by \$1.3 million in 2018. This is due to expenses incurred, but not yet reimbursed by state and federal disaster funds. The City experienced significant storm surge damage in both October of 2017 and October of 2018.

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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	
	2018	2017	2018	2017
	Priley Drive Parking Facility	\$ 330	\$ 140	\$ (256)
Water	(333)	(812)	3,625	3,231
Gas	102	4,865	3,597	2,893
Sewer	3,289	2,659	2,824	4,156
Steam	(411)	(623)	4,612	602

Unrestricted Net Position for the Gas fund was negatively impacted by the implementation of GASB Statement 75. The Steam Fund incurred significant capital outlay associated with the Superior Street reconstruction process. These expenditures are funded by a State of Minnesota grant and contributed to the substantial increase in the Steam Fund net position.

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:

- \$1.6 million appropriation increase for prior year carryovers;
- \$0.9 million appropriation for grants, gifts and donations; and
- \$0.5 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 over budget by \$1.4 million. This favorable variance can be attributed to higher than anticipated sales tax revenue, licensing and permit fees, and State of Minnesota insurance premium aid.
- Expenditures and transfers were under budget by \$1.6 million due primarily to savings in personal costs and other miscellaneous transfers.

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, 2018, was \$589.1 million, net of accumulated depreciation. This investment includes land and improvements, buildings, equipment, roads and bridges, traffic signals, and utility-related infrastructure. In 2018, the City's total investment in

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capital assets, net of accumulated depreciation, increased by \$14.5 million. Major capital assets additions in 2018 included: seawall repairs - \$6.9 million; Superior Street reconstruction - \$9.3 million; and utility related infrastructure improvements of \$13.2 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	
	2018	2017	2018	2017
Capital Assets:				
Land and improvements	\$ 22,859	\$ 22,468	\$ 4,649	\$ 4,649
Buildings	40,826	42,359	49,546	51,305
Equipment	9,309	10,572	20,867	16,530
Infrastructure	195,957	200,572	202,392	198,119
Construction in progress	27,755	14,023	14,917	14,030
Total	\$ 296,706	\$ 289,994	\$ 292,371	\$ 284,633

LONG-TERM DEBT

The City had \$154.6 million of bonded debt outstanding as of December 31, 2018. Of this amount, \$114.4 million is debt backed by the full faith and credit of the City. \$5.2 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 \$35.1 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 12/31/18	Balance 12/31/17
Governmental Activities:		
General Obligation Bonds	\$ 87,485	\$ 86,615
General Obligation Tax Abatement Bonds	12,605	13,435
Special Assessment Debt with Government Commitment	5,165	7,320
General Obligation Certificates	14,295	13,670
Total Governmental Activities Bonded Debt	\$ 119,550	\$ 121,040
Business-type Activities:		
Revenue and General Obligation Bonds	\$ 35,097	\$ 34,927

During 2018, the City's total bonded debt decreased by \$1.3 million.

In 2018, the City issued \$5.8 million of general obligation bonds, \$3.8 million of general obligation certificates, and \$4.1 million in utility general obligation bonds. 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 \$124.5 million, which is significantly higher than

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the City's net debt of \$42.3 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 2019 General Fund budget is \$89.1 million. State local government aid (LGA) payments are anticipated to supply 33.3% of General Fund revenues. State aid payments are the single biggest financing source for the General Fund.

After nearly a decade of uncertainty in the State of Minnesota's Local Government Aid program, the 2013 State Legislature adopted reforms which will benefit Duluth and other cities by increasing the funding for LGA by \$80 million and revising the formula used to determine who gets aid and how much. The "need" factor will be three-tiered depending on the population of the city with separate calculations for cities under 2,500 in population, cities between 2,500 and 10,000 in population, and cities over 10,000 in population because different factors explain variations in a city's revenue base for different size cities. All three formulas were derived using revenue base (levy plus aid) as a proxy for city need. The new formula also stabilizes a city's allocation by capping the maximum annual loss for any city as well as distributing proportionally larger increases to cities whose current aid amount is furthest from their unmet need. For Duluth, these changes increased LGA by \$2.3 million in 2019 to \$29.7 million compared to the \$27.4 million received in 2011, 2012 and 2013. In 2014, 2015, 2016, 2017, and 2018 the LGA revenue was \$29.0, \$29.2, \$29.3, \$29.3 and \$29.6 million respectively.

In 2017, the City contracted with an actuary to calculate its annual required contribution for other postemployment benefits in accordance with Governmental Accounting Standards Board (GASB) Statement No. 75. For the year ended December 31, 2018, the City made contributions of \$0.8 million to an irrevocable trust and paid out \$11.1 million in retiree claims. As of December 31, 2018, the City's net other postemployment benefits liability is \$117.6 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 120, 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, 2018**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 63,008,645	\$ 14,012,497	\$ 77,021,142	\$ 13,664,097
Investments, at fair value	21,868,426	-	21,868,426	-
Assets held by trustee	6,747,253	-	6,747,253	-
Receivables, net	30,872,103	11,534,425	42,406,528	10,292,596
Due from primary government	-	-	-	781,191
Internal balances	(1,175,771)	1,175,771	-	-
Due from component units	1,853,344	-	1,853,344	-
Due from other governments	8,504,536	1,981,439	10,485,975	8,480,697
Inventories	175,283	3,406,228	3,581,511	532,659
Prepays	50,000	3,045,525	3,095,525	255,361
Restricted assets:				
Cash and cash equivalents	-	6,358,919	6,358,919	1,794,629
Accounts receivable	-	-	-	83,013
Loans receivable	-	1,800,352	1,800,352	-
Grants receivable	-	-	-	3,794,691
Planning and development costs	-	-	-	1,149,681
Capital assets (Note 7):				
Non-depreciable	50,614,771	19,566,447	70,181,218	11,797,544
Depreciable, net	246,091,061	272,804,511	518,895,572	271,073,012
Total Assets	428,609,651	335,686,114	764,295,765	323,699,171
Deferred Outflows of Resources				
Deferred pension obligation outflows	37,718,289	2,255,507	39,973,796	1,444,653
Deferred OPEB outflows	1,860,935	2,245,672	4,106,607	-
Deferred loss from debt refunding	2,580,820	505,172	3,085,992	-
Total Deferred Outflows of Resources	42,160,044	5,006,351	47,166,395	1,444,653
Liabilities				
Accounts payable and other short-term liabilities	8,976,132	8,405,882	17,382,014	11,992,574
Accrued interest payable	1,900,278	482,064	2,382,342	1,939
Due to component units	781,191	-	781,191	-
Due to primary government	-	-	-	1,853,828
Due to other government	342,887	1,030,284	1,373,171	55,008
Unearned revenues	1,633,320	891,222	2,524,542	1,837,200
Noncurrent liabilities (Note 12):				
Due within one year	16,365,588	7,349,551	23,715,139	2,133,068
Due in more than one year	275,153,304	65,274,540	340,427,844	20,529,693
Total Liabilities	305,152,700	83,433,543	388,586,243	38,403,310
Deferred Inflows of Resources				
Deferred pension obligation inflows	54,623,702	3,407,375	58,031,077	1,913,088
Net Position				
Net investment in capital assets	249,612,707	240,473,773	490,086,480	272,024,540
Restricted for:				
General government	5,125,705	-	5,125,705	-
Public safety	878,923	-	878,923	-
Public works	-	1,506,313	1,506,313	-
Culture and recreation	2,842,338	-	2,842,338	-
Urban and economic development	6,108,252	-	6,108,252	-
Debt service	22,539,676	608,514	23,148,190	-
Capital outlay	5,425,084	-	5,425,084	9,741,090
Unrestricted	(181,539,392)	11,262,947	(170,276,445)	3,061,796
Total Net Position	\$ 110,993,293	\$ 253,851,547	\$ 364,844,840	\$ 284,827,426

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, 2018**

<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	\$ 31,093,037	\$ 5,869,145	\$ 305,505	\$ 2,638
Public safety	43,352,480	2,023,574	3,098,360	362,699
Public works	24,997,278	82,235	1,911,135	8,840,493
Culture and recreation	13,169,901	1,270,730	1,008,362	3,039,675
Urban and economic development	13,664,386	2,682,020	5,695,731	667,482
Interest	4,025,051	-	-	-
Total Governmental Activities	<u>130,302,133</u>	<u>11,927,704</u>	<u>12,019,093</u>	<u>12,912,987</u>
Business-type activities:				
Water	11,268,976	14,910,171	-	13,266
Gas	33,160,799	39,182,666	-	87,700
Sewer	16,835,052	19,709,102	-	-
Stormwater	3,430,458	5,283,440	-	-
Steam	8,185,310	7,880,094	-	5,095,641
Golf	1,853,157	1,692,369	-	-
Parking	2,980,182	3,740,640	-	406,214
Priley Drive parking facility	1,254,483	457,088	-	-
Street lighting	1,909,552	1,390,572	-	-
Total Business-type Activities	<u>80,877,969</u>	<u>94,246,142</u>	<u>-</u>	<u>5,602,821</u>
Total Primary Government	<u>\$ 211,180,102</u>	<u>\$ 106,173,846</u>	<u>\$ 12,019,093</u>	<u>\$ 18,515,808</u>
Component units:				
Duluth Economic Development Authority	\$ 6,477,722	\$ 2,731,315	\$ 1,743,764	\$ -
Duluth Entertainment and Convention Center Authority	14,777,685	8,834,319	-	200,000
Duluth Airport Authority	14,825,063	6,342,691	-	9,533,827
Duluth Transit Authority	23,540,824	2,992,124	14,087,635	11,715,937
Spirit Mountain Recreation Area Authority	6,470,494	5,188,782	-	493,970
Total Component Units	<u>\$ 66,091,788</u>	<u>\$ 26,089,231</u>	<u>\$ 15,831,399</u>	<u>\$ 21,943,734</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, 2018**

<u>Functions/Programs</u>	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Primary Government:				
Governmental activities:				
General government	\$ (24,915,749)	\$ -	\$ (24,915,749)	\$ -
Public safety	(37,867,847)	-	(37,867,847)	-
Public works	(14,163,415)	-	(14,163,415)	-
Culture and recreation	(7,851,134)	-	(7,851,134)	-
Urban and economic development	(4,619,153)	-	(4,619,153)	-
Interest	(4,025,051)	-	(4,025,051)	-
Total Governmental Activities	<u>(93,442,349)</u>	<u>-</u>	<u>(93,442,349)</u>	<u>-</u>
Business-type activities:				
Water	-	3,654,461	3,654,461	-
Gas	-	6,109,567	6,109,567	-
Sewer	-	2,874,050	2,874,050	-
Stormwater	-	1,852,982	1,852,982	-
Steam	-	4,790,425	4,790,425	-
Golf	-	(160,788)	(160,788)	-
Parking	-	1,166,672	1,166,672	-
Priley Drive parking facility	-	(797,395)	(797,395)	-
Street lighting	-	(518,980)	(518,980)	-
Total Business-type Activities	<u>-</u>	<u>18,970,994</u>	<u>18,970,994</u>	<u>-</u>
Total Primary Government	<u>(93,442,349)</u>	<u>18,970,994</u>	<u>(74,471,355)</u>	<u>-</u>
Component units:				
Duluth Economic Development Authority	-	-	-	(2,002,643)
Duluth Entertainment and Convention Center Authority	-	-	-	(5,743,366)
Duluth Airport Authority	-	-	-	1,051,455
Duluth Transit Authority	-	-	-	5,254,872
Spirit Mountain Recreation Area Authority	-	-	-	(787,742)
Total Component Units	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,227,424)</u>
General Revenues:				
Property taxes	30,265,657	751,231	31,016,888	4,242,881
Sales taxes	26,267,168	-	26,267,168	1,818,754
Franchise taxes	3,997,060	-	3,997,060	-
Other taxes	254,096	-	254,096	-
Grants and shared revenues not restricted to specific programs	31,810,084	48,567	31,858,651	-
Investment income	(440,856)	43,383	(397,473)	215,812
Gain on sale or disposition of capital assets	-	81,868	81,868	-
Miscellaneous	1,689,582	61,272	1,750,854	1,059,464
Transfers	4,354,903	(4,354,903)	-	-
Total General Revenues and Transfers	<u>98,197,694</u>	<u>(3,368,582)</u>	<u>94,829,112</u>	<u>7,336,911</u>
Change in Net Position	4,755,345	15,602,412	20,357,757	5,109,487
Net Position - Beginning, as restated (Note 1)	106,237,948	238,249,135	344,487,083	279,717,939
Net Position - Ending	<u>\$ 110,993,293</u>	<u>\$ 253,851,547</u>	<u>\$ 364,844,840</u>	<u>\$ 284,827,426</u>

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

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General	Disaster Recovery	Community Investment Trust	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 11,312,600	\$ -	\$ -	\$ 46,586,291	\$ 57,898,891
Investments, at fair value	-	-	21,868,426	-	21,868,426
Receivables, net					
Taxes	3,619,113	-	-	1,358,539	4,977,652
Accounts	551,219	-	-	250,121	801,340
Assessments	984,811	-	-	2,910,811	3,895,622
Loans	1,802,242	-	-	4,070,294	5,872,536
Due from other funds	271,018	-	-	941,824	1,212,842
Due from component units	1,210,113	-	-	636,231	1,846,344
Interfund loan receivables	4,273,107	-	-	-	4,273,107
Due from other governments	642,808	3,805,158	-	4,056,570	8,504,536
Total Assets	\$ 24,667,031	\$ 3,805,158	\$ 21,868,426	\$ 60,810,681	\$111,151,296
Liabilities					
Accounts payable	2,040,592	1,354	-	579,574	2,621,520
Contracts payable	69,799	985,696	-	3,286,078	4,341,573
Due to other funds	354,005	-	-	867,365	1,221,370
Due to component units	-	-	-	781,191	781,191
Interfund loan payable	-	465,075	-	950,231	1,415,306
Due to other governments	35,898	-	-	283,915	319,813
Accrued salaries payable	1,801,531	-	-	33,239	1,834,770
Unearned revenue	112,420	1,073,980	-	446,920	1,633,320
Total Liabilities	4,414,245	2,526,105	-	7,228,513	14,168,863
Deferred Inflows of Resources					
Unavailable revenue	3,367,021	3,751,030	-	9,258,562	16,376,613
Fund Balances					
Restricted	184,891	-	-	41,801,543	41,986,434
Committed	41,996	-	21,868,426	1,488,628	23,399,050
Assigned	3,236,770	-	-	1,691,541	4,928,311
Unassigned	13,422,108	(2,471,977)	-	(658,106)	10,292,025
Total Fund Balances	16,885,765	(2,471,977)	21,868,426	44,323,606	80,605,820
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 24,667,031	\$ 3,805,158	\$ 21,868,426	\$ 60,810,681	\$111,151,296

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, 2018**

Fund Balance--total governmental funds	\$ 80,605,820
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 \$531,170,724, and the accumulated depreciation is \$234,727,468.	296,443,256
Other long-term assets are not available to pay for current-period expenditures, and therefore are deferred in the funds.	31,617,435
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	37,527,468
Deferred OPEB outflows	1,860,935
Deferred loss from debt refunding	2,580,820
Deferred pension obligation inflows	<u>(54,335,430)</u>
	(12,366,207)
Internal service funds are used by management to charge the costs of fleet services, group health insurance, loss control activities, and vacation benefits payable to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position for \$5,101,505 less \$3,859,439 attributed to business-type activities.	1,242,066
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	129,834,234
Other post employment benefits	114,007,746
Pension liability	40,806,819
Interest accrued on long-term debt	<u>1,900,278</u>
	<u>(286,549,077)</u>
Net position of governmental activities	<u>\$ 110,993,293</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, 2018

	<u>General</u>	<u>Disaster Recovery</u>	<u>Community Investment Trust</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes					
Property taxes	\$ 16,315,960	\$ -	\$ -	\$ 14,002,905	\$ 30,318,865
Sales taxes	14,094,409	-	-	12,172,758	26,267,167
Other taxes	4,239,671	-	-	11,486	4,251,157
Licenses and permits	1,930,727	-	-	122,648	2,053,375
Intergovernmental revenues	34,453,489	499,257	-	21,924,341	56,877,087
Charges for services	5,583,614	-	-	993,055	6,576,669
Fines and forfeits	524,415	-	-	79,942	604,357
Special assessments	474,241	-	-	1,131,096	1,605,337
Investment income	(35,189)	5,582	(757,719)	228,178	(559,148)
Miscellaneous revenues	1,461,901	-	-	4,676,424	6,138,325
Total Revenues	<u>79,043,238</u>	<u>504,839</u>	<u>(757,719)</u>	<u>55,342,833</u>	<u>134,133,191</u>
Expenditures					
Current					
General government	26,044,353	-	-	2,286,530	28,330,883
Public safety	39,675,021	-	-	1,877,310	41,552,331
Public works	12,283,655	-	-	2,942,744	15,226,399
Culture and recreation	4,525,475	1,756,249	-	4,248,310	10,530,034
Urban and economic development	3,145,266	-	-	10,492,027	13,637,293
Debt service					
Principal retirement	-	-	-	11,172,000	11,172,000
Interest and fiscal fees	-	-	-	4,487,446	4,487,446
Bond issuance costs	-	-	-	163,704	163,704
Capital outlay					
Capital outlay	9,999	-	-	25,096,739	25,106,738
Total Expenditures	<u>85,683,769</u>	<u>1,756,249</u>	<u>-</u>	<u>62,766,810</u>	<u>150,206,828</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,640,531)</u>	<u>(1,251,410)</u>	<u>(757,719)</u>	<u>(7,423,977)</u>	<u>(16,073,637)</u>
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	9,645,000	9,645,000
Premium on issuance of bonds	-	-	-	553,787	553,787
Transfers in	8,113,221	-	-	13,639,074	21,752,295
Transfers out	(193,728)	-	(529,225)	(16,674,439)	(17,397,392)
Total Other Financing Sources (Uses)	<u>7,919,493</u>	<u>-</u>	<u>(529,225)</u>	<u>7,163,422</u>	<u>14,553,690</u>
Net Change in Fund Balances	<u>1,278,962</u>	<u>(1,251,410)</u>	<u>(1,286,944)</u>	<u>(260,555)</u>	<u>(1,519,947)</u>
Fund Balances - January 1, 2018	15,606,803	(1,220,567)	23,155,370	44,584,161	82,125,767
Fund Balances - December 31, 2018	<u>\$ 16,885,765</u>	<u>\$ (2,471,977)</u>	<u>\$ 21,868,426</u>	<u>\$ 44,323,606</u>	<u>\$ 80,605,820</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, 2018**

Net change in fund balances - total governmental funds \$ (1,519,947)

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	23,517,946	
Depreciation expense	<u>(16,757,903)</u>	
Excess of capital outlay over depreciation expense		6,760,043

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of \$(676,684) from internal funds less (\$30,906) attributed to business-type activities is reported with governmental activities. (645,778)

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 \$553,787 (10,198,787)

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 11,210,328

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. (2,644,128)

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	(25,618)	
Decrease in net other post employment benefits payable	464,789	
Decrease in pension obligation	2,077,425	
Decrease in loans receivable	(1,374,699)	
Amortization of deferred loss on debt refunding	(171,104)	
Amortization of bond premiums	<u>822,821</u>	
Total additional expenditures		<u>1,793,614</u>

Change in net position of governmental activities \$ 4,755,345

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, 2018

	Budgeted Amounts		Actual Amounts	Actual to
	Original	Final	(Budgetary Basis)	Modified Budget
			(Note 2)	Favorable
				(Unfavorable)
Revenues				
Taxes	\$ 34,186,500	\$ 34,186,500	\$ 34,650,040	\$ 463,540
Licenses and permits	1,638,100	1,638,100	1,930,727	292,627
Intergovernmental revenues	33,653,000	34,173,992	34,453,489	279,497
Charges for services	5,598,600	5,598,600	5,583,614	(14,986)
Fines and forfeits	522,800	522,800	524,415	1,615
Special assessments	438,900	517,400	474,241	(43,159)
Investment income	-	-	(35,189)	(35,189)
Miscellaneous revenues	937,200	1,457,589	1,461,901	4,312
Total revenues	<u>76,975,100</u>	<u>78,094,981</u>	<u>79,043,238</u>	<u>948,257</u>
Expenditures				
Current				
General government	26,612,300	28,441,859	27,476,433	965,426
Public safety	39,079,600	39,924,445	39,685,230	239,215
Public works	12,522,300	12,603,294	12,292,140	311,154
Culture and recreation	4,599,600	4,602,672	4,525,475	77,197
Urban and economic development	3,135,600	3,251,893	3,191,261	60,632
Total expenditures	<u>85,949,400</u>	<u>88,824,163</u>	<u>87,170,539</u>	<u>1,653,624</u>
Excess (deficiency) of revenues over expenditures	<u>(8,974,300)</u>	<u>(10,729,182)</u>	<u>(8,127,301)</u>	<u>2,601,881</u>
Other Financing Sources (Uses)				
Transfers in	7,348,300	7,660,361	8,113,221	452,860
Transfers out	-	(185,000)	(193,728)	(8,728)
Fund balance reserves	1,626,000	1,626,000	-	(1,626,000)
Total other financing sources (uses)	<u>8,974,300</u>	<u>9,101,361</u>	<u>7,919,493</u>	<u>(1,181,868)</u>
Net change in fund balance - budgetary basis	-	(1,627,821)	(207,808)	1,420,013
Net adjustments to reflect operations in accordance with generally accepted accounting principles	-	-	1,486,770	1,486,770
Net change in fund balance - GAAP basis	-	(1,627,821)	1,278,962	<u>\$ 2,906,783</u>
Fund Balance - January 1, 2018	15,606,803	15,606,803	15,606,803	
Fund Balance - December 31, 2018	<u>\$ 15,606,803</u>	<u>\$ 13,978,982</u>	<u>\$ 16,885,765</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, 2018**

	Business-type Activities - Enterprise Funds			
	Priley Drive Parking Facility	Water	Gas	Sewer
Assets				
Current assets				
Cash and cash equivalents	\$ 430,094	\$ 1,988,044	\$ 1,883,624	\$ 2,642,256
Restricted cash and cash equivalents				
Customer deposits	-	90,136	2,754,100	-
Construction	-	2,548,378	-	608,514
Loans	-	-	357,791	-
Restricted assets held by trustee	-	-	-	-
Receivables, net				
Accounts	27,382	1,379,935	5,610,111	2,014,765
Restricted loans	-	-	387,573	-
Assessments	-	26,790	1,454	24,460
Due from other funds	-	10,794	8,942	5,302
Due from component units	-	-	-	-
Interfund loan receivable	-	-	2,597,498	-
Due from other governments	-	324	108	731
Inventories	-	1,438,636	1,287,082	105,992
Prepays	-	-	489,328	1,279,453
Total current assets	457,476	7,483,037	15,377,611	6,681,473
Noncurrent assets				
Assessments receivable	-	92,236	5,604	100,277
Restricted loans receivable	-	-	1,384,378	-
Capital assets, net	19,434,657	63,306,320	56,690,345	96,527,374
Total noncurrent assets	19,434,657	63,398,556	58,080,327	96,627,651
Total Assets	19,892,133	70,881,593	73,457,938	103,309,124
Deferred Outflows of Resources				
Deferred loss from debt refunding	-	-	1,375	52,092
Deferred pension obligation outflows	-	635,588	874,541	378,718
Deferred OPEB outflows	-	671,232	860,316	457,219
Total Deferred Outflows of Resources	-	1,306,820	1,736,232	888,029
Liabilities				
Current liabilities				
Accounts payable	4,373	369,354	2,588,736	36,550
Contracts payable	-	12,121	313,423	126,918
Claims payable	-	-	-	-
Notes payable	-	866,000	-	1,404,000
Leases payable	-	245,846	225,358	211,700
Due to other funds	-	20,047	21,328	22,875
Interfund loan payable	-	-	-	-
Due to other governments	-	90,716	106,424	808,420
Accrued interest payable	123,092	79,395	29,493	109,392
Accrued salaries payable	-	96,316	136,054	56,898
Compensated absences	-	236,462	356,372	145,446
Unearned revenue	-	45,411	712,590	53,066
Deposits	-	10,000	2,799,125	-
Revenue bonds payable	300,541	99,000	505,000	1,001,000
Total current liabilities	428,006	2,170,668	7,793,903	3,976,265

(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, 2018**

Business-type Activities - Enterprise Funds				
	Priley Drive Parking Facility	Water	Gas	Sewer
Noncurrent liabilities				
Notes payable	-	5,696,000	-	7,508,000
Loans payable	-	-	-	-
Claims payable	-	-	-	-
Interfund loan payable	-	-	-	-
Leases payable	-	1,228,023	1,125,688	1,057,465
Pension liability	-	3,002,049	4,130,684	1,788,787
Net other postemployment benefits payable	-	1,744,674	4,379,221	-
Revenue bonds payable	12,146,934	4,443,018	2,919	2,863,886
Total noncurrent liabilities	<u>12,146,934</u>	<u>16,113,764</u>	<u>9,638,512</u>	<u>13,218,138</u>
Total Liabilities	<u>12,574,940</u>	<u>18,284,432</u>	<u>17,432,415</u>	<u>17,194,403</u>
Deferred Inflows of Resources				
Deferred pension obligation inflows	-	960,177	1,321,160	572,127
Net Position				
Net investment in capital assets	6,987,182	53,276,811	54,832,755	82,533,415
Restricted for health insurance trust	-	-	-	-
Restricted for special accounts	-	-	-	608,514
Restricted for loans	-	-	1,506,313	-
Unrestricted	330,011	(333,007)	101,527	3,288,694
Total Net Position	<u>\$ 7,317,193</u>	<u>\$ 52,943,804</u>	<u>\$ 56,440,595</u>	<u>\$ 86,430,623</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, 2018**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Steam	Other Enterprise Funds	Total Enterprise Funds	
Assets				
Current assets				
Cash and cash equivalents	\$ -	\$ 7,068,479	\$ 14,012,497	\$ 5,109,754
Restricted cash and cash equivalents				
Customer deposits	-	-	2,844,236	-
Construction	-	-	3,156,892	-
Loans	-	-	357,791	-
Restricted assets held by trustee	-	-	-	6,747,253
Receivables, net				
Accounts	1,428,935	797,107	11,258,235	84,131
Restricted loans	-	-	387,573	-
Assessments	-	25,369	78,073	-
Due from other funds	22,140	5,456	52,634	372,775
Due from component units	-	-	-	7,000
Interfund loan receivable	-	-	2,597,498	-
Due from other governments	1,953,732	26,544	1,981,439	-
Inventories	437,856	136,662	3,406,228	175,283
Prepays	32,325	1,244,419	3,045,525	50,000
Total current assets	<u>3,874,988</u>	<u>9,304,036</u>	<u>43,178,621</u>	<u>12,546,196</u>
Noncurrent assets				
Assessments receivable	-	-	198,117	-
Restricted loans receivable	28,401	-	1,412,779	-
Capital assets, net	15,234,217	41,178,045	292,370,958	262,576
Total noncurrent assets	<u>15,262,618</u>	<u>41,178,045</u>	<u>293,981,854</u>	<u>262,576</u>
Total Assets	<u>19,137,606</u>	<u>50,482,081</u>	<u>337,160,475</u>	<u>12,808,772</u>
Deferred Outflows of Resources				
Deferred loss from debt refunding	85,000	366,705	505,172	-
Deferred pension obligation outflows	-	366,660	2,255,507	190,821
Deferred OPEB outflows	-	256,905	2,245,672	-
Total Deferred Outflows of Resources	<u>85,000</u>	<u>990,270</u>	<u>5,006,351</u>	<u>190,821</u>
Liabilities				
Current liabilities				
Accounts payable	305,020	200,871	3,504,904	134,810
Contracts payable	1,024,005	234,367	1,710,834	12,074
Claims payable	-	-	-	1,895,459
Notes payable	-	-	2,270,000	-
Leases payable	-	-	682,904	-
Due to other funds	296,019	12,920	373,189	43,692
Interfund loan payable	2,597,498	813,113	3,410,611	494,688
Due to other governments	23,578	1,146	1,030,284	23,074
Accrued interest payable	68,670	72,022	482,064	-
Accrued salaries payable	-	60,298	349,566	31,385
Compensated absences	-	157,826	896,106	3,110,129
Unearned revenue	-	80,155	891,222	-
Deposits	-	31,453	2,840,578	-
Revenue bonds payable	655,000	940,000	3,500,541	-
Total current liabilities	<u>4,969,790</u>	<u>2,604,171</u>	<u>21,942,803</u>	<u>5,745,311</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, 2018**

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Steam	Other Enterprise Funds	Total Enterprise Funds	
Noncurrent liabilities				
Notes payable	-	-	13,204,000	-
Loans payable	-	62,485	62,485	-
Claims payable	-	-	-	963,207
Interfund loan payable	-	1,550,000	1,550,000	-
Leases payable	-	-	3,411,176	-
Pension liability	-	1,731,835	10,653,355	901,298
Net other postemployment benefits payable	-	-	6,123,895	-
Revenue bonds payable	5,738,470	6,624,402	31,819,629	-
Total noncurrent liabilities	<u>5,738,470</u>	<u>9,968,722</u>	<u>66,824,540</u>	<u>1,864,505</u>
Total Liabilities	<u>10,708,260</u>	<u>12,572,893</u>	<u>88,767,343</u>	<u>7,609,816</u>
Deferred Inflows of Resources				
Deferred pension obligation inflows	-	553,911	3,407,375	288,272
Net Position				
Net investment in capital assets	8,925,747	33,917,863	240,473,773	262,576
Restricted for health insurance trust	-	-	-	5,125,705
Restricted for special accounts	-	-	608,514	-
Restricted for loans	-	-	1,506,313	-
Unrestricted	(411,401)	4,427,684	7,403,508	(286,776)
Total Net Position	<u>\$ 8,514,346</u>	<u>\$ 38,345,547</u>	<u>\$ 249,992,108</u>	<u>\$ 5,101,505</u>

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

	<u>3,859,439</u>
Net position of business-type activities	<u>\$ 253,851,547</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, 2018

	Business-type Activities - Enterprise Funds			
	Priley Drive Parking Facility	Water	Gas	Sewer
Operating Revenues				
Sales	\$ -	\$ -	\$ 37,427,929	\$ -
Charges for services	457,088	14,743,178	956,165	19,456,525
Fines and forfeits	-	-	-	-
Miscellaneous revenues	-	181,977	893,479	262,142
Total Operating Revenues	<u>457,088</u>	<u>14,925,155</u>	<u>39,277,573</u>	<u>19,718,667</u>
Operating Expenses				
Cost of sales and services	-	-	20,731,398	-
Personal services	-	5,474,970	7,663,533	3,449,054
Supplies	-	949,507	998,774	254,180
Utilities	27,594	1,321,655	41,158	140,612
Other services and charges	206,254	1,509,245	2,109,311	10,667,786
Depreciation	520,571	1,818,410	1,491,899	1,994,665
Medical and insurance	-	-	-	-
Total Operating Expenses	<u>754,419</u>	<u>11,073,787</u>	<u>33,036,073</u>	<u>16,506,297</u>
Operating Income (Loss)	<u>(297,331)</u>	<u>3,851,368</u>	<u>6,241,500</u>	<u>3,212,370</u>
Nonoperating Revenues (Expenses)				
Property taxes	-	-	-	-
Investment income	(1,597)	(34,007)	(20,943)	(3,277)
Intergovernmental revenue	-	16,919	23,365	8,283
Gain (loss) on sale or disposition of capital assets	-	36,379	27,917	17,572
Interest and fiscal fees	(500,064)	(252,071)	(58,802)	(303,362)
Total Nonoperating Revenues (Expenses)	<u>(501,661)</u>	<u>(232,780)</u>	<u>(28,463)</u>	<u>(280,784)</u>
Income (Loss) Before Contributions and Transfers	<u>(798,992)</u>	<u>3,618,588</u>	<u>6,213,037</u>	<u>2,931,586</u>
Capital contributions	-	13,266	87,700	(704)
Transfers in	543,427	144,300	14,900	7,450
Transfers out	-	(151,482)	(2,718,189)	(114,776)
Change in Net Position	<u>(255,565)</u>	<u>3,624,672</u>	<u>3,597,448</u>	<u>2,823,556</u>
Total Net Position - January 1, 2018, as restated (Note 1)	<u>7,572,758</u>	<u>49,319,132</u>	<u>52,843,147</u>	<u>83,607,067</u>
Total Net Position - December 31, 2018	<u>\$ 7,317,193</u>	<u>\$ 52,943,804</u>	<u>\$ 56,440,595</u>	<u>\$ 86,430,623</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, 2018**

	Business-type Activities - Enterprise Funds			
	Steam	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
Operating Revenues				
Sales	\$ -	\$ 512,783	\$ 37,940,712	\$ 2,085,914
Charges for services	7,447,633	10,641,142	53,701,731	22,457,439
Fines and forfeits	-	744,676	744,676	-
Miscellaneous revenues	432,461	250,779	2,020,838	1,055,585
Total Operating Revenues	7,880,094	12,149,380	94,407,957	25,598,938
Operating Expenses				
Cost of sales and services	-	238,408	20,969,806	1,965,134
Personal services	-	3,099,221	19,686,778	5,379,133
Supplies	2,917,194	413,916	5,533,571	42,540
Utilities	409,569	849,608	2,790,196	34,437
Other services and charges	3,434,712	4,035,120	21,962,428	2,931,260
Depreciation	1,235,611	1,298,860	8,360,016	64,934
Medical and insurance	-	-	-	15,982,311
Total Operating Expenses	7,997,086	9,935,133	79,302,795	26,399,749
Operating Income (Loss)	(116,992)	2,214,247	15,105,162	(800,811)
Nonoperating Revenues (Expenses)				
Property taxes	-	751,231	751,231	-
Investment income	2,986	(323)	(57,161)	118,292
Intergovernmental revenue	-	-	48,567	5,835
Gain (loss) on sale or disposition of capital assets	(7,102)	-	74,766	-
Interest and fiscal fees	(201,463)	(220,699)	(1,536,461)	-
Total Nonoperating Revenues (Expenses)	(205,579)	530,209	(719,058)	124,127
Income (Loss) Before Contributions and Transfers	(322,571)	2,744,456	14,386,104	(676,684)
Capital contributions	5,095,641	406,214	5,602,117	-
Transfers in	-	32,188	742,265	-
Transfers out	(161,101)	(1,951,620)	(5,097,168)	-
Change in Net Position	4,611,969	1,231,238	15,633,318	(676,684)
Total Net Position - January 1, 2018, as restated (Note 1)	3,902,377	37,114,309	234,358,790	5,778,189
Total Net Position - December 31, 2018	\$ 8,514,346	\$ 38,345,547	\$ 249,992,108	\$ 5,101,505

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

Change in net position	\$ 15,633,318
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(30,906)
Change in net position of business-type activities	\$ 15,602,412

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, 2018**

	Business-type Activities - Enterprise Funds			
	Priley Drive Parking Facility	Water	Gas	Sewer
Cash Flows from Operating Activities				
Cash received from customers	\$ 481,445	\$ 14,907,386	\$ 40,792,855	\$ 19,545,259
Cash paid to suppliers	(236,157)	(3,876,339)	(23,580,618)	(11,013,765)
Cash paid to employees	-	(5,833,971)	(8,021,100)	(3,455,357)
Other operating revenues	-	55,944	377,813	231,177
Net cash provided (used) by operating activities	<u>245,288</u>	<u>5,253,020</u>	<u>9,568,950</u>	<u>5,307,314</u>
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	543,427	144,300	14,900	7,450
Transfers to other funds	-	(151,482)	(2,718,189)	(114,776)
Property taxes	-	-	-	-
Operating grants	-	16,919	28,949	8,283
Interfund financing	-	(376,543)	(1,101,715)	1,495,782
Net cash provided (used) by noncapital financing activities	<u>543,427</u>	<u>(366,806)</u>	<u>(3,776,055)</u>	<u>1,396,739</u>
Cash Flows from Capital and Related Financing Activities				
Capital grants and contributions	-	28,893	88,283	541,684
Issuance of revenue bonds and notes	-	4,010,287	-	122,314
Principal paid on bonds, notes and capitalized leases	-	(1,671,493)	(697,055)	(2,982,024)
Interest paid on bonds, notes and capitalized leases	(575,335)	(166,698)	(87,749)	(322,495)
Sale of capital assets	-	31,960	25,316	21,322
Acquisition or construction of capital assets	-	(2,548,416)	(3,596,112)	(2,358,553)
Net cash provided (used) by capital and related financing activities	<u>(575,335)</u>	<u>(315,467)</u>	<u>(4,267,317)</u>	<u>(4,977,752)</u>
Cash Flows from Investing Activities				
Investment earnings	(1,596)	(34,007)	(20,943)	(3,277)
Net increase (decrease) in cash and cash equivalents	211,784	4,536,740	1,504,635	1,723,024
Cash and cash equivalents - January 1, 2018	218,310	89,818	3,490,880	1,527,746
Cash and cash equivalents - December 31, 2018	<u>\$ 430,094</u>	<u>\$ 4,626,558</u>	<u>\$ 4,995,515</u>	<u>\$ 3,250,770</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	\$ (297,331)	\$ 3,851,368	\$ 6,241,500	\$ 3,212,370
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation	520,571	1,818,410	1,491,899	1,994,665
Change in assets and liabilities:				
Decrease (increase) in receivables	24,357	66,413	1,346,930	86,779
Decrease (increase) in inventories	-	(249,953)	(110,821)	(25,325)
Decrease (increase) in prepaids	(2,309)	-	(149,278)	339,232
Decrease (increase) in deferred pension obligation outflows	-	1,000,706	1,278,406	532,694
Decrease (increase) in OPEB outflows	-	(671,232)	-	(457,219)
Increase (decrease) in payables	-	511,373	613,583	67,337
Increase (decrease) in unearned revenues	-	2,517	34,682	2,471
Increase (decrease) in deferred pension obligation inflows	-	(404,836)	(474,850)	(188,182)
Increase (decrease) in pension liability	-	(671,746)	(703,101)	(257,508)
Total adjustments	<u>542,619</u>	<u>1,401,652</u>	<u>3,327,450</u>	<u>2,094,944</u>
Net cash provided (used) by operating activities	<u>\$ 245,288</u>	<u>\$ 5,253,020</u>	<u>\$ 9,568,950</u>	<u>\$ 5,307,314</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, 2018**

	Business-type Activities - Enterprise Funds		Governmental	
	Steam	Other Enterprise Funds	Activities - Internal Service Funds	
Cash Flows from Operating Activities				
Cash received from customers	\$ 7,602,338	\$ 12,020,667	\$ 95,349,950	\$ 25,495,846
Cash paid to suppliers	(6,952,154)	(5,606,944)	(51,265,977)	(20,584,744)
Cash paid to employees	-	(3,298,883)	(20,609,311)	(5,379,329)
Other operating revenues	69,725	223,310	957,969	1,675
Net cash provided (used) by operating activities	719,909	3,338,150	24,432,631	(466,552)
Cash Flows from Noncapital Financing Activities				
Transfers from other funds	-	32,188	742,265	-
Transfers to other funds	(161,101)	(1,951,620)	(5,097,168)	-
Property taxes	-	749,710	749,710	-
Operating grants	-	-	54,151	5,835
Interfund financing	(17,524)	110,862	110,862	(87,989)
Net cash provided (used) by noncapital financing activities	(178,625)	(1,058,860)	(3,440,180)	(82,154)
Cash Flows from Capital and Related Financing Activities				
Capital grants and contributions	4,438,700	406,214	5,503,774	-
Issuance of revenue bonds and notes	-	-	4,132,601	-
Principal paid on bonds, notes and capitalized leases	(650,000)	(1,036,548)	(7,037,120)	-
Interest paid on bonds, notes and capitalized leases	(171,265)	(235,900)	(1,559,442)	-
Sale of capital assets	-	-	78,598	-
Acquisition or construction of capital assets	(4,767,595)	(1,978,961)	(15,249,637)	(16,850)
Net cash provided (used) by capital and related financing activities	(1,150,160)	(2,845,195)	(14,131,226)	(16,850)
Cash Flows from Investing Activities				
Investment earnings	2,986	(323)	(57,160)	118,292
Net increase (decrease) in cash and cash equivalents	(605,890)	(566,228)	6,804,065	(447,264)
Cash and cash equivalents - January 1, 2018	605,890	7,634,707	13,567,351	12,304,271
Cash and cash equivalents - December 31, 2018	\$ -	\$ 7,068,479	\$ 20,371,416	\$ 11,857,007
Reconciliation of operating income to net cash provided (used) by operating activities:				
Net operating income (loss)	\$ (116,992)	\$ 2,214,247	\$ 15,105,162	\$ (800,811)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:				
Depreciation	1,235,611	1,298,860	8,360,016	64,934
Change in assets and liabilities:				
Decrease (increase) in receivables	(195,866)	91,907	1,420,520	(108,349)
Decrease (increase) in inventories	(26,426)	(16,340)	(428,865)	95,314
Decrease (increase) in prepaids	(32,325)	247,420	402,740	-
Decrease (increase) in deferred pension obligation outflows	-	667,375	3,479,181	311,270
Decrease (increase) in OPEB outflows	-	(256,905)	(1,385,356)	-
Increase (decrease) in payables	(144,093)	(31,059)	1,017,141	327,663
Increase (decrease) in unearned revenues	-	21,103	60,773	-
Increase (decrease) in deferred pension obligation inflows	-	(308,690)	(1,376,558)	(130,578)
Increase (decrease) in pension liability	-	(589,768)	(2,222,123)	(225,995)
Total adjustments	836,901	1,123,903	9,327,469	334,259
Net cash provided (used) by operating activities	\$ 719,909	\$ 3,338,150	\$ 24,432,631	\$ (466,552)

(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, 2018**

Noncash Investing, Capital and Financing Activities

Water

Capital contributions are reported net of timing differences totaling \$15,627 due to receivables.

Gas

Capital contributions are reported net of timing differences totaling \$583 due to receivables.

Sewer

Capital contributions are reported net of timing differences totaling \$540,980 due to receivables.

Steam

Capital contributions are reported net of timing differences totaling (\$656,941) 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, 2018**

	Other Postemployment Benefits Trust Fund	Agency Fund
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 40,429	\$ 2,698,525
Receivables:		
Loans	-	330,489
Accounts receivable	297,136	-
Investments, at fair value:		
Fixed income pool	15,718,629	-
Equity pool	40,348,499	-
	<u>56,404,693</u>	<u>\$ 3,029,014</u>
Liabilities		
Accounts payable	\$ -	\$ 920
Due to agency	<u>-</u>	<u>3,028,094</u>
Total Liabilities	<u>-</u>	<u>\$ 3,029,014</u>
Net Position Restricted for postemployment benefits other than pensions	<u>\$ 56,404,693</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, 2018**

Additions

Employer Contributions	<u>\$ 11,678,484</u>
Investment earnings:	
Interest and dividends	1,329,415
Net decrease in fair value of investments	(3,170,583)
Less investment expenses	(3,853)
Net investment earnings	<u>(1,845,021)</u>
Total Additions	<u>9,833,463</u>

Deductions

Benefits	<u>11,145,909</u>
Net increase in net position	(1,312,446)

Net Position restricted for postemployment benefits other than pensions

Net Position - January 1, 2018	<u>57,717,139</u>
Net Position - December 31, 2018	<u><u>\$ 56,404,693</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, 2018**

	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	\$ 6,256,068	\$ 1,243,814	\$ 939,507	\$ 4,905,618	\$ 319,090	\$ 13,664,097
Receivables, net:						
Taxes	9,278	-	-	10,268	-	19,546
Accounts	30,164	1,176,645	548,462	134,049	481,540	2,370,860
Loans	7,685,470	-	-	-	-	7,685,470
Grants	-	-	216,720	-	-	216,720
Due from primary government	-	781,191	-	-	-	781,191
Due from other governments	-	-	-	8,480,697	-	8,480,697
Inventories	-	187,468	16,774	221,873	106,544	532,659
Prepays	-	54,286	48,957	151,989	129	255,361
Restricted assets:						
Cash and cash equivalents	-	1,650,629	144,000	-	-	1,794,629
Accounts receivable	-	9,895	73,118	-	-	83,013
Grants receivable	-	-	3,794,691	-	-	3,794,691
Planning and development costs	-	-	1,127,305	-	22,376	1,149,681
Capital assets, net:						
Non-depreciable	4,047,931	905,601	4,065,601	222,367	2,556,044	11,797,544
Depreciable	9,743,608	82,357,562	116,090,092	47,284,420	15,597,330	271,073,012
Total Assets	27,772,519	88,367,091	127,065,227	61,411,281	19,083,053	323,699,171
Deferred Outflows of Resources						
Deferred pension obligation outflows	-	682,469	220,954	-	541,230	1,444,653
Liabilities						
Accounts payable and other short-term liabilities	215,578	529,639	155,233	8,566,897	320,754	9,788,101
Contracts payable	-	-	558,886	-	-	558,886
Accrued interest payable	-	-	-	-	1,939	1,939
Due to primary government	637,417	7,396	82	1,325	1,207,608	1,853,828
Due to other government	32,237	-	-	-	22,771	55,008
Unearned revenue	-	871,667	62,745	106,177	796,611	1,837,200
Deposits	-	1,645,587	-	-	-	1,645,587
Non-current liabilities:						
Due within one year	-	124,563	1,093,483	603,777	311,245	2,133,068
Due in more than one year	-	4,995,027	12,725,500	-	2,809,166	20,529,693
Total Liabilities	885,232	8,173,879	14,595,929	9,278,176	5,470,094	38,403,310
Deferred Inflows of Resources						
Deferred pension obligation inflows	-	1,055,179	344,808	-	513,101	1,913,088
Net Position						
Net investment in capital assets	13,599,039	83,263,163	110,795,137	47,506,787	16,860,414	272,024,540
Restricted for:						
Capital projects	5,868,946	-	-	3,872,144	-	9,741,090
Unrestricted	7,419,302	(3,442,661)	1,550,307	754,174	(3,219,326)	3,061,796
Total Net Position	\$ 26,887,287	\$ 79,820,502	\$ 112,345,444	\$ 52,133,105	\$ 13,641,088	\$ 284,827,426

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, 2018**

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Duluth Economic Development Authority				
Governmental activities:				
Economic development	\$ 6,477,722	\$ 2,731,315	\$ 1,743,764	\$ -
Duluth Entertainment and Convention Center Authority				
Business-type activities:				
Entertainment and convention facility	14,777,685	8,834,319	-	200,000
Duluth Airport Authority				
Business-type activities:				
Airport facility	14,825,063	6,342,691	-	9,533,827
Duluth Transit Authority				
Business-type activities:				
Public transportation	23,540,824	2,992,124	14,087,635	11,715,937
Spirit Mountain Recreation Area Authority				
Business-type activities:				
Ski hill operations	6,470,494	5,188,782	-	493,970
Total Component Units	\$ 66,091,788	\$ 26,089,231	\$ 15,831,399	\$ 21,943,734

(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, 2018**

<u>Net (Expense) Revenue and Changes in Net Position</u>						
<u>Functions/Programs</u>	<u>Duluth Economic Development Authority</u>	<u>Duluth Entertainment and Convention Center Authority</u>	<u>Duluth Airport Authority</u>	<u>Duluth Transit Authority</u>	<u>Spirit Mountain Recreation Area Authority</u>	<u>Totals</u>
Duluth Economic Development Authority						
Governmental activities:						
Economic development	\$ (2,002,643)	\$ -	\$ -	\$ -	\$ -	\$ (2,002,643)
Duluth Entertainment and Convention Center Authority						
Business-type activities:						
Entertainment and convention facility	-	(5,743,366)	-	-	-	(5,743,366)
Duluth Airport Authority						
Business-type activities:						
Airport facility	-	-	1,051,455	-	-	1,051,455
Duluth Transit Authority						
Business-type activities:						
Public transportation	-	-	-	5,254,872	-	5,254,872
Spirit Mountain Recreation Area Authority						
Business-type activities:						
Ski hill operations	-	-	-	-	(787,742)	(787,742)
Total Component Units						<u>(2,227,424)</u>
General Revenues:						
Property taxes	2,750,981	-	-	1,491,900	-	4,242,881
Sales taxes	-	1,818,754	-	-	-	1,818,754
Investment income	56,022	28,262	41,796	89,732	-	215,812
Miscellaneous	374,715	513,510	-	-	171,239	1,059,464
Total General Revenues and Transfers	<u>3,181,718</u>	<u>2,360,526</u>	<u>41,796</u>	<u>1,581,632</u>	<u>171,239</u>	<u>7,336,911</u>
Change in Net Position	1,179,075	(3,382,840)	1,093,251	6,836,504	(616,503)	5,109,487
Net Position - Beginning, as restated (Note 1)	<u>25,708,212</u>	<u>83,203,342</u>	<u>111,252,193</u>	<u>45,296,601</u>	<u>14,257,591</u>	<u>279,717,939</u>
Net Position - Ending	<u>\$ 26,887,287</u>	<u>\$ 79,820,502</u>	<u>\$ 112,345,444</u>	<u>\$ 52,133,105</u>	<u>\$ 13,641,088</u>	<u>\$ 284,827,426</u>

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

Notes to the Financial Statements

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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
4701 Grinden Drive
Duluth, MN 55811

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

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

The City reports the following major governmental funds:

General Fund	The City's primary operating fund. It accounts for all financial transactions not accounted for in another fund.
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**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Disaster Recovery Special Revenue Fund	This fund was established to account for grants and aids associated with the 500-year flood event in June 2012, and continues to be used for subsequent disasters.
Community Investment Trust Fund	This fund accounts for the City's share of revenues that were received from the operation of the Fond du Luth Casino, in accordance with an agreement with the Fond du Lac Band of Lake Superior Chippewa. Monies are to be used to finance future capital improvements of the City, with investment earnings of the fund to be transferred annually to the General Fund.

The City reports the following major proprietary funds:

Priley Drive Parking Facility Enterprise Fund	This fund accounts for the construction, operation, and maintenance of the parking ramp located at 410 West First Street.
Water Enterprise Fund	This fund accounts for the collection, treatment, and distribution of water.
Gas Enterprise Fund	This fund accounts for the distribution of natural gas, as well as inspection, maintenance and servicing of customer gas utilization equipment.
Sewer Enterprise Fund	This fund accounts for the operation and maintenance of the sanitary sewer system.
Steam Enterprise Fund	This fund accounts for the generation and distribution of steam in the downtown area.

Additionally, the City reports the following fund types:

Internal Service Funds	These funds account for fleet services, insurance coverage for property, casualty, liability, workers' compensation, medical and dental claims, and compensated absences, provided to other departments, employees, authorities of the City, or to other governmental units, on a cost reimbursement basis.
Trust Fund	This fund accounts for an irrevocable trust established for funding other postemployment benefits for eligible retired employees under a single-employer defined benefit plan.
Agency Fund	This fund accounts for assets held by the City as an agent for the Duluth 1200 Loan Fund.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2018. 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.

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

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

INVENTORIES AND PREPAID ITEMS

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

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.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The City's formal actions, or board resolutions, are the highest decision making level and remain binding unless removed in the same manner.

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.

RECLASSIFICATIONS

Several account balances were reclassified for the year ended December 31, 2018, 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, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CHANGE IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2018, the City adopted new accounting guidance by implementing the provisions of GASB Statement 75. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB Statement No. 75 changes the amount employers reports as OPEB expense and defers some allocations of expenses to future years as deferred outflows or inflows of resources. This statement also requires additional note disclosures and schedules in the required supplementary information.

The above restatement had the following impact on previously reported balances.

Statement of Activities	Governmental Activities	Business-type Activities	Component Units
Net Position, January 1, 2018, as previously reported	\$ 174,562,057	\$ 243,664,588	\$ 281,961,082
Change in accounting principles	(68,324,109)	(5,415,453)	(2,243,143)
Net Position, January 1, 2018, as restated	\$ 106,237,948	\$ 238,249,135	\$ 279,717,939
 Statement of Revenues, Expenses, and Changes in Fund			
Net Position - Proprietary Funds	Amount		
Net Position, January 1, 2018, as previously reported	\$ 239,774,243		
Change in accounting principles	(5,415,453)		
Net Position, January 1, 2018, as restated	\$ 234,358,790		

During the year ended December 31, 2018 the City changed its accounting for long-term loans receivable in the DEDA Loan Programs fund. This change is due to clarifying guidance from GASB regarding long-term receivables and is based on guidance found in GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. The long-term portion of loans receivable was removed from fund balance and is now reported as a deferred inflow of resources.

The above restatement had the following impact on previously reported balances.

Statement of Revenues, Expenses, and Changes in Fund Balances - Duluth Economic Development Authority	Amount
Fund Balance, January 1, 2018, as previously reported	\$ 6,732,027
Change in accounting principles	(3,651,758)
Fund Balance, January 1, 2018, as restated	\$ 3,080,269

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018. An auditor's report on compliance and internal accounting control will be issued at a later date.

DEFICIT FUND EQUITY

The following special revenue funds had deficit fund balances due to grants earned but not received within 45 days of the end of the current fiscal year: Disaster Recovery - \$2,471,977, Home Investment Partnerships Program - \$27,559, and Senior Employment - \$7. These deficits will be eliminated upon receipt of the grant funds. The Lake Superior Zoo deficit fund balance of \$410,992 will be eliminated through operational changes and efficiencies.

The Special Assessment capital project fund had a deficit fund balance of \$219,548 at the end of the current fiscal year which will be eliminated through future financing and grant receipts.

The following internal service funds had deficit net positions at the end of the current fiscal year which will be eliminated through future charges: Employee Vacation Compensation - \$20,626 and Fleet Services - \$911,805

The Golf enterprise fund had a deficit net position of \$1,050,903 at the end of the current fiscal year which will be eliminated through operational changes and efficiencies.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

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	\$ 63,008,645
Investments, at fair value	21,868,426
Assets held by trustee	6,747,253
Business-type Activities	
Cash and cash equivalents	14,012,497
Cash and cash equivalents - restricted assets	6,358,919
Discrete Component Units	
Cash and cash equivalents	13,664,097
Cash and cash equivalents - restricted assets	1,794,629

Statement of Fiduciary Net Position

Cash and cash equivalents	2,738,954
Investments, at fair value	56,067,128

Total Cash and Investments	<u>\$ 186,260,548</u>
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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, 2018, deposits with financial institutions were fully insured or collateralized by securities held in the City's name.

INVESTMENTS

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

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

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

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

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

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

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

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

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

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

8) agreements or contracts for:

- (1) shares of a Minnesota joint powers investment trust whose investments are restricted to securities described in Minnesota Statutes § 118A.04 and § 118A.05, subdivision 2;
- (2) units of a short-term investment fund established and administered pursuant to regulation 9 of the Office of the Comptroller of the Currency, in which investments are restricted to securities described in Minnesota Statutes § 118A.04 and § 118A.05;
- (3) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and which holds itself out as a money market fund meeting the conditions of rule 2a-7 of the Securities and Exchange Commission and is rated in one of the two highest rating categories for money market funds by at least one nationally recognized statistical rating organization; or
- (4) shares of an investment company which is registered under the Federal Investment Company Act of 1940, and whose shares are registered under the Federal Securities Act of 1933, as long as the investment company's fund receives the highest credit rating and is rated in one of the two highest risk rating categories by at least one nationally recognized statistical rating organization and is invested in financial instruments with a final maturity no longer than 13 months.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

3. DEPOSITS AND INVESTMENTS (continued)

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, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>Over 5 Years</u>
U.S. Government Agency Securities	\$ 67,018,484	\$ 59,086,695	\$ 7,931,789	\$ -
Negotiable Certificates of Deposit	15,453,848	2,212,599	13,241,249	-
Municipal Bonds	11,295,093	2,824,275	7,960,168	510,650
Mutual Funds	89,100,074	89,100,074	-	-
Total Investments	182,867,499	<u>\$ 153,223,643</u>	<u>\$ 29,133,206</u>	<u>\$ 510,650</u>
Deposits	3,393,049			
Total Deposits and Investments	<u>\$ 186,260,548</u>			

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

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

The City's exposure to credit risk as of December 31, 2018, is as follows:

<u>S & P Rating</u>	<u>Fair Value</u>
AAA	\$ 4,977,517
AA+	69,594,553
AA	3,248,707
AA-	492,800
<u>Moody's Rating</u>	
Aaa	11,164,520
<u>Not Rated</u>	
Mutual Funds	77,935,554
Negotiable Certificates of Deposit	15,453,848
Total	<u>\$ 182,867,499</u>

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, 2018, none of the City's investments were subject to custodial credit risk.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

3. DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk. The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. It is the City's policy that 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 Bank	\$ 47,065,976

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, 2018, the City of Duluth had the following recurring fair value measurements.

Investments By Fair Value Level	12/31/2018	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
U.S. Government Agency Securities	\$ 67,018,484	\$ 5,849,979	\$ 61,168,505	\$ -
Negotiable Certificates of Deposit	15,453,848	-	15,453,848	-
Municipal Bonds	11,295,093	-	11,295,093	-
Total Investments by Fair Value	<u>93,767,425</u>	<u>\$ 5,849,979</u>	<u>\$ 87,917,446</u>	<u>\$ -</u>
Investments Measured at Net Asset Value (NAV)				
Mutual Funds	<u>11,164,520</u>			
Total Investments by Fair Value and Measured at NAV	104,931,945			
Deposits	3,393,049			
State Board of Investment Funds	<u>77,935,554</u>			
Total Deposits and Investments	<u>\$ 186,260,548</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.

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

The City holds \$40,348,499 in the Internal Equity Pool and \$15,718,629 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 \$15,923,000 in the Internal Equity Pool, \$5,945,420 in the Internal Fixed Pool, and \$6 in the Cash Pool, with the State Board of Investment, an external investment pool, related to the City's Community Investment Trust Fund. The fair value of the investment is the fair value per share of the underlying portfolio. The City invests in this pool, in accordance with Minnesota Statute § 11A.235, due to the increased investment authority and historical rates of return on investments.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

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, 2018, was 98.2%.

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 \$319,117. The uncollectible amounts related to the revenues of the City's utility enterprise funds at December 31, 2018, are as follows:

Water	\$	122,821
Gas		490,886
Sewer		214,372
Steam		31,087
Nonmajor		85,945
Total Uncollectible	\$	<u>945,111</u>

6. DEFERRED INFLOWS OF RESOURCES

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following schedule shows the detail of deferred inflows of resources at December 31, 2018:

General		
Assessments	\$	984,811
Grants		163,234
Loans		1,802,242
Taxes		416,734
Disaster Recovery		
Grants		3,751,030
Nonmajor		
Assessments		2,910,811
Grants		2,194,259
Loans		3,824,618
Taxes		328,874
Total for Governmental Funds	\$	<u>16,376,613</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018, was as follows:

<u>PRIMARY GOVERNMENT</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 22,467,642	\$ 391,679	\$ -	\$ 22,859,321
Construction in progress	14,023,177	21,723,621	7,991,348	27,755,450
Total capital assets, not being depreciated	<u>36,490,819</u>	<u>22,115,300</u>	<u>7,991,348</u>	<u>50,614,771</u>
Capital assets, being depreciated:				
Buildings	87,320,193	1,862,406	-	89,182,599
Equipment	38,715,306	2,087,305	1,210,456	39,592,155
Infrastructure	347,724,125	5,570,555	-	353,294,680
Total capital assets being depreciated	<u>473,759,624</u>	<u>9,520,266</u>	<u>1,210,456</u>	<u>482,069,434</u>
Less accumulated depreciation for:				
Buildings	44,960,984	3,395,993	-	48,356,977
Equipment	28,143,196	3,304,466	1,164,934	30,282,728
Infrastructure	147,152,390	10,186,278	-	157,338,668
Total accumulated depreciation *	<u>220,256,570</u>	<u>16,886,737</u>	<u>1,164,934</u>	<u>235,978,373</u>
Total capital assets, being depreciated, net	<u>253,503,054</u>	<u>(7,366,471)</u>	<u>45,522</u>	<u>246,091,061</u>
Governmental activities capital assets, net	<u>\$ 289,993,873</u>	<u>\$ 14,748,829</u>	<u>\$ 8,036,870</u>	<u>\$ 296,705,832</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and land improvements	\$ 4,649,458	\$ -	\$ -	\$ 4,649,458
Construction in progress	14,030,086	13,175,754	12,288,852	14,916,988
Total capital assets, not being depreciated	<u>18,679,544</u>	<u>13,175,754</u>	<u>12,288,852</u>	<u>19,566,446</u>
Capital assets, being depreciated:				
Buildings	83,354,294	-	-	83,354,294
Equipment	49,437,557	7,147,824	394,132	56,191,249
Infrastructure	257,476,172	8,070,338	18,060	265,528,450
Total capital assets, being depreciated	<u>390,268,023</u>	<u>15,218,162</u>	<u>412,192</u>	<u>405,073,993</u>
Less accumulated depreciation for:				
Buildings	32,049,201	1,758,521	-	33,807,722
Equipment	32,908,491	2,809,710	394,132	35,324,069
Infrastructure	59,356,861	3,791,787	10,958	63,137,690
Total accumulated depreciation	<u>124,314,553</u>	<u>8,360,018</u>	<u>405,090</u>	<u>132,269,481</u>
Total capital assets, being depreciated, net	<u>265,953,470</u>	<u>6,858,144</u>	<u>7,102</u>	<u>272,804,512</u>
Business-type activities capital assets, net	<u>\$ 284,633,014</u>	<u>\$ 20,033,898</u>	<u>\$ 12,295,954</u>	<u>\$ 292,370,958</u>

* Accumulated depreciation on assets transferred from business-type activities to governmental activities was \$63,900.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 1,495,033
Public Safety	2,278,502
Public works, including depreciation of general infrastructure assets	10,738,347
Culture and recreation	2,103,260
Urban and economic development	142,761
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>64,934</u>
Total depreciation expense - governmental activities	<u><u>\$ 16,822,837</u></u>

Business-type activities:	
Parking	\$ 560,434
Priley Drive Parking Facility	520,571
Water	1,818,410
Gas	1,491,899
Sewer	1,994,665
Golf	94,342
Stormwater	414,418
Steam	1,235,612
Street Lighting	<u>229,667</u>
Total depreciation expense - business-type activities	<u><u>\$ 8,360,018</u></u>

<u>COMPONENT UNITS</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land and land improvements	\$ 11,211,743	\$ 127,041	\$ 437,907	\$ 10,900,877
Construction in progress	<u>1,537,805</u>	<u>9,873,730</u>	<u>10,514,868</u>	<u>896,667</u>
Total capital assets, not being depreciated	<u>12,749,548</u>	<u>10,000,771</u>	<u>10,952,775</u>	<u>11,797,544</u>
Capital assets, being depreciated:				
Buildings	320,243,587	781,871	-	321,025,458
Equipment	75,234,855	14,085,671	335,967	88,984,559
Infrastructure	118,094,963	9,673,288	-	127,768,251
Other	<u>843,955</u>	<u>251,183</u>	<u>-</u>	<u>1,095,138</u>
Total capital assets being depreciated	<u>514,417,360</u>	<u>24,792,013</u>	<u>335,967</u>	<u>538,873,406</u>
Less accumulated depreciation for:				
Buildings	119,869,475	10,068,598	-	129,938,073
Equipment	54,111,956	4,976,988	278,372	58,810,572
Infrastructure	71,705,817	6,701,932	1,195	78,406,554
Other	<u>579,882</u>	<u>65,313</u>	<u>-</u>	<u>645,195</u>
Total accumulated depreciation	<u>246,267,130</u>	<u>21,812,831</u>	<u>279,567</u>	<u>267,800,394</u>
Total capital assets, being depreciated, net	<u>268,150,230</u>	<u>2,979,182</u>	<u>56,400</u>	<u>271,073,012</u>
Component unit capital assets, net	<u><u>\$ 280,899,778</u></u>	<u><u>\$ 12,979,953</u></u>	<u><u>\$ 11,009,175</u></u>	<u><u>\$ 282,870,556</u></u>

Depreciation expense was charged to component units as follows:

Duluth Economic Development Authority	\$ 996,479
Duluth Entertainment and Convention Center Authority	3,690,839
Duluth Airport Authority	10,003,489
Duluth Transit Authority	5,834,629
Spirit Mountain Recreation Area Authority	<u>1,287,395</u>
Total depreciation expense - component units	<u><u>\$ 21,812,831</u></u>

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

8. PURCHASE AND CONSTRUCTION COMMITMENTS

At December 31, 2018, the City had construction commitments of approximately \$4,412,017 for various utility improvements. The Duluth Airport Authority component unit had construction commitments of \$13,746,468 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, 2018, 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	\$ 1,487,917
Disaster Recovery	551,178
Other Governmental Funds	<u>32,301,407</u>
Total Purchase Commitments	<u>\$ 34,340,502</u>

DISASTER DAMAGE REPAIR COMMITMENTS

The City incurred significant damage to its shoreline infrastructure due to three unprecedented storm surges in October 2017, April 2018, and again in October 2018. The City submitted a request for federal and state aid for repair work which is estimated to be \$30 million as of December 31, 2018.

9. RISK MANAGEMENT

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

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

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

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.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

9. RISK MANAGEMENT (continued)

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 \$28,840 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 2017 and 2018 were as follows:

	Liability January 1	Claims and Changes in Estimates	Less Claims Payments	Liability December 31
2017	\$ 861,598	1,025,621	785,497	\$ 1,101,722
2018	\$ 1,101,722	547,801	479,747	\$ 1,169,776

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 2017 and 2018 were as follows:

	Liability January 1	Claims and Changes in Estimates	Less Claims Payments	Liability December 31
2017	\$ 1,272,366	10,136,407	9,979,950	\$ 1,428,823
2018	\$ 1,428,823	11,445,161	11,185,094	\$ 1,688,890

10. LEASE OBLIGATIONS

OPERATING LEASES

The City and its component units are committed under various operating leases for small tracts of land or pipe right-of-way, parking facilities and equipment. The following is a summary of the approximate operating lease expense for 2018:

<u>Type of Property</u>	<u>Governmental Activities</u>	<u>Component Units</u>
Impound lot	\$ 3,724	\$ -
Land & right-of-way	24,868	58,783
Buildings	523,999	-
Equipment	675,568	4,500
Total Expense	<u>\$ 1,228,159</u>	<u>\$ 63,283</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, 2018:

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

10. LEASE OBLIGATIONS (continued)

Year Ending December 31	Governmental Activities	Component Units
2019	\$ 19,974	\$ 58,783
2020	19,974	58,783
2021	19,973	58,783
2022	1,000	58,783
2023	1,000	58,783
2024-2028	5,000	293,918
2029-2033	5,000	293,918
2034-2038	5,000	293,918
2039-2043	5,000	235,136
2044-2048	5,000	-
2049-2053	5,000	-
2054-2058	5,000	-
2059-2063	2,000	-
Total minimum payments required	<u>\$ 98,921</u>	<u>\$ 1,410,805</u>

Component unit subleases of noncancelable operating leases provide for future minimum rentals to be received totaling \$1,410,805 at December 31, 2018.

CAPITAL LEASES

Capitalized leases for the City and its component units at December 31, 2018, consist of the following capital assets shown at original costs as summarized below:

Type of Property	Business-Type Activities	Component Units
Equipment	\$ 9,377,739	\$ 3,453,731
Less: Accumulated amortization	(5,939,235)	(1,535,463)
Total Expense	<u>\$ 3,438,504</u>	<u>\$ 1,918,268</u>

Minimum future lease payments are:

Year Ending December 31	Business-Type Activities	Component Units
2019	\$ 831,660	\$ 257,348
2020	831,661	242,711
2021	831,660	213,208
2022	831,660	213,208
2023	831,661	213,208
2024-2028	415,830	320,034
Total minimum lease payments	4,574,132	1,459,717
Less: Imputed interest	(480,052)	(166,757)
Present value of minimum lease payments	<u>\$ 4,094,080</u>	<u>\$ 1,292,960</u>

11. SHORT-TERM DEBT

Short-term debt activity for the year ended December 31, 2018, follows:

	Balance 01/01/18	Additions	Deductions	Balance 12/31/18
Duluth Economic Development Authority				
Accounts Payable	\$ 91,919	-	37,752	\$ 54,167

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, tax increment financing, and building rent receipts.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

12. LONG-TERM DEBT

CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended December 31, 2018, follows:

	Balance 01/01/18	Additions	Deletions	Balance 12/31/18	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 86,615,000	\$ 5,760,000	\$ 4,890,000	\$ 87,485,000	\$ 5,155,000
General Obligation - Tax Abatement	13,435,000	-	830,000	12,605,000	835,000
Special Assessment Debt with Government Commitment	7,320,000	-	2,155,000	5,165,000	2,040,000
General Obligation Certificates	13,670,000	3,885,000	3,260,000	14,295,000	3,315,000
Add Deferred Amounts:					
For Bond Premiums	7,917,268	553,788	822,822	7,648,234	-
General Obligation Public					
Facilities Authority Notes	27,000	-	27,000	-	-
Revenue Notes	2,646,000	-	10,000	2,636,000	15,000
Capital Leases Payable	38,328	-	38,328	-	-
Pension Liability	53,713,918	-	12,005,801	41,708,117	-
Compensated Absences	3,073,754	3,280,587	3,244,212	3,110,129	3,110,129
Claims and Judgments	2,530,545	11,992,962	11,664,841	2,858,666	1,895,459
Net Other Postemployment Benefits Payable	112,611,600	1,396,146	-	114,007,746	-
Total Governmental Long-Term Liabilities	<u>\$303,598,413</u>	<u>\$26,868,483</u>	<u>\$38,948,004</u>	<u>\$291,518,892</u>	<u>\$ 16,365,588</u>
Business-Type Activities:					
Bonds Payable:					
Revenue and General Obligation Bonds	\$ 34,927,007	\$ 4,050,000	\$ 3,879,532	\$ 35,097,475	\$ 3,500,541
Add Deferred Amounts:					
For Bond Premiums	270,165	38,231	85,701	222,695	-
General Obligation Public					
Facilities Authority Notes	18,048,383	-	2,574,383	15,474,000	2,270,000
Capital Leases Payable	4,751,820	-	657,740	4,094,080	682,904
Loans Payable	112,489	-	50,004	62,485	-
Pension Liability	12,875,478	-	2,222,123	10,653,355	-
Compensated Absences	886,483	1,051,588	1,041,965	896,106	896,106
Net Other Postemployment Benefits Payable	5,379,005	744,890	-	6,123,895	-
Total Business-Type Long-Term Liabilities	<u>\$ 77,250,830</u>	<u>\$ 5,884,709</u>	<u>\$10,511,448</u>	<u>\$ 72,624,091</u>	<u>\$ 7,349,551</u>
Component Unit Activities:					
Duluth Entertainment and Convention Center Authority					
Compensated Absences	\$ 215,291	\$ 155,434	\$ 186,164	\$ 184,561	\$ 124,563
Pension Liability	3,977,191	-	681,923	3,295,268	-
Net Other Postemployment Benefits Payable	1,751,338	-	111,577	1,639,761	-
Duluth Transit Authority					
Compensated Absences	578,396	603,777	578,396	603,777	603,777

(continued)

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

12. LONG-TERM DEBT (continued)

	Balance 01/01/18	Additions	Deletions	Balance 12/31/18	Due Within One Year
Duluth Airport Authority					
Notes Payable	103,232	-	67,321	35,911	35,911
Loans Payable	10,272,223	-	911,667	9,360,556	936,667
Compensated Absences	111,982	118,592	109,669	120,905	120,905
Unearned Revenue	417,228	-	18,625	398,603	-
Pension Liability	1,295,939	-	258,540	1,037,399	-
Net Other Postemployment Benefits Payable	2,719,833	145,776	-	2,865,609	-
Spirit Mountain Recreation Area Authority					
Capital Leases	1,527,599	-	234,639	1,292,960	207,455
Pension Liability	2,021,757	-	298,096	1,723,661	-
Compensated Absences	99,314	103,790	99,314	103,790	103,790
Total Component Unit Long-Term Liabilities	<u>\$ 25,091,323</u>	<u>\$ 1,127,369</u>	<u>\$ 3,555,931</u>	<u>\$ 22,662,761</u>	<u>\$ 2,133,068</u>

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
2019	3,426,005	5,155,000	408,928	3,315,000	315,194	835,000
2020	3,282,586	5,120,000	343,750	3,310,000	298,294	855,000
2021	3,119,371	5,285,000	241,750	2,930,000	281,044	870,000
2022	2,946,864	5,305,000	148,175	2,310,000	263,444	890,000
2023	2,769,295	5,355,000	74,075	1,585,000	244,166	905,000
2024-2028	10,729,015	29,485,000	21,125	845,000	952,690	4,875,000
2029-2033	4,192,626	27,235,000	-	-	94,155	3,375,000
2034-2035	112,735	4,545,000	-	-	-	-
Total	<u>\$ 30,578,497</u>	<u>\$ 87,485,000</u>	<u>\$ 1,237,803</u>	<u>\$ 14,295,000</u>	<u>\$ 2,448,987</u>	<u>\$ 12,605,000</u>

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, 2018**

12. LONG-TERM DEBT (continued)

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

<u>Year Ending December 31</u>	<u>United States Dept. of Housing and Urban Development Revenue Notes</u>	
	<u>Interest</u>	<u>Principal</u>
2019	151,151	15,000
2020	150,333	15,000
2021	149,507	15,000
2022	148,671	20,000
2023	147,547	20,000
2024-2025	291,122	2,551,000
Total	<u>\$ 1,038,331</u>	<u>\$ 2,636,000</u>

Special Assessment Bonds

The City has a contingent liability against its full faith and credit on \$5,165,000 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.

Annual debt service requirements to maturity to fund special assessment bonds.

<u>Year Ending December 31</u>	<u>Special Assessment Bonds</u>	
	<u>Interest</u>	<u>Principal</u>
2019	142,385	2,040,000
2020	85,925	1,505,000
2021	43,525	975,000
2022	16,600	460,000
2023	3,700	185,000
Total	<u>\$ 292,135</u>	<u>\$ 5,165,000</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, 2018**

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
2019	1,039,718	3,500,541	190,141	2,270,000
2020	980,161	3,248,257	162,078	2,123,000
2021	900,157	3,000,307	135,533	2,149,000
2022	823,576	2,757,843	108,649	2,090,000
2023	748,402	2,520,886	82,260	1,908,000
2024-2028	2,717,682	9,224,280	121,217	4,606,000
2029-2033	1,779,629	3,834,116	3,280	328,000
2034-2038	1,098,326	3,149,800	-	-
2039-2043	460,253	3,861,445	-	-
Total	<u>\$ 10,547,904</u>	<u>\$35,097,475</u>	<u>\$ 803,158</u>	<u>\$ 15,474,000</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 \$35,911, 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
2019	<u>\$ 1,589</u>	<u>\$ 35,911</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, 2018**

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	\$ 165,000	
Aerial Lift Bridge Improvement	08/07/2008	170,000	
Capital Improvement	12/17/2009	1,660,000	
Capital Improvement - Law Enforcement Center	12/17/2009	11,905,000	
Capital Improvement	11/23/2010	715,000	
Capital Improvement	11/29/2011	815,000	
Airport Improvement	05/24/2012	5,380,000	
Airport Improvement	12/18/2013	2,955,000	
Capital Improvement	12/18/2013	1,135,000	
Capital Improvement - Lakewalk	12/18/2013	1,135,000	
Wade Stadium Improvement	10/30/2014	1,960,000	
Spirit Mountain Improvement	10/30/2014	1,905,000	
Capital Improvement	10/30/2014	810,000	
Capital Improvement	11/05/2015	1,325,000	
Airport Improvement	11/05/2015	2,565,000	
Capital Improvement - 1/2 & 1/2	11/05/2015	11,075,000	
Duluth Entertainment and Convention Center Improvement			
Refunding	03/22/2016	33,470,000	
Capital Improvement	11/09/2016	1,035,000	
Capital Improvement	11/21/2017	1,545,000	
Capital Improvement - Seawall	02/14/2018	4,450,000	
Capital Improvement	09/27/2018	<u>1,310,000</u>	
Total General Obligation Bonds Payable			\$ 87,485,000
General Obligation Tax Abatement:			
Spirit Mountain Tax Abatement Bonds	02/23/2012	5,235,000	
GO Tax Abatement (Cirrus)	03/22/2016	<u>7,370,000</u>	12,605,000
Special Assessment Debt with			
Government Commitment	6 issues	<u>5,165,000</u>	5,165,000
General Long-Term Debt Certificates Payable:			
General Obligation Certificates Payable	6 issues	<u>14,295,000</u>	<u>14,295,000</u>
Total Governmental Activities Debt			<u>119,550,000</u>
Business-type Activities Debt:			
Revenue and General Obligation Bonds Payable:			
Parking Fund	1 issue	6,985,000	
Priley Drive Parking Facility	1 issue	12,447,475	
Water Fund	3 issues	4,490,000	
Gas Fund	1 issues	505,000	
Steam Fund	2 issues	6,345,000	
Sewer Fund	6 issues	3,775,000	
Stormwater Fund	1 issue	<u>550,000</u>	
Total Revenue and General Obligation Bonds Payable			<u>35,097,475</u>
Total Business-type Activities Debt			<u>35,097,475</u>
Total Bonds Payable			<u>154,647,475</u>

(continued)

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

12. LONG-TERM DEBT (continued)

	Issue Date	Amount Outstanding	Total
Deductions Allowable:			
Airpark Improvement	09/01/2004	165,000	
Airport Improvement	05/24/2012	5,380,000	
Spirit Mountain Tax Abatement Bonds	02/23/2012	5,235,000	
Airport Improvement	12/18/2013	2,955,000	
Wade Stadium Improvement	10/30/2014	1,960,000	
Spirit Mountain Improvement	10/30/2014	1,905,000	
Airport Improvement	11/05/2015	2,565,000	
Capital Improvement 1/2 & 1/2	11/05/2015	11,075,000	
Duluth Entertainment and Convention Center Authority Refunding	03/22/2016	33,470,000	
GO Tax Abatement (Cirrus)	03/22/2016	7,370,000	
Special Assessment		5,165,000	
Parking Fund		6,985,000	
Priley Drive Parking Facility		12,447,475	
Water Fund		4,490,000	
Gas Fund		505,000	
Steam Fund		6,345,000	
Sewer Fund		3,775,000	
Stormwater Fund		550,000	
Total Deductions Allowable			<u>112,342,475</u>
Net Debt			<u>\$ 42,305,000</u>
Legal Debt Margin for Duluth Taxable Market Value (6,224,187,356 X 2%)			<u>\$ 124,483,747</u>

<u>Overlapping Debt to Duluth</u>			
Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$47,100,000	87.89%	\$ 41,395,703
Independent School District 704	26,505,000	6.26%	1,658,456
St. Louis County	145,215,000	37.17%	53,978,515
			<u>\$ 97,032,674</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 2018.

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, 2018**

12. LONG-TERM DEBT (continued)

All advance refunded bonds have been paid in full.

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

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Balance</u>
Governmental Activities:			
Current Refunding Bonds:			
General Obligation Improvement	11/23/2010	\$ 1,205,000	\$ 92,600
Street Improvement	11/27/2012	6,905,000	2,190,000
General Obligation Improvement	10/30/2014	865,000	360,000
Street Improvement	11/05/2015	2,630,000	1,900,000
Advance Refunding Bonds:			
General Obligation Improvement	11/23/2010	1,135,000	87,400
Duluth Entertainment and Convention Center Improvement Refunding	03/22/2016		
		<u>33,470,000</u>	<u>33,470,000</u>
Total Governmental Activities		<u>\$ 46,210,000</u>	<u>\$ 38,100,000</u>
Business-type Activities:			
Current Refunding Bonds:			
Gas Utility Revenue and General Obligation	11/29/2011	3,125,000	505,000
Steam Utility Revenue and General Obligation	11/27/2012	5,475,000	2,330,000
Water Utility Revenue and General Obligation	11/05/2015	515,000	350,000
Sewer Utility Revenue and General Obligation	11/05/2015	1,110,000	820,000
Sewer Utility Revenue and General Obligation	11/05/2015	350,000	240,000
Stormwater Utility Revenue and General Obligation	11/05/2015	790,000	550,000
Advance Refunding Bonds:			
Sewer Utility Revenue and General Obligation	11/29/2011	2,265,000	680,000
Sewer Utility Revenue and General Obligation	11/27/2012	2,000,000	895,000
Parking Improvements	11/27/2012	10,270,000	6,985,000
Total Business-type Activities		<u>\$ 25,900,000</u>	<u>\$ 13,355,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

12. LONG-TERM DEBT (continued)

BONDS/CERTIFICATES AND NOTES PAYABLE - BY ISSUE

Bonds, certificates, and notes payable at December 31, 2018, 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	\$ 165,000
Aerial Lift Bridge Improvement	3.00 to 4.30%	02/01; 08/01	08-07-08 02-01-19	1,475,000	170,000
Capital Improvement	2.50 to 4.00%	02/01; 08/01	12-17-09 02-01-20	7,085,000	1,660,000
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	715,000
Capital Improvement	3.00%	02/01; 08/01	11-29-11 02-01-22	1,870,000	815,000
Airport Improvement	2.00 to 3.25%	02/01; 08/01	05-24-12 02-01-28	7,650,000	5,380,000
Airport Improvement	1.55 to 4.38%	02/01; 08/01	12-18-13 02-01-29	3,400,000	2,955,000
Capital Improvement	2.00 to 3.00%	02/01; 08/01	12-18-13 02-01-24	1,795,000	1,135,000
Capital Improvement - Lakewalk	2.50 to 4.00%	02/01; 08/01	12-18-13 02-01-29	1,460,000	1,135,000
Wade Stadium Improvement	3.00 to 3.70%	02/01; 08/01	10-30-14 02-01-30	2,330,000	1,960,000
Spirit Mountain Improvement	2.00 to 3.40%	02/01; 08/01	10-30-14 02-01-35	2,150,000	1,905,000
Capital Improvement	2.00 to 2.50%	02/01; 08/01	10-30-14 02-01-25	1,115,000	810,000
Capital Improvement	2.00 to 3.00%	02/01; 08/01	11-05-15 02-01-26	1,615,000	1,325,000
Airport Improvement	3.00 to 3.70%	02/01; 08/01	11-05-15 02-01-31	2,855,000	2,565,000
Capital Improvement - 1/2 & 1/2 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	1,035,000
Capital Improvement	3.00%	02/01; 08/01	11-21-17 02-01-28	1,545,000	1,545,000
Capital Improvement - Seawall	3.00%	02/01; 08/01	02-14-18 02-01-34	4,450,000	4,450,000
Capital Improvement	5.00%	02/01; 08/01	10-17-18 02-01-29	1,310,000	1,310,000
Total General Obligation				<u>105,255,000</u>	<u>87,485,000</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	5,235,000
GO Tax Abatement (Cirrus)	1.00 to 3.15%	02/01; 08/01	03-22-16 02-01-32	7,820,000	7,370,000
Total General Obligation - Tax Abatement				<u>14,875,000</u>	<u>12,605,000</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	535,000
General Obligation Improvement Refunding	2.25 to 2.40%	02/01; 08/01	11-23-10 02-01-19	1,205,000	92,600
General Obligation Improvement Refunding	2.25 to 2.40%	02/01; 08/01	11-23-10 02-01-19	1,135,000	87,400
Street Improvement Refunding	2.00 to 3.00%	02/01; 08/01	11-27-12 02-01-21	6,905,000	2,190,000
General Obligation Improvement Refunding	1.50 to 2.00%	02/01; 08/01	10-30-14 02-01-20	865,000	360,000
Street Improvement Refunding	4.00%	02/01; 08/01	11-05-15 02-01-23	2,630,000	1,900,000
Total Special Assessment Debt with Government Commitment				<u>14,725,000</u>	<u>5,165,000</u>
General Obligation Certificates Payable					
Equipment	2.00%	02/01; 08/01	12-18-13 02-01-19	3,835,000	800,000
Equipment	1.50 to 2.00%	02/01; 08/01	10-30-14 02-01-20	2,460,000	1,010,000
Equipment	2.00 to 3.00%	02/01; 08/01	11-05-15 02-01-21	3,325,000	2,055,000
Equipment	4.00%	02/01; 08/01	11-09-16 02-01-22	3,565,000	2,930,000
Equipment	3.00 to 4.00%	02/01; 08/01	11-21-17 02-01-23	3,615,000	3,615,000
Equipment	3.00 to 5.00%	02/01; 08/01	09-27-18 02-01-24	3,885,000	3,885,000
Total General Obligation Certificates Payable				<u>20,685,000</u>	<u>14,295,000</u>
Total Governmental Activities				<u>\$155,540,000</u>	<u>\$119,550,000</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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	\$ 6,985,000
Priley Drive Parking Facility					
Parking Improvement Tax Increment	4.00%	04/01; 10/01	05-15-14 04-01-44	11,500,000	12,447,475
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	90,000
Water Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-05-15 02-01-22	515,000	350,000
Water Utility Revenue and General Obligation	3.00 to 3.38%	02/01; 08/01	09-27-18 02-01-34	4,050,000	4,050,000
Total Water Fund				<u>4,761,000</u>	<u>4,490,000</u>
Gas Fund					
Gas Utility Revenue and General Obligation Refunding	3.00 to 4.00%	02/01; 08/01	11-29-11 02-01-19	3,125,000	505,000
Steam Fund					
Steam Utility Revenue and General Obligation Refunding	1.00 to 2.13%	02/01; 08/01	11-27-12 02-01-22	5,475,000	2,330,000
Steam Utility Revenue and General Obligation	3.00 to 3.20%	02/01; 08/01	11-05-15 02-01-27	4,015,000	4,015,000
Total Steam Fund				<u>9,490,000</u>	<u>6,345,000</u>
Sewer Fund					
Sewer Utility Revenue and General Obligation	2.00 to 4.00%	02/01; 08/01	02-19-09 02-01-24	1,444,000	660,000
Sewer Utility Revenue and General Obligation	2.00 to 4.00%	02/01; 08/01	12-17-09 02-01-25	905,000	480,000
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	680,000
Sewer Utility Revenue and General Obligation Refunding	2.00%	02/01; 08/01	11-27-12 02-01-20	2,000,000	895,000
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	820,000
Sewer Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-05-15 02-01-22	350,000	240,000
Total Sewer Fund				<u>8,074,000</u>	<u>3,775,000</u>
Stormwater Fund					
Stormwater Utility Revenue and General Obligation Refunding	2.00 to 3.00%	02/01; 08/01	11-05-15 02-01-22	790,000	550,000
Total Business-type Activities				<u>\$ 48,010,000</u>	<u>\$ 35,097,475</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

12. LONG-TERM DEBT (continued)

NOTES PAYABLE BY ISSUE	Interest Rate and Dates	Issue Date	Final Maturity	Authorized and Issued	Outstanding	
Governmental Activities:						
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	2,636,000
Total Governmental Activities				<u>\$ 7,876,000</u>	<u>\$ 2,636,000</u>	
Business-type Activities:						
General Obligation:						
Water Fund						
Public Facilities Authority Note	1.077%	02/20; 08/20	10-28-09	08-20-19	1,668,813	174,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	1,293,200	624,000
Public Facilities Authority Note	1.076%	02/20; 08/20	12-07-10	08-20-25	3,344,131	1,673,000
Public Facilities Authority Note	1.221%	02/20; 08/20	11-18-11	08-20-26	1,221,631	654,000
Public Facilities Authority Note	1.000%	02/20; 08/20	02-25-14	08-20-29	4,778,806	3,437,000
Total Water Fund				<u>12,306,581</u>	<u>6,562,000</u>	
Sewer Fund						
Public Facilities Authority Note	1.150%	02/20; 08/20	07-12-07	08-20-22	1,973,033	616,000
Public Facilities Authority Note	1.969%	02/20; 08/20	08-20-09	08-20-24	796,835	354,000
Public Facilities Authority Note	2.017%	02/20; 08/20	11-25-09	08-20-24	2,414,150	1,106,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	3,753,059	1,840,000
Public Facilities Authority Note	1.258%	02/20; 08/20	07-28-10	08-20-25	8,504,224	4,105,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-18-11	08-20-21	279,117	82,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-30-11	08-20-21	265,418	85,000
Public Facilities Authority Note	1.000%	02/20; 08/20	11-18-11	08-20-21	278,149	91,000
Public Facilities Authority Note	1.000%	02/20; 08/20	09-10-12	08-20-22	476,537	192,000
Public Facilities Authority Note	1.000%	02/20; 08/20	10-29-14	08-20-24	860,847	441,000
Total Sewer Fund				<u>19,601,369</u>	<u>8,912,000</u>	
Total Business-type Activities				<u>\$ 31,907,950</u>	<u>\$ 15,474,000</u>	
Component Units:						
Duluth Airport Authority						
Revenue Note	8.85%	06/01;12/01	11-01-05	06-01-19	497,379	35,911
Total Component Units				<u>\$ 497,379</u>	<u>\$ 35,911</u>	

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, are as follows:

	General Fund	Disaster Recovery	Community Investment Trust	Other Governmental Funds	Total Fund Balance
Fund Balances:					
Spendable:					
Restricted for:					
Forfeitures	\$ 184,891	\$ -	\$ -	\$ 253,674	\$ 438,565
Capital Projects	-	-	-	13,533,254	13,533,254
Community Development	-	-	-	751,598	751,598
Employment	-	-	-	257,254	257,254
Parks and Recreation	-	-	-	1,663,788	1,663,788
Public Access Television	-	-	-	565,056	565,056
Public Safety	-	-	-	384,927	384,927
Public Works	-	-	-	741,505	741,505
Economic Development	-	-	-	862,382	862,382
Library	-	-	-	560,307	560,307
Tourism	-	-	-	883,622	883,622
Debt Service	-	-	-	21,344,176	21,344,176
Committed for:					
General Government	-	-	-	502,192	502,192
Community Investment	-	-	21,868,426	-	21,868,426
Energy Program	-	-	-	154,063	154,063
Municipal Arts	-	-	-	167,919	167,919
Parks and Recreation	-	-	-	437,494	437,494
Public Safety	41,996	-	-	226,960	268,956
Assigned to:					
General Government	57,080	-	-	-	57,080
Public Safety	1,375,210	-	-	-	1,375,210
Public Works	1,758,485	-	-	-	1,758,485
Economic Development	45,995	-	-	5,456	51,451
Capital Projects	-	-	-	1,686,085	1,686,085
Unassigned	13,422,108	(2,471,977)	-	(658,106)	10,292,025
Total Fund Balances	\$ 16,885,765	\$ (2,471,977)	\$ 21,868,426	\$ 44,323,606	\$ 80,605,820

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

14. INTERFUND ASSETS/LIABILITIES/TRANSFERS

DUE TO/FROM OTHER FUNDS

The outstanding balances between funds results mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Balances at December 31, 2018 are:

<u>Due from Fund</u>	<u>Due to Fund</u>	<u>Amount</u>
General Fund	Water Enterprise	\$ 4,419
	Gas Enterprise	7,707
	Steam Enterprise	20,072
	Nonmajor Governmental Funds	16,796
	Internal Service Funds	305,011
Water Enterprise	Nonmajor Governmental Funds	3,151
	Internal Service Funds	16,896
Gas Enterprise	Nonmajor Governmental Funds	2,761
	Internal Service Funds	18,567
Sewer Enterprise	Nonmajor Governmental Funds	2,941
	Internal Service Funds	19,934
Steam Enterprise	Nonmajor Governmental Funds	292,914
	Internal Service Funds	3,105
Nonmajor Governmental Funds	General Fund	241,237
	Water Enterprise	6,375
	Gas Enterprise	1,235
	Sewer Enterprise	5,302
	Nonmajor Governmental Funds	607,631
	Nonmajor Enterprise Funds	5,456
	Internal Service Funds	129
Nonmajor Enterprise Funds	Steam Enterprise	2,068
	Nonmajor Governmental Funds	1,719
	Internal Service Funds	9,133
Internal Service Funds	General Fund	29,781
	Nonmajor Governmental Funds	13,911
Total		(1,2,3) <u>\$ 1,638,251</u>
Due from other funds, reported in	Balance Sheet - Governmental Funds	\$ 1,212,842
	Statement of Net Position - Proprietary Funds:	
	Business-type Activities - Enterprise Funds	52,634
	Governmental Activities - Internal Service Funds	372,775
Total		<u>\$ 1,638,251</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, 2018, with the exception of the Spirit Mountain Recreation Authority, whose fiscal year ended April 30, 2018.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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) \$ 1,325
	Spirit Mountain Recreation Area Authority	(4) 1,200,000
	Duluth Airport Authority	(1,2,3) 82
	Duluth Entertainment and Convention Center Authority	(1,2,3) 289
	Duluth Economic Development Authority	(1,2,3) 8,417
Nonmajor Governmental Funds	Duluth Entertainment and Convention Center Authority	(1,2,3) 7,107
	Spirit Mountain Recreation Area Authority	(1,2,3) 7,124
Internal Service Funds	Duluth Economic Development Authority	(1,2,3,5) 622,000
	Duluth Economic Development Authority	(1,2,3) 7,000
Total Due From Component Units		<u>\$ 1,853,344</u>
Total Due To Primary Government		\$ 1,853,828
Deduct Spirit Mountain Recreation Area Authority balance at April 30, 2018		(1,207,608)
Add Spirit Mountain Recreation Area Authority balance at December 31, 2018		1,207,124
Total Due From Component Units		<u>\$ 1,853,344</u>
Component Unit:	Primary Government:	
Duluth Entertainment and Convention Center Authority	Nonmajor Governmental Funds	\$ 781,191
Total Due From Primary Government		<u>\$ 781,191</u>
Total Due To Component Units		<u>\$ 781,191</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, 2018 are:

<u>Receivable Fund</u>	<u>Amount</u>
General Fund	\$ 4,273,107
Gas Enterprise Fund	2,597,498
Total	<u>\$ 6,870,605</u>
<u>Payable Fund</u>	
Disaster Recovery Fund	\$ 465,075
Steam Enterprise Fund	2,597,498
Nonmajor Governmental Funds	950,231
Nonmajor Enterprise Funds	2,363,113
Internal Service Funds	494,688
Total	<u>\$ 6,870,605</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, 2018, are as follows:

<u>Transfer to, reported in fund:</u>	<u>Transfer from, reported in fund:</u>	<u>Amount</u>
General Fund	Community Investment Trust	(1) \$ 529,225
	Water Enterprise	(1) 151,482
	Gas Enterprise	(1,2) 2,643,189
	Sewer Enterprise	(1) 114,776
	Steam Enterprise	(2) 161,101
	Nonmajor Governmental Funds	(1) 2,599,078
	Nonmajor Enterprise Funds	(1,3) 1,914,370
Priley Drive Parking Facility Enterprise Fund	Nonmajor Governmental Funds	(1) 543,427
Water Enterprise	Nonmajor Governmental Funds	(1) 135,000
	Nonmajor Enterprise Funds	(1) 9,300
Gas Enterprise	Nonmajor Enterprise Funds	(1) 14,900
Sewer Enterprise	Nonmajor Enterprise Funds	(1) 7,450
Nonmajor Governmental Funds	General Fund	(1) 193,728
	Gas Enterprise	(1) 75,000
	Nonmajor Governmental Funds	(1) 13,370,346
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	(1) 26,588
	Nonmajor Enterprise Funds	(1) 5,600
Total		<u>\$ 22,494,560</u>
Transfers out, reported in:	Statement of Revenues, Expenditures, and Change in Fund Balances:	
	Governmental Funds	\$ 17,397,392
	Statement of Revenues, Expenditures, and Change in Fund Net Position:	
	Business-type Activities - Enterprise Funds	5,097,168
Total		<u>\$ 22,494,560</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

BENEFITS PROVIDED

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan and Police and Fire Plan benefit recipients receive a future annual 1.0% for the post-retirement benefit increase. If the funding ratio reaches 90% for two consecutive years, the benefit increase will be 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 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated 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 Coordinated Plan member is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989. For Police and Fire Plan members, the annuity accrual rate is 3.0% of average salary for each year of service.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

15. PENSION PLANS (continued)

For General 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 Police and Fire Plan, 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 Plan members were required to contribute 6.5% of their annual covered salary in 2018. Police and Fire Plan members were required to contribute 10.8% of their annual covered salary in 2018.

In 2018, the City was required to contribute the following percentages of annual covered salary:

General Employees Plan - Coordinated Plan Members	7.50%
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, 2018, to the pension plans were:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
General Employees Fund	\$ 2,697,667	\$ 2,678,076	\$ 2,446,675
Police and Fire Fund	3,790,774	3,843,171	3,615,941
Total	<u>\$ 6,488,441</u>	<u>\$ 6,521,247</u>	<u>\$ 6,062,616</u>

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

PENSION COSTS

General Employees Fund

At December 31, 2018, the City reported a liability of \$28,963,967 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the City's proportion was 0.5221%. It was 0.5543% measured as of June 30, 2017. The City recognized pension expense of \$2,241,832 for its proportionate share of the General Employees Plan's pension expense.

The City also recognized \$221,544 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 Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute \$16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through the calendar year 2031.

City's proportionate share of the net pension liability	\$ 28,963,967
State of Minnesota's proportionate share of the net pension liability associated with the City	<u>950,024</u>
Total	<u>\$ 29,913,991</u>

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

15. PENSION PLANS (continued)

The City reported its proportionate share of the General Employees 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	\$ 811,791	\$ 850,579
Changes in actuarial assumptions	2,785,870	3,391,796
Difference between projected and actual investment earnings	-	3,166,215
Changes in proportion	1,161,089	1,855,263
Contributions paid to PERA subsequent to the measurement date	1,373,443	-
Total	<u>\$ 6,132,193</u>	<u>\$ 9,263,853</u>

The \$1,373,443 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, 2019. 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
2019	\$ 673,489
2020	(1,622,722)
2021	(2,951,343)
2022	(604,527)

Police and Fire Fund

At December 31, 2018, the City reported a liability of \$23,397,505 for its proportionate share of the Police and Fire Plan’s net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2018, the City’s proportion was 2.1951%. It was 2.311% measured as of June 30, 2017. The City recognized pension expense of \$2,227,925 for its proportionate share of the Police and Fire Plan’s pension expense.

The City also recognized \$197,559 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 Police and Fire Plan. Legislation requires the State of Minnesota to contribute \$9 million to the 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 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	\$ 971,864	\$ 6,022,641
Changes in actuarial assumptions	30,704,305	36,221,463
Difference between projected and actual investment earnings	-	4,954,199
Changes in proportion	278,378	1,568,921
Contributions paid to PERA subsequent to the measurement date	1,887,056	-
Total	<u>\$ 33,841,603</u>	<u>\$ 48,767,224</u>

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

15. PENSION PLANS (continued)

The \$1,887,056 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, 2019. 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
2019	\$ (776,557)
2020	(1,899,049)
2021	(3,698,531)
2022	(10,100,595)
2023	(337,945)

The total pension expense for all plans recognized by the City for the year ended December 31, 2018, was \$4,469,757.

ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2018, actuarial valuation was determined using the individual entry-normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25% for the General Employees Plan. For the Police and Fire Plan, cost of living benefit increases for retirees are 1.00% as set by state statute.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. The experience study for the Police and Fire Plan was dated August 30, 2016. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

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	36%	5.10%
International stocks	17%	5.30%
Bonds	20%	0.75%
Alternative assets	25%	5.90%
Cash	2%	0.00%

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

15. PENSION PLANS (continued)

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.5% in 2018, which remained consistent with 2017. 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 Plan and the Police and Fire Plan were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CHANGES IN ACTUARIAL ASSUMPTIONS

The following changes in actuarial assumptions occurred in 2018:

General Employees Plan

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.0% per year through 2044 and 2.50 percent per year thereafter, to 1.25% per year.

Police and Fire Plan

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.0% for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100% funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019 and January 1, 2020 from 10.8% to 11.3% and 11.8% of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.2% to 16.95% and 17.7% of pay, respectively. Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

PENSION LIABILITY SENSITIVITY

The following presents the City's proportionate share of the net pension liability calculated using the discount rate previously disclosed, 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:

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

15. PENSION PLANS (continued)

	Proportionate Share of the			
	General Employees Plan		Police and Fire Plan	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1.0% Decrease	6.5%	\$ 47,070,155	6.5%	\$ 50,165,718
Current	7.5%	28,963,967	7.5%	23,397,505
1.0% Increase	8.5%	14,017,826	8.5%	1,261,304

PENSION PLAN FIDUCIARY NET POSITION

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

DEFINED CONTRIBUTION PLAN

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

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. For those qualified personnel who elect to participate, Minnesota Statutes, § 353D.03 specifies plan provisions, including the employee and employer contribution rates. An eligible elected official who decides to participate contributes 5.0% 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 2.0% 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, 2018, were:

	Employee	Employer
Contribution amount	\$ 6,745	\$ 6,745
Percentage of covered payroll	5.0%	5.0%

COMPONENT UNITS' PENSION INFORMATION

Qualified employees of the Duluth Entertainment and Convention Center Authority, Duluth Airport Authority, and Spirit Mountain Recreation Area Authority belong to PERA. Contributions were made by the above component units to PERA's Coordinated and Basic Plans in amounts required by state statutes. The PERA Coordinated and Basic Plans are the same pension plans available to City employees. Detailed information concerning each component unit's pension plan is presented in its publicly available 2018 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 2018 annual report.

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

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, and recorded as a deduction in the Statement of Fiduciary Net Position for the Other Postemployment Benefits Trust Fund, under GASB 74. A separate report is not issued for the plan. The authority to provide these benefits is established in Minnesota Statute § 471.617.

As of December 31, 2018, there were 1,158 retirees receiving health benefits from the City's health plan and 788 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, 2018, the City contributed \$9,244,470 and retirees contributed \$186,372.

In July 2007, the City established an Other Postemployment Benefits (OPEB) irrevocable trust and began prefunding a portion of the OPEB liability. Contributions of \$777,045 were made to the irrevocable trust in 2018.

INVESTMENTS

Investment policy – The City's OPEB irrevocable trust fund is managed by the City of Duluth. All OPEB funds are invested with the Minnesota State Board of Investment (SBI). It is the policy of the City to pursue an investment strategy that reduces risk through the diversification of the portfolio. The City's target asset allocation as of December 31, 2018 is:

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

Rate of return – For the year ended December 31, 2018, the annual money-weighted return on investments, net of investment expense, was (3.16%). The money-weighted return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

16. OTHER POSTEMPLOYMENT BENEFITS (continued)

NET OPEB LIABILITY OF THE CITY

The components of the net OPEB liability of the City at December 31, 2018, were as follows:

Total OPEB liability	\$ 174,016,061
Plan fiduciary net position	<u>(56,404,693)</u>
City's net OPEB liability	<u>\$ 117,611,368</u>
Plan fiduciary net position as a percentage of the total OPEB liability	32.4%

CHANGES IN THE NET OPEB LIABILITY

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a-b)
Balance at 1/1/18	<u>\$ 172,600,053</u>	<u>\$ 57,717,139</u>	<u>\$ 114,882,914</u>
Changes for the year:			
Service cost	2,952,513	-	2,952,513
Interest	9,609,404	-	9,609,404
Contributions - employer	-	11,678,484	(11,678,484)
Net investment income	-	(1,841,168)	1,841,168
Benefit payments	(11,145,909)	(11,145,909)	-
Administrative expense	-	<u>(3,853)</u>	<u>3,853</u>
Net change	<u>1,416,008</u>	<u>(1,312,446)</u>	<u>2,728,454</u>
Balance at 12/31/18	<u>\$ 174,016,061</u>	<u>\$ 56,404,693</u>	<u>\$ 117,611,368</u>

ACTUARIAL METHODS AND ASSUMPTIONS

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

In the January 1, 2017, actuarial valuation, the individual entry age normal as a level percentage of payroll actuarial cost method was used. Market value was the method used to determine the actuarial value of plan assets. The actuarial assumptions included a 5.7% investment rate of return which is based on the expected long-term investment returns on plan assets. The price inflation rate was 2.2%. The salary increases rate is based on the 3.5% salary scale. The annual healthcare cost trend rate is 10.0% initially, reduced incrementally to an ultimate rate of 5.0% after ten years.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

16. OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

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

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

The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

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

	<u>1% Decrease (4.7%)</u>	<u>Discount Rate (5.7%)</u>	<u>1% Increase (6.7%)</u>
Net OPEB liability (asset)	\$ 141,340,265	\$ 117,611,368	\$ 98,748,032

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

16. OTHER POSTEMPLOYMENT BENEFITS (continued)

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

	1% Decrease (9.0% decrease to 4.0%)	Healthcare Cost Trend Rate (10.0% decrease to 5.0%)	1% Increase (11.0% decrease to 6.0%)
Net OPEB liability (asset)	\$ 98,233,112	\$ 117,611,368	\$ 141,923,738

OPEB EXPENSE AND DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended December 31, 2018, the City recognized OPEB expenses of \$1,382,005. At December 31, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

Source	Balances at December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on investments	\$ 4,106,607	\$ -

Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year	Amount
2019	\$ (1,026,653)
2020	(1,026,653)
2021	(1,026,653)
2022	(1,026,648)

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.

For the year ended December 31, 2018, the City recognized OPEB expenses of \$426,000.

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
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17. SEGMENT INFORMATION

The City has issued revenue bonds for each of the following nonmajor enterprise funds: Parking, which accounts for the municipal parking ramps, lots, and meters; and Stormwater, which operates the stormwater sewer collection system. Summary financial information for each of these funds for fiscal year ended December 31, 2018, is presented below:

CONDENSED STATEMENT OF NET POSITION

	<u>Parking</u>	<u>Stormwater</u>
Assets		
Current assets	\$ 3,924,873	\$ 3,402,625
Due from other funds	-	5,456
Capital assets	<u>19,028,775</u>	<u>17,873,785</u>
Total Assets	<u>22,953,648</u>	<u>21,281,866</u>
Deferred Outflows of Resources	<u>411,832</u>	<u>510,423</u>
Liabilities		
Current liabilities	959,742	579,632
Due to other funds	2,867	8,526
Noncurrent liabilities	<u>6,397,398</u>	<u>1,637,585</u>
Total Liabilities	<u>7,360,007</u>	<u>2,225,743</u>
Deferred Inflows of Resources	<u>68,174</u>	<u>382,987</u>
Net Position		
Net investment in capital assets	12,401,231	17,303,632
Unrestricted	<u>3,536,068</u>	<u>1,879,927</u>
Total Net Position	<u>\$ 15,937,299</u>	<u>\$ 19,183,559</u>

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

	<u>Parking</u>	<u>Stormwater</u>
Operating revenues (expenses)		
Charges (pledged against bonds)	\$ 3,742,298	\$ 5,285,795
Depreciation expense	(560,433)	(414,418)
Other operating expenses	<u>(2,208,341)</u>	<u>(2,989,079)</u>
Operating income	973,524	1,882,298
Nonoperating revenues (expenses)		
Investment earnings	1,411	(4,817)
Interest expense	(211,408)	(9,291)
Capital contributions	406,214	-
Transfers in	-	5,600
Transfers out	<u>(1,386,300)</u>	<u>(528,070)</u>
Change in net position	(216,559)	1,345,720
Beginning net position	<u>16,153,858</u>	<u>17,837,839</u>
Ending net position	<u>\$ 15,937,299</u>	<u>\$ 19,183,559</u>

CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

17. SEGMENT INFORMATION (continued)

CONDENSED STATEMENT OF CASH FLOWS

	<u>Parking</u>	<u>Stormwater</u>
Net cash provided (used) by		
Operating activities	\$ 1,510,684	\$ 2,172,268
Noncapital financing activities	(1,386,300)	(522,470)
Capital and related financing activities	(678,914)	(1,024,637)
Investing activities	1,411	(4,817)
Net increase (decrease)	<u>(553,119)</u>	<u>620,344</u>
Beginning cash and cash equivalents	4,369,597	889,030
Ending cash and cash equivalents	<u>\$ 3,816,478</u>	<u>\$ 1,509,374</u>

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

LAKE SUPERIOR CENTER

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

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

TAX INCREMENT DISTRICTS

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

FEDERALLY ASSISTED PROGRAMS - COMPLIANCE AUDITS

The City has received significant financial assistance from numerous federal governmental agencies in the form of grants and entitlements. The disbursement of funds received under these generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the City. However, in the opinion of management, liabilities resulting from disallowed claims, if any, will not have a material effect on the City's financial position at December 31, 2018.

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.

**CITY OF DULUTH, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

18. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

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 \$628,097 to the Duluth Housing and Redevelopment Authority in 2018.

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 statements for December 31, 2018 was:

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

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

TAX INCREMENT ASSISTANCE

The Duluth Economic Development Authority is committed to provide tax increment assistance pursuant to development agreements for housing projects. The assistance is provided in the form of an annual tax rebate to developers. The annual tax rebate is contingent upon payment of annual property taxes by the developer. The assistance for each project is limited in amount based on both the scope of the project and the life of the tax increment district. The tax increment assistance does not result in debt proceeds and does not meet the definition of debt. A summary of the maximum tax increment assistance to be provided as of December 31, 2018, follows:

	Maximum Assistance	2018 Tax Rebate
A & L Renaissance	\$ 167,742	\$ 165,835
Augusta Building	\$ 268,321	\$ 55,872
Bluestone Commons	\$ 9,896,864	\$ 320,567
Central Hillside Development, LLP	\$ 228,866	\$ 16,348
Garfield Business Park, LLC	\$ 611,069	\$ 21,627
Harbor Bay	\$ 2,480,966	\$ 177,567
NorShore Theatre, LLC	\$ 1,573,442	\$ 121,470
NorShore Theatre, LLC	\$ 460,722	\$ 79,855
Sherman Associates Hotel/Condominium	\$ 5,000,000	\$ 151,837
Pier B, LLC	\$ 3,460,605	\$ 377,376
Kenwood Village, LLC	\$ 2,862,500	\$ 126,598

**CITY OF DULUTH, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2018**

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, 2018, are as follows:

Entity	Series	Issued	Principal
Health Care Facilities (Aftenro)	2006	\$ 2,620,000	\$ 2,021,979
St. Luke's Hospital	2012	\$ 81,595,000	\$ 71,785,000
Duluth Regional Care Center, Inc	2012A	\$ 1,040,800	\$ 143,038
Benedictine Health Center	2013	\$ 5,750,000	\$ 4,535,387
Benedictine Health Center	2014	\$ 4,000,000	\$ 3,743,883
Health Sciences Education Facility Corp (Scholastica)	2015A	\$ 10,000,000	\$ 8,876,752
Health Sciences Education Facility Corp (Scholastica)	2015B	\$ 6,600,000	\$ 5,834,112
Ikonic	2016	\$ 3,415,000	\$ 3,053,072
Cambia Hills	2018	\$ 26,500,000	\$ 26,500,000
Essentia Health (SMDC)	2018A	\$ 682,285,000	\$ 682,285,000
St Luke's Hospital	2018A	\$ 19,750,000	\$ 19,750,000
St Luke's Hospital	2018B	\$ 19,750,000	\$ 19,750,000

19. TAX ABATEMENT

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

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

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

The City has entered into a property tax agreement with a real estate developer for constructing residential rental units, pursuant to Minnesota Statutes § 469.1812 through 469.1815, which allows local governments to grant property tax abatements not to exceed the larger of 10% of net tax capacity or \$200,000. The tax abatement is effective for taxes payable in 2021 and continues for fifteen years. The City's abatement will not exceed a total aggregate amount of \$400,000.

**Required Supplementary
Information**

**CITY OF DULUTH, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB)
SCHEDULE OF CHANGES IN THE CITY'S NET OPEB LIABILITY AND RELATED RATIOS AND
SCHEDULE OF INVESTMENT RETURNS
DECEMBER 31, 2018**

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

	<u>2017</u>	<u>2018</u>
Total OPEB liability		
Service cost	\$ 2,933,971	\$ 2,952,513
Interest	9,412,409	9,609,404
Benefit payments	(9,747,296)	(11,145,909)
Net change in total OPEB liability	<u>2,599,084</u>	<u>1,416,008</u>
Total OPEB liability - beginning	170,000,969	172,600,053
Total OPEB liability - ending (a)	<u>\$ 172,600,053</u>	<u>\$ 174,016,061</u>
Plan fiduciary net position		
Contributions - employer	\$ 10,222,267	\$ 11,678,484
Net investment income	8,178,671	(1,841,168)
Benefit payments	(9,747,296)	(11,145,909)
Administrative expense	-	(3,853)
Net change in plan fiduciary net position	<u>8,653,642</u>	<u>(1,312,446)</u>
Plan fiduciary net position - beginning	49,063,497	57,717,139
Plan fiduciary net position - ending (b)	<u>\$ 57,717,139</u>	<u>\$ 56,404,693</u>
City's net OPEB liability - ending (a-b)	\$ 114,882,914	\$ 117,611,368
Plan fiduciary net position as a percentage of the total OPEB liability	33.4%	32.4%
Covered-employee payroll	\$ 51,597,031	\$ 51,597,031
City's net OPEB liability as a percentage of covered-employee payroll	222.7%	227.9%

SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	16.7%	-3.2%

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

The notes to the required supplementary information are an integral part of this schedule.

**CITY OF DULUTH, MINNESOTA
OTHER POSTEMPLOYMENT BENEFITS PLAN (OPEB) TRUST
SCHEDULE OF CITY CONTRIBUTIONS
DECEMBER 31, 2018**

	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	\$11,456,261	\$10,536,980
Contributions in relation to the actuarially determined contribution	10,222,267	11,678,484
Contribution deficiency (excess)	<u>\$ (1,233,994)</u>	<u>\$ 1,141,504</u>
 Covered-employee payroll	 \$51,597,031	 \$51,597,031
 Contributions as a percentage of covered-employee payroll	 19.8%	 22.6%

Notes to Schedule:

Valuation date 1/1/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method Individual Entry Age Normal as a level percentage of payroll

Amortization method Level dollar amount

Amortization period 30 year period

Asset valuation method Market value

Inflation 2.2%

Healthcare cost trend rates 10.0% initially, reduced incrementally to an ultimate rate of 5.0% after ten years

Salary increases 3.5%

Investment rate of return 5.7%

Retirement age Based on actuary's experience with plans of a similar size, plan design, workforce composition, and discussions with the City

Mortality SOA RPH-2014 Adjust to 2006 Total Dataset Headcount-weighted Mortality project with Scale MP-2016

Morbidity Pre-65: 2.5% per year; Post 65: 1.0% per year

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

The 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 GENERAL EMPLOYEES PLAN
DECEMBER 31, 2018**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY *
(LAST TEN YEARS**)**

Fiscal Year Ending***	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated with the City (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the City (a+b)	Employer's Covered- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a+b)/c	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.5221%	\$ 28,963,967	\$ 950,024	\$ 29,913,991	\$ 35,092,853	85.24%	79.50%
2017	0.5543%	\$ 35,388,146	\$ 444,931	\$ 35,833,077	\$ 35,707,680	100.35%	75.90%
2016	0.5257%	\$ 42,684,233	\$ 557,508	\$ 43,241,741	\$ 32,622,333	132.55%	68.91%
2015	0.5499%	\$ 28,498,672	\$ -	\$ 28,498,672	\$ 32,321,183	88.17%	78.19%

* This schedule is for Employers in the General Employees Plan to report their proportionate share of the State of Minnesota's contributions to the General Employees Fund on their behalf.

** Schedule is to be provided prospectively beginning with the employer's fiscal year ended June 30, 2015, or after.

*** The year reported for this schedule coincides with the measurement date used for the NPL.

**SCHEDULE OF CONTRIBUTIONS
(LAST TEN YEARS *)**

Fiscal Year Ending **	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
2018	\$ 2,697,667	\$ 2,697,667	\$ -	\$ 35,968,893	7.50%
2017	\$ 2,678,076	\$ 2,678,076	\$ -	\$ 34,694,027	7.72%
2016	\$ 2,446,675	\$ 2,446,675	\$ -	\$ 33,753,187	7.25%
2015	\$ 2,514,167	\$ 2,514,167	\$ -	\$ 33,522,227	7.50%

* Option to provide RSI for ten years at transition or to provide RSI prospectively.

** The fiscal year for the Schedule of Contributions should be the employer's fiscal year end, i.e., June 30 or December 31 for most PERA employers.

The 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 POLICE AND FIRE PLAN
DECEMBER, 31, 2018**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
(LAST TEN YEARS*)**

Fiscal Year Ending**	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	2.195%	\$ 23,397,505	\$ 23,134,636	101.14%	88.80%
2017	2.311%	\$ 31,201,250	\$ 23,723,278	131.52%	85.40%
2016	2.317%	\$ 92,985,242	\$ 22,320,623	416.59%	63.88%
2015	2.268%	\$ 25,769,787	\$ 20,780,650	124.01%	86.61%

* Schedule is to be provided prospectively beginning with the employer's fiscal year ended June 30, 2015, or after.

** The year reported for this schedule coincides with the measurement date used for the NPL.

**SCHEDULE OF CONTRIBUTIONS
(LAST TEN YEARS*)**

Fiscal Year Ending**	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
2018	\$ 3,790,774	\$ 3,790,774	\$ -	\$ 23,399,840	16.20%
2017	\$ 3,843,171	\$ 3,843,171	\$ -	\$ 22,831,389	16.83%
2016	\$ 3,615,941	\$ 3,615,941	\$ -	\$ 22,874,383	15.81%
2015	\$ 3,557,651	\$ 3,557,651	\$ -	\$ 21,960,809	16.20%

* Option to provide RSI for ten years at transition or to provide RSI prospectively.

** The fiscal year for the Schedule of Contributions should be the employer's fiscal year end, i.e., June 30 or December 31 for most PERA employers.

The 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, 2018**

OTHER POSTEMPLOYMENT BENEFITS FUNDED STATUS

In 2018, the City of Duluth implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 16 in the notes to the financial statements for additional information regarding the City's other postemployment benefits.

EMPLOYER CONTRIBUTIONS TO OTHER POSTEMPLOYMENT BENEFITS

In 2007, the City established an irrevocable trust, pursuant to Minnesota Statute § 471.6145 to prefund a portion of the liability of the plan. These funds are reported in the Other Postemployment Benefits Trust Fund and are included in the actuarial valuation.

There have been no changes to benefits or assumptions.

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 fiscal year June 30:

General Employees Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.0% per year through 2044 and 2.5% per year thereafter, to 1.25% per year.

2017

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

2016

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

**CITY OF DULUTH, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

Police and Fire Plan

2018

- The mortality projection scale was changed from MP-2016 to MP-2017.
- Post-retirement benefit increases changed to 1.0% for all years, with no trigger.
- An end date of July 1, 2048 was added to the existing \$9.0 million state contribution. Additionally, annual state aid will equal \$4.5 million in fiscal years 2019 and 2020, and \$9.0 million thereafter, until the plan reaches 100% funding, or July 1, 2048, if earlier.
- Member contributions were changed effective January 1, 2019 and January 1, 2020 from 10.8% to 11.3% and 11.8% of pay, respectively. Employer contributions were changed effective January 1, 2019 and January 1, 2020 from 16.2% to 16.95% and 17.7% of pay, respectively. Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

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

**CITY OF DULUTH, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

Police and Fire Plan (continued)

2016

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

**Combining and Individual
Fund Statements and
Schedules**

Governmental Funds

**CITY OF DULUTH, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

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.

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

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

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

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

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

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

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

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

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

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

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.

**CITY OF DULUTH, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

SPECIAL REVENUE FUNDS (continued)

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.

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

CAPITAL PROJECTS FUNDS

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

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

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

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

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, 2018**

Special Revenue Funds

	Lake Superior Zoo	Parks	Special Projects	Police Grant Programs	Recovery Loan Program
Assets					
Cash and cash equivalents	\$ -	\$ 1,658,202	\$ 1,631,739	\$ 918,746	\$ 247,430
Receivables, net					
Taxes	-	97,018	-	-	-
Accounts	-	5,849	71,033	9,758	-
Assessments	-	-	87,503	-	-
Loans	300,000	-	-	-	820,664
Due from other funds	-	2,588	9,106	-	-
Due from component units	-	-	14,231	-	622,000
Due from other governments	169,028	114,290	75,166	474,525	-
Total Assets	\$ 469,028	\$ 1,877,947	\$ 1,888,778	\$ 1,403,029	\$ 1,690,094
Liabilities					
Accounts payable	140	17,662	5,010	217,160	-
Contracts payable	11,088	164,475	15,385	485,362	-
Due to other funds	-	-	15,580	97,268	-
Due to component units	-	-	-	-	-
Interfund loan payable	519,764	-	-	-	-
Due to other governments	-	7,571	-	3,186	252,724
Accrued salaries payable	-	15,140	-	-	-
Unearned revenue	-	5	163,706	8,548	-
Total Liabilities	530,992	204,853	199,681	811,524	252,724
Deferred Inflows of Resources					
Unavailable revenue	349,028	70,449	92,633	-	574,988
Fund Balances					
Restricted	-	1,602,645	612,152	591,505	862,382
Committed	-	-	984,312	-	-
Assigned	-	-	-	-	-
Unassigned	(410,992)	-	-	-	-
Total Fund Balances	(410,992)	1,602,645	1,596,464	591,505	862,382
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 469,028	\$ 1,877,947	\$ 1,888,778	\$ 1,403,029	\$ 1,690,094

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

Special Revenue Funds

	Bayfront Festival Park	Library Special Accounts	Economic Development	Energy Management	Tourism Tax
Assets					
Cash and cash equivalents	\$ 187,434	\$ 576,040	\$ 6,047	\$ 149,428	\$ 520,692
Receivables, net					
Taxes	-	-	-	-	880,157
Accounts	-	394	-	-	-
Assessments	-	-	-	-	-
Loans	-	-	-	-	-
Due from other funds	-	-	-	6,587	-
Due from component units	-	-	-	-	-
Due from other governments	-	-	5,551	-	122,621
Total Assets	\$ 187,434	\$ 576,434	\$ 11,598	\$ 156,015	\$ 1,523,470
Liabilities					
Accounts payable	5,100	15,590	-	156	-
Contracts payable	-	-	-	-	63,788
Due to other funds	-	-	591	-	576,060
Due to component units	-	-	-	-	-
Interfund loan payable	-	-	-	-	-
Due to other governments	-	537	-	-	-
Accrued salaries payable	-	-	-	1,796	-
Unearned revenue	-	-	-	-	-
Total Liabilities	5,100	16,127	591	1,952	639,848
Deferred Inflows of Resources					
Unavailable revenue	-	-	5,551	-	-
Fund Balances					
Restricted	-	560,307	-	-	883,622
Committed	182,334	-	-	154,063	-
Assigned	-	-	5,456	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	182,334	560,307	5,456	154,063	883,622
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 187,434	\$ 576,434	\$ 11,598	\$ 156,015	\$ 1,523,470

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

	Special Revenue Funds				
	Public Facility and Program	Home Investment Partnerships Program	Community Development	Workforce Development	Senior Employment
Assets					
Cash and cash equivalents	\$ 60,180	\$ -	\$ 1,107,628	\$ 242,863	\$ -
Receivables, net					
Taxes	963	-	-	-	-
Accounts	-	-	943	2,518	22,207
Assessments	-	-	-	-	-
Loans	-	334,837	2,614,793	-	-
Due from other funds	-	19,892	4,751	18,067	10,966
Due from component units	-	-	-	-	-
Due from other governments	-	226,985	452,890	82,933	24,115
Total Assets	\$ 61,143	\$ 581,714	\$ 4,181,005	\$ 346,381	\$ 57,288
Liabilities					
Accounts payable	-	-	87,931	26,077	-
Contracts payable	-	39,387	355,583	4,318	-
Due to other funds	-	6,144	35,368	20,535	18
Due to component units	-	-	-	-	-
Interfund loan payable	-	158,617	-	-	57,259
Due to other governments	-	-	16,674	-	-
Accrued salaries payable	-	-	-	16,303	-
Unearned revenue	-	62,690	153,044	7,452	-
Total Liabilities	-	266,838	648,600	74,685	57,277
Deferred Inflows of Resources					
Unavailable revenue	-	342,435	2,780,807	14,442	18
Fund Balances					
Restricted	61,143	-	751,598	257,254	-
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	(27,559)	-	-	(7)
Total Fund Balances	61,143	(27,559)	751,598	257,254	(7)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 61,143	\$ 581,714	\$ 4,181,005	\$ 346,381	\$ 57,288

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

	Special Revenue Funds		Debt Service Funds		
	Street System Maintenance Utility	Public Arts	DECC Revenue	General Obligation	Special Assessment Debt Service
Assets					
Cash and cash equivalents	\$ 704,730	\$ 167,919	\$ 4,402,130	\$ 13,779,235	\$ 527,427
Receivables, net					
Taxes	110,673	-	-	259,116	-
Accounts	-	-	-	-	-
Assessments	-	-	-	-	724,574
Loans	-	-	-	-	-
Due from other funds	-	-	554,392	-	-
Due from component units	-	-	-	-	-
Due from other governments	-	-	-	-	36,952
Total Assets	\$ 815,403	\$ 167,919	\$ 4,956,522	\$ 14,038,351	\$ 1,288,953
Liabilities					
Accounts payable	-	-	-	2,060	5,485
Contracts payable	-	-	-	-	-
Due to other funds	-	-	-	-	33,568
Due to component units	-	-	781,191	-	-
Interfund loan payable	-	-	-	-	-
Due to other governments	1,230	-	-	-	-
Accrued salaries payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Total Liabilities	1,230	-	781,191	2,060	39,053
Deferred Inflows of Resources					
Unavailable revenue	72,668	-	-	184,316	724,574
Fund Balances					
Restricted	741,505	-	4,175,331	13,851,975	525,326
Committed	-	167,919	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	741,505	167,919	4,175,331	13,851,975	525,326
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 815,403	\$ 167,919	\$ 4,956,522	\$ 14,038,351	\$ 1,288,953

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

	Debt Service Funds	Capital Projects Funds		
	Street Improvement Debt Service	Capital Equipment	Special Assessment	Permanent Improvement
Assets				
Cash and cash equivalents	\$ 2,790,276	\$ 3,565,753	\$ -	\$ 1,559,631
Receivables, net				
Taxes	-	-	-	10,612
Accounts	-	-	-	119,919
Assessments	371,426	-	352,794	-
Loans	-	-	-	-
Due from other funds	1,268	-	671	303,038
Due from component units	-	-	-	-
Due from other governments	-	-	-	1,902,728
Total Assets	\$ 3,162,970	\$ 3,565,753	\$ 353,465	\$ 3,895,928
Liabilities				
Accounts payable	-	168,507	-	-
Contracts payable	-	20,614	-	1,012,693
Due to other funds	-	4,730	5,628	71,372
Due to component units	-	-	-	-
Interfund loan payable	-	-	214,591	-
Due to other governments	-	-	-	1,993
Accrued salaries payable	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	-	193,851	220,219	1,086,058
Deferred Inflows of Resources				
Unavailable revenue	371,426	-	352,794	1,579,133
Fund Balances				
Restricted	2,791,544	3,371,902	-	1,230,737
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	(219,548)	-
Total Fund Balances	2,791,544	3,371,902	(219,548)	1,230,737
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,162,970	\$ 3,565,753	\$ 353,465	\$ 3,895,928

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2018**

	Capital Projects Funds			
	Street Improvement Program	Capital Improvement	Tourism and Recreational Projects	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,771,639	\$ 1,038,417	\$ 8,972,705	\$ 46,586,291
Receivables, net				
Taxes	-	-	-	1,358,539
Accounts	-	-	17,500	250,121
Assessments	1,374,514	-	-	2,910,811
Loans	-	-	-	4,070,294
Due from other funds	10,498	-	-	941,824
Due from component units	-	-	-	636,231
Due from other governments	-	349,685	19,101	4,056,570
Total Assets	\$ 3,156,651	\$ 1,388,102	\$ 9,009,306	\$ 60,810,681
Liabilities				
Accounts payable	-	27,696	1,000	579,574
Contracts payable	96,052	559,101	458,232	3,286,078
Due to other funds	-	503	-	867,365
Due to component units	-	-	-	781,191
Interfund loan payable	-	-	-	950,231
Due to other governments	-	-	-	283,915
Accrued salaries payable	-	-	-	33,239
Unearned revenue	-	-	51,475	446,920
Total Liabilities	96,052	587,300	510,707	7,228,513
Deferred Inflows of Resources				
Unavailable revenue	1,374,514	349,685	19,101	9,258,562
Fund Balances				
Restricted	-	451,117	8,479,498	41,801,543
Committed	-	-	-	1,488,628
Assigned	1,686,085	-	-	1,691,541
Unassigned	-	-	-	(658,106)
Total Fund Balances	1,686,085	451,117	8,479,498	44,323,606
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,156,651	\$ 1,388,102	\$ 9,009,306	\$ 60,810,681

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	Special Revenue Funds				
	Lake Superior Zoo	Parks	Special Projects	Police Grant Programs	Recovery Loan Program
Revenues					
Taxes					
Property taxes	\$ -	\$ 2,599,941	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	72,339	50,309	-	-
Intergovernmental revenues	160,000	795,079	733,393	1,871,184	-
Charges for services	837,393	78,276	77,386	-	-
Fines and forfeits	-	-	15,348	64,594	-
Special assessments	-	-	-	-	-
Investment income	-	314	(2,198)	(427)	(163)
Miscellaneous revenues	31,524	70,871	1,070,082	14,001	-
Total Revenues	1,028,917	3,616,820	1,944,320	1,949,352	(163)
Expenditures					
Current					
General government	-	-	208,863	-	-
Public safety	-	-	648,338	850,773	-
Public works	-	-	-	-	-
Culture and recreation	1,555,937	2,174,952	64,896	-	-
Urban and economic development	-	-	-	-	4,784
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	-	615,476	242,631	446,496	-
Total Expenditures	1,555,937	2,790,428	1,164,728	1,297,269	4,784
Excess (Deficiency) of Revenues Over (Under) Expenditures	(527,020)	826,392	779,592	652,083	(4,947)
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	510,000	82,345	-	-	-
Transfers out	-	(763,000)	(431,430)	(1,087,028)	-
Total Other Financing Sources (Uses)	510,000	(680,655)	(431,430)	(1,087,028)	-
Net Change in Fund Balances	(17,020)	145,737	348,162	(434,945)	(4,947)
Fund Balances - January 1, 2018	(393,972)	1,456,908	1,248,302	1,026,450	867,329
Fund Balances - December 31, 2018	\$ (410,992)	\$ 1,602,645	\$ 1,596,464	\$ 591,505	\$ 862,382

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	Special Revenue Funds				
	Bayfront Festival Park	Library Special Accounts	Economic Development	Energy Management	Tourism Tax
Revenues					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	12,172,758
Other taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	-	97,737	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	4	(109)	117	1,083	(1,384)
Miscellaneous revenues	40,715	81,226	18,616	31,498	-
Total Revenues	40,719	81,117	116,470	32,581	12,171,374
Expenditures					
Current					
General government	-	-	-	248,655	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	3,500	118,144	-	-	-
Urban and economic development	-	-	121,937	-	3,606,352
Debt service					
Principal retirement	-	-	-	-	-
Interest and fiscal fees	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	57,331	-	-	-	-
Total Expenditures	60,831	118,144	121,937	248,655	3,606,352
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,112)	(37,027)	(5,467)	(216,074)	8,565,022
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	-	-	-	83,728	-
Transfers out	-	-	-	(26,588)	(8,259,215)
Total Other Financing Sources (Uses)	-	-	-	57,140	(8,259,215)
Net Change in Fund Balances	(20,112)	(37,027)	(5,467)	(158,934)	305,807
Fund Balances - January 1, 2018	202,446	597,334	10,923	312,997	577,815
Fund Balances - December 31, 2018	\$ 182,334	\$ 560,307	\$ 5,456	\$ 154,063	\$ 883,622

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	Special Revenue Funds				
	Public Facility and Program	Home Investment Partnerships Program	Community Development	Workforce Development	Senior Employment
Revenues					
Taxes					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	-	-	-
Other taxes	11,486	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	581,139	2,918,813	2,062,218	426,068
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	-	-	-	-
Investment income	(106)	185	15,155	(495)	-
Miscellaneous revenues	-	-	203,893	274,871	-
Total Revenues	11,380	581,324	3,137,861	2,336,594	426,068
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Urban and economic development	-	520,035	2,709,559	2,336,351	411,318
Debt service					
Principal retirement	-	-	10,000	-	-
Interest and fiscal fees	-	-	151,690	-	-
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	-	-	-	-	-
Total Expenditures	-	520,035	2,871,249	2,336,351	411,318
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,380	61,289	266,612	243	14,750
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	(45,000)	(3,144)	(14,770)
Total Other Financing Sources (Uses)	-	-	(45,000)	(3,144)	(14,770)
Net Change in Fund Balances	11,380	61,289	221,612	(2,901)	(20)
Fund Balances - January 1, 2018	49,763	(88,848)	529,986	260,155	13
Fund Balances - December 31, 2018	\$ 61,143	\$ (27,559)	\$ 751,598	\$ 257,254	\$ (7)

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	Special Revenue Funds		Debt Service Funds		
	Street System Maintenance Utility	Public Arts	DECC Revenue	General Obligation	Special Assessment Debt Service
Revenues					
Taxes					
Property taxes	\$ 3,747,339	\$ -	\$ -	\$ 6,774,123	\$ -
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	9,000	-	-	223,038	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	-	-	-	-	387,976
Investment income	(1,980)	(118)	(6,943)	(10,110)	2,146
Miscellaneous revenues	1,013	-	-	1,883,862	-
Total Revenues	3,755,372	(118)	(6,943)	8,870,913	390,122
Expenditures					
Current					
General government	-	-	-	37,102	-
Public safety	-	-	-	-	-
Public works	611,399	-	-	-	-
Culture and recreation	-	5,285	-	-	-
Urban and economic development	-	-	781,191	-	-
Debt service					
Principal retirement	-	-	-	8,980,000	722,000
Interest and fiscal fees	-	-	-	4,126,510	42,771
Bond issuance costs	-	-	-	-	-
Capital outlay					
Capital outlay	-	-	-	-	-
Total Expenditures	611,399	5,285	781,191	13,143,612	764,771
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,143,973	(5,403)	(788,134)	(4,272,699)	(374,649)
Other Financing Sources (Uses)					
Issuance of bonds	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-
Transfers in	9,606	15,000	3,802,278	4,645,107	-
Transfers out	(2,889,010)	-	(2,370,517)	-	-
Total Other Financing Sources (Uses)	(2,879,404)	15,000	1,431,761	4,645,107	-
Net Change in Fund Balances	264,569	9,597	643,627	372,408	(374,649)
Fund Balances - January 1, 2018	476,936	158,322	3,531,704	13,479,567	899,975
Fund Balances - December 31, 2018	\$ 741,505	\$ 167,919	\$ 4,175,331	\$ 13,851,975	\$ 525,326

(continued)

**CITY OF DULUTH, MINNESOTA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018**

	Debt Service Funds		Capital Projects Funds		
	Street Improvement Debt Service	Tax Increment	Capital Equipment	Special Assessment	Permanent Improvement
Revenues					
Taxes					
Property taxes	\$ -	\$ 603,809	\$ -	\$ -	\$ 277,693
Sales taxes	-	-	-	-	-
Other taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental revenues	-	-	-	-	9,181,198
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Special assessments	174,465	-	-	57,016	-
Investment income	1,111	-	19,599	-	(10,814)
Miscellaneous revenues	-	-	1,800	-	483,254
Total Revenues	175,576	603,809	21,399	57,016	9,931,331
Expenditures					
Current					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works	-	-	-	-	1,721,791
Culture and recreation	-	-	-	-	-
Urban and economic development	-	500	-	-	-
Debt service					
Principal retirement	1,460,000	-	-	-	-
Interest and fiscal fees	166,475	-	-	-	-
Bond issuance costs	-	-	34,128	-	-
Capital outlay					
Capital outlay	-	-	3,049,706	-	8,488,307
Total Expenditures	1,626,475	500	3,083,834	-	10,210,098
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,450,899)	603,309	(3,062,435)	57,016	(278,767)
Other Financing Sources (Uses)					
Issuance of bonds	-	-	3,885,000	-	-
Premium on issuance of bonds	-	-	245,676	-	-
Transfers in	1,033,556	-	-	-	633,541
Transfers out	-	(601,810)	(2,310)	-	(9,606)
Total Other Financing Sources (Uses)	1,033,556	(601,810)	4,128,366	-	623,935
Net Change in Fund Balances	(417,343)	1,499	1,065,931	57,016	345,168
Fund Balances - January 1, 2018	3,208,887	(1,499)	2,305,971	(276,564)	885,569
Fund Balances - December 31, 2018	\$ 2,791,544	\$ -	\$ 3,371,902	\$ (219,548)	\$ 1,230,737

(continued)

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Capital Projects Funds			
	Street Improvement Program	Capital Improvement	Tourism and Recreational Projects	Total Nonmajor Governmental Funds
Revenues				
Taxes				
Property taxes	\$ -	\$ -	\$ -	\$ 14,002,905
Sales taxes	-	-	-	12,172,758
Other taxes	-	-	-	11,486
Licenses and permits	-	-	-	122,648
Intergovernmental revenues	-	1,940,094	925,380	21,924,341
Charges for services	-	-	-	993,055
Fines and forfeits	-	-	-	79,942
Special assessments	511,639	-	-	1,131,096
Investment income	(4,568)	60,613	167,266	228,178
Miscellaneous revenues	-	-	469,198	4,676,424
Total Revenues	507,071	2,000,707	1,561,844	55,342,833
Expenditures				
Current				
General government	-	1,791,910	-	2,286,530
Public safety	-	378,199	-	1,877,310
Public works	-	609,554	-	2,942,744
Culture and recreation	-	44,115	281,481	4,248,310
Urban and economic development	-	-	-	10,492,027
Debt service				
Principal retirement	-	-	-	11,172,000
Interest and fiscal fees	-	-	-	4,487,446
Bond issuance costs	-	129,576	-	163,704
Capital outlay				
Capital outlay	1,305,047	7,605,001	3,286,744	25,096,739
Total Expenditures	1,305,047	10,558,355	3,568,225	62,766,810
Excess (Deficiency) of Revenues Over (Under) Expenditures	(797,976)	(8,557,648)	(2,006,381)	(7,423,977)
Other Financing Sources (Uses)				
Issuance of bonds	-	5,760,000	-	9,645,000
Premium on issuance of bonds	-	308,111	-	553,787
Transfers in	1,285,913	755,000	783,000	13,639,074
Transfers out	-	(71,011)	(100,000)	(16,674,439)
Total Other Financing Sources (Uses)	1,285,913	6,752,100	683,000	7,163,422
Net Change in Fund Balances	487,937	(1,805,548)	(1,323,381)	(260,555)
Fund Balances - January 1, 2018	1,198,148	2,256,665	9,802,879	44,584,161
Fund Balances - December 31, 2018	\$ 1,686,085	\$ 451,117	\$ 8,479,498	\$ 44,323,606

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
Taxes:				
General property				
Current	\$ 16,220,400	\$ 16,220,400	\$ 16,070,029	\$ (150,371)
Delinquent	150,000	150,000	179,832	29,832
Mobile home	59,700	59,700	66,099	6,399
Forfeited tax sale apportionment	19,400	19,400	16,400	(3,000)
Franchise	4,046,700	4,046,700	3,997,061	(49,639)
Sales taxes	13,586,600	13,586,600	14,094,409	507,809
Charitable gambling	20,000	20,000	22,363	2,363
Other	83,700	83,700	203,847	120,147
Total Taxes	34,186,500	34,186,500	34,650,040	463,540
Licenses and Permits:				
Liquor and non-intoxicating liquor	509,000	509,000	553,572	44,572
Health	25,000	25,000	29,296	4,296
Police protective	32,500	32,500	36,253	3,753
Amusement	1,000	1,000	1,292	292
Manufacturing and merchandising	39,200	39,200	47,910	8,710
Other	1,031,400	1,031,400	1,262,404	231,004
Total Licenses and Permits	1,638,100	1,638,100	1,930,727	292,627
Intergovernmental revenues:				
Shared revenues				
Local government aid	29,646,000	29,646,000	29,645,975	(25)
PERA aid	124,400	124,400	124,428	28
Insurance premium	1,820,000	1,820,000	2,039,452	219,452
PERA contribution	-	419,103	419,103	-
State grants				
Minnesota Library Information Network	5,000	5,000	4,661	(339)
Fifty-Percent Reimbursement Safety Grant	-	-	5,000	5,000
Cross country ski trail	11,000	11,000	11,000	-
Snowmobile trail	13,900	13,900	14,662	762
Post training reimbursement	50,000	50,000	134,938	84,938
Bulletproof vests	-	4,943	16,143	11,200
Market value credit	-	-	230	230
MSA street maintenance Allotment	1,533,400	1,533,400	1,533,400	-
Federal grants				
Alcohol, Tobacco, and Firearms - Training Assistance	-	20,617	20,617	-
Crime Victim Assistance	-	55,769	-	(55,769)
Bulletproof Vest Partnership Program	-	20,560	17,637	(2,923)
Other grants				
St. Louis County	143,500	143,500	138,411	(5,089)
Payments in lieu of taxes -				
Housing and Redevelopment Authority	57,400	57,400	66,012	8,612
Independent School District #709	248,400	248,400	261,820	13,420
Total Intergovernmental Revenues	33,653,000	34,173,992	34,453,489	279,497

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
Charges for Services:				
Departmental fees and services				
Fire	6,400	6,400	6,350	(50)
Police	82,000	82,000	77,792	(4,208)
Engineering	353,000	353,000	163,728	(189,272)
Building inspection services	2,138,900	2,138,900	2,306,229	167,329
Attorney services	4,000	4,000	4,300	300
Information technology services	5,800	5,800	16,623	10,823
Grant administration services	69,000	69,000	81,088	12,088
Hydrant maintenance services	30,000	30,000	30,000	-
Assessment fees	60,600	60,600	42,982	(17,618)
Other services	-	-	120	120
Departmental sales				
Copier and microfilm prints	23,300	23,300	21,300	(2,000)
Print and plan sales	100	100	454	354
Book sales	100	100	48	(52)
Share of general expenses				
Stormwater	149,400	149,400	149,400	-
Sewer	204,600	204,600	204,600	-
Steam	50,900	50,900	50,900	-
Duluth Entertainment and Convention Center Authority	13,700	13,700	13,700	-
Duluth Transit Authority	10,300	10,300	10,300	-
Duluth Airport Authority	45,200	45,200	45,200	-
Duluth Economic Development Authority	365,000	365,000	365,000	-
Water and Gas	773,700	773,700	773,700	-
Fleet Services	135,900	135,900	135,900	-
Golf	18,800	18,800	18,800	-
Group Health	353,300	353,300	360,500	7,200
Self-Insurance	457,500	457,500	457,500	-
Spirit Mountain Recreation Area Authority	37,700	37,700	37,700	-
Parking	136,400	136,400	136,400	-
Street Lighting	50,500	50,500	50,500	-
Priley Drive Parking Facility	22,500	22,500	22,500	-
Total Charges for Services	5,598,600	5,598,600	5,583,614	(14,986)
Fines and Forfeits:				
Library fines	72,000	72,000	57,864	(14,136)
Parking fines	21,600	21,600	46,432	24,832
Court fees	427,200	427,200	364,024	(63,176)
License penalties	2,000	2,000	5,909	3,909
Felony forfeitures	-	-	50,186	50,186
Total Fines and Forfeits	522,800	522,800	524,415	1,615
Special Assessments	438,900	517,400	474,241	(43,159)
Investment Income:				
Fair value adjustment	-	-	(35,189)	(35,189)
Total Investment Income	-	-	(35,189)	(35,189)

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF REVENUES - ESTIMATED AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Modified Budget	Actual	Actual to Modified Budget Favorable (Unfavorable)
Miscellaneous Revenues:				
Commission and concessions	13,700	13,700	8,095	(5,605)
Payments in lieu of taxes	16,000	16,000	16,086	86
Fond du Luth proceeds	150,000	150,000	150,000	-
Police auction proceeds	-	-	6,425	6,425
Rent and lease	531,000	531,000	502,654	(28,346)
Damage claims	-	-	230	230
Sale of equipment	-	5,925	49,977	44,052
Sale of land	-	-	3,596	3,596
Sale of scrap	6,000	6,000	14,137	8,137
Surcharge retainage	1,400	1,400	1,464	64
Refunds and reimbursements	147,900	521,251	601,528	80,277
Gifts and donations	-	141,113	9,026	(132,087)
Interest temporary loans	-	-	18,850	18,850
Miscellaneous sales and services	71,200	71,200	79,833	8,633
Total Miscellaneous Revenues	937,200	1,457,589	1,461,901	4,312
Total Revenues	76,975,100	78,094,981	79,043,238	948,257
Other Financing Sources:				
Transfers in:				
Parks Fund	-	25,000	25,000	-
Special Projects	174,500	241,507	294,085	52,578
Duluth Police Grant Programs	688,500	908,554	1,087,028	178,474
Community Investment Trust	425,000	425,000	529,225	104,225
Tourism Taxes	1,085,000	1,085,000	1,116,668	31,668
Workforce Development	-	-	3,144	3,144
Senior Programs	-	-	14,770	14,770
Tax Increment	-	-	58,383	58,383
Parking Fund	1,336,300	1,336,300	1,386,300	50,000
Water	219,600	219,600	151,482	(68,118)
Gas	2,564,200	2,564,200	2,643,189	78,989
Sewer	157,300	157,300	114,776	(42,524)
Stormwater	545,100	545,100	528,070	(17,030)
Steam	152,800	152,800	161,101	8,301
Total Other Financing Sources	7,348,300	7,660,361	8,113,221	452,860
Fund Balance Reserves:				
Fire Department	730,500	730,500	-	(730,500)
Com Solar Program	895,500	895,500	-	(895,500)
Total Fund Balance Reserves	1,626,000	1,626,000	-	(1,626,000)
Total Revenues and Other Financing Sources	\$ 85,949,400	\$ 87,381,342	\$ 87,156,459	\$ (224,883)
Reconciliation:				
Original budget as approved by Duluth City Council		\$ 85,949,400		
Adjustments made in accordance with budget ordinance provisions:				
Grants, gifts, and donations		953,864		
Ordinance allowable		478,078		
Total adjustments		1,431,942		
Modified budget as reported above		\$ 87,381,342		

CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified	Note	Expended	Encumbered	Totals	
Legislative and Executive							
City Council							
Personal services - salaries	\$ 124,200	\$ 124,200		\$ 124,200	\$ -	\$ 124,200	\$ -
Personal services - benefits	11,600	11,600		9,532	-	9,532	2,068
Other expenditures	68,700	68,700		52,197	-	52,197	16,503
Total City Council	204,500	204,500		185,929	-	185,929	18,571
Mayor's Office							
Personal services - salaries	313,900	316,479	1	308,768	-	308,768	7,711
Personal services - benefits	150,000	146,021	1	119,569	-	119,569	26,452
Other expenditures	14,600	17,190	1,4	17,105	-	17,105	85
Total Mayor's Office	478,500	479,690		445,442	-	445,442	34,248
Chief Administrative Officer							
Personal services - salaries	225,400	226,689	1	262,565	-	262,565	(35,876)
Personal services - benefits	113,400	112,111	1	110,696	-	110,696	1,415
Other expenditures	10,600	10,600		7,643	-	7,643	2,957
Total Chief Administrative Officer	349,400	349,400		380,904	-	380,904	(31,504)
Attorney and Human Rights							
Personal services - salaries	1,577,600	1,597,239	1,3	1,597,121	-	1,597,121	118
Personal services - benefits	537,700	533,830	1,3	537,719	-	537,719	(3,889)
Other expenditures	41,100	105,100	1	73,452	18,841	92,293	12,807
Total Attorney and Human Rights	2,156,400	2,236,169		2,208,292	18,841	2,227,133	9,036
Total Legislative and Executive	3,188,800	3,269,759		3,220,567	18,841	3,239,408	30,351
Public Administration							
Human Resources							
Personal services - salaries	731,300	744,646	1	717,270	-	717,270	27,376
Personal services - benefits	337,700	324,354	1	303,509	-	303,509	20,845
Other expenditures	74,500	74,500		52,663	-	52,663	21,837
Total Human Resources	1,143,500	1,143,500		1,073,442	-	1,073,442	70,058
Information Technology							
Personal services - salaries	1,642,200	1,623,900	1	1,569,159	-	1,569,159	54,741
Personal services - benefits	684,500	662,800	1	632,217	-	632,217	30,583
Other expenditures	866,200	866,200		839,975	30,517	870,492	(4,292)
Total Information Technology	3,192,900	3,152,900		3,041,351	30,517	3,071,868	81,032
Clerk							
Personal services - salaries	533,600	536,773	1	528,209	-	528,209	8,564
Personal services - benefits	223,300	221,300	1	189,705	-	189,705	31,595
Other expenditures	52,500	54,694	1	54,594	-	54,594	100
Total Clerk	809,400	812,767		772,508	-	772,508	40,259
Park Maintenance							
Personal services - salaries	1,581,100	1,609,467	1	1,542,952	-	1,542,952	66,515
Personal services - benefits	659,800	621,433	1	592,044	-	592,044	29,389
Other expenditures	849,500	871,689	2	854,447	-	854,447	17,242
Total Park Maintenance	3,090,400	3,102,589		2,989,443	-	2,989,443	113,146
Library Services							
Personal services - salaries	2,683,200	2,755,069	1	2,754,961	-	2,754,961	108
Personal services - benefits	1,238,900	1,119,931	1	1,049,097	-	1,049,097	70,834
Other expenditures	677,500	694,600	1	688,345	-	688,345	6,255
Total Library Services	4,599,600	4,569,600		4,492,403	-	4,492,403	77,197

(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, 2018**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified	Note	Expended	Encumbered	Totals	
Public Administration (continued)							
Facilities Management							
Personal services - salaries	1,451,400	1,477,536	1	1,480,958	-	1,480,958	(3,422)
Personal services - benefits	719,500	699,777	1	650,354	-	650,354	49,423
Other expenditures	2,043,200	2,190,426	1,2	2,218,490	-	2,218,490	(28,064)
Capital outlay	40,000	-		-	-	-	-
Total Facilities Management	4,254,100	4,367,739		4,349,802	-	4,349,802	17,937
Total Public Administration	17,089,900	17,149,095		16,718,949	30,517	16,749,466	399,629
Finance							
Budget							
Personal services - salaries	292,600	298,036	1	294,210	-	294,210	3,826
Personal services - benefits	124,500	121,921	1	121,840	-	121,840	81
Other expenditures	27,100	24,243	1	3,162	-	3,162	21,081
Total Budget	444,200	444,200		419,212	-	419,212	24,988
Auditor							
Personal services - salaries	708,500	758,098	1	736,391	-	736,391	21,707
Personal services - benefits	309,100	329,458	1	319,087	-	319,087	10,371
Other expenditures	325,100	325,100		285,045	-	285,045	40,055
Total Auditor	1,342,700	1,412,656		1,340,523	-	1,340,523	72,133
Purchasing							
Personal services - salaries	142,000	142,000		141,281	-	141,281	719
Personal services - benefits	80,900	80,900		79,454	-	79,454	1,446
Other expenditures	5,700	5,700		2,253	-	2,253	3,447
Total Purchasing	228,600	228,600		222,988	-	222,988	5,612
Treasurer							
Personal services - salaries	464,600	430,474	1	403,510	-	403,510	26,964
Personal services - benefits	243,700	207,870	1	186,481	-	186,481	21,389
Other expenditures	14,000	14,000		10,558	-	10,558	3,442
Total Treasurer	722,300	652,344		600,549	-	600,549	51,795
Total Finance	2,737,800	2,737,800		2,583,272	-	2,583,272	154,528
Planning and Construction Services							
Planning and Development							
Personal services - salaries	500,100	521,229	1	509,069	-	509,069	12,160
Personal services - benefits	212,900	197,791	1	201,014	-	201,014	(3,223)
Other expenditures	56,400	88,839	1,2,4	63,173	20,990	84,163	4,676
Total Planning and Development	769,400	807,859		773,256	20,990	794,246	13,613
Construction Services and Inspection							
Personal services - salaries	1,081,000	1,099,366	1	1,098,489	-	1,098,489	877
Personal services - benefits	487,300	457,914	1	454,384	-	454,384	3,530
Other expenditures	146,900	202,239	2,4	153,489	25,005	178,494	23,745
Total Construction Services and Inspection	1,715,200	1,759,519		1,706,362	25,005	1,731,367	28,152
Total Planning and Construction Services	2,484,600	2,567,378		2,479,618	45,995	2,525,613	41,765

(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, 2018

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified	Note	Expended	Encumbered	Totals	
Business and Community Development							
Personal services - salaries	444,700	451,147	1	455,814	-	455,814	(4,667)
Personal services - benefits	188,000	181,553	1	162,459	-	162,459	19,094
Other expenditures	18,300	18,300		13,860	-	13,860	4,440
Total Business and Community Development	651,000	651,000		632,133	-	632,133	18,867
Fire							
Administration							
Personal services - salaries	326,500	333,120	1	346,975	-	346,975	(13,855)
Personal services - benefits	120,300	115,897	1	129,434	-	129,434	(13,537)
Other expenditures	59,000	59,000		57,444	-	57,444	1,556
Total Administration	505,800	508,017		533,853	-	533,853	(25,836)
Operations							
Personal services - salaries	10,419,200	10,624,745	1,3,4	10,584,628	-	10,584,628	40,117
Personal services - benefits	4,485,200	4,346,920	1,4	4,341,320	-	4,341,320	5,600
Other expenditures	601,900	614,800	1,4	573,882	-	573,882	40,918
Total Operations	15,506,300	15,586,465		15,499,830	-	15,499,830	86,635
Life Safety							
Personal services - salaries	757,300	765,036	1	762,699	-	762,699	2,337
Personal services - benefits	352,100	344,364	1	347,991	-	347,991	(3,627)
Other expenditures	54,700	62,901	1,3	62,876	-	62,876	25
Total Life Safety	1,164,100	1,172,301		1,173,566	-	1,173,566	(1,265)
Total Fire	17,176,200	17,266,783		17,207,249	-	17,207,249	59,534
Police							
Administration and Investigation							
Personal services - salaries	14,199,300	14,690,288	1,3,4	14,714,305	-	14,714,305	(24,017)
Personal services - benefits	6,269,400	6,119,033	1,3	6,152,081	-	6,152,081	(33,048)
Other expenditures	1,434,700	1,361,682	1,3,4	1,296,910	210	1,297,120	64,562
Capital Outlay	-	-		9,999	-	9,999	(9,999)
Total Administration and Investigation	21,903,400	22,171,003		22,173,295	210	22,173,505	(2,502)
Police Special Accounts							
Other expenditures	-	267,446	2,3	85,263	-	85,263	182,183
Total Police	21,903,400	22,438,449		22,258,558	210	22,258,768	179,681
Public Works and Utilities							
Public Works Director's Office							
Personal services - salaries	42,100	72,887	1	74,076	-	74,076	(1,189)
Personal services - benefits	11,000	26,587	1	25,686	-	25,686	901
Other expenditures	800	800		862	-	862	(62)
Total Public Works Director's Office	53,900	100,274		100,624	-	100,624	(350)
Street Maintenance							
Personal services - salaries	2,697,300	2,741,744	1	2,778,266	-	2,778,266	(36,522)
Personal services - benefits	1,270,700	1,179,882	1	1,123,937	-	1,123,937	55,945
Other expenditures	3,555,600	3,569,727	2	3,374,358	-	3,374,358	195,369
Total Street Maintenance	7,523,600	7,491,353		7,276,561	-	7,276,561	214,792

(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, 2018**

	Budget			Actual			Favorable (Unfavorable)
	Original	Modified	Note	Expended	Encumbered	Totals	
Public Works and Utilities (continued)							
Engineering							
Personal services - salaries	1,234,100	1,256,271	1	1,301,238	-	1,301,238	(44,967)
Personal services - benefits	470,300	448,129	1	462,737	-	462,737	(14,608)
Other expenditures	150,000	150,000		98,374	8,485	106,859	43,141
Total Engineering	1,854,400	1,854,400		1,862,349	8,485	1,870,834	(16,434)
Total Public Works and Utilities	9,431,900	9,446,027		9,239,534	8,485	9,248,019	198,008
Transfers and Other Functions:							
Business improvement district	300,000	378,500	4	378,233	-	378,233	267
Public access television	182,000	182,000		182,000	-	182,000	-
State sales tax administration	120,000	120,000		103,346	-	103,346	16,654
Capital program	895,500	2,375,677	1,2,3	1,000,677	1,375,000	2,375,677	-
Benefits administration	100,000	111,100	1	78,684	-	78,684	32,416
Retiree insurance	7,399,100	7,622,304	4	7,615,562	-	7,615,562	6,742
Self-insurance	1,200,000	1,200,000		1,200,000	-	1,200,000	-
PERA contribution	-	419,103	3	419,103	-	419,103	-
Transfers and accruals	500,000	395,000	1	31,425	-	31,425	363,575
Other functions	589,200	679,188	1,2	528,587	7,722	536,309	142,879
Total Transfers and Other Functions	11,285,800	13,482,872		11,537,617	1,382,722	12,920,339	562,533
Total Expenditures and Encumbrances	\$ 85,949,400	\$ 89,009,163		\$ 85,877,497	\$ 1,486,770	\$ 87,364,267	\$ 1,644,896
Reconciliation:							
Original budget as approved by Duluth City Council							
	\$ 85,949,400						
Adjustments made in accordance with Budget Ordinance							
Note 1	-			- Departmental transfers made in accordance with budget ordinance.			
Note 2	1,627,821			Encumbrance, contract, reserve, or designation carryovers from prior year.			
Note 3	953,864			Grants, gifts, and donations in accordance with budget ordinance.			
Note 4	478,078			Other allowable additions made in accordance with budget ordinance.			
	<u>3,059,763</u>						
Modified budget as reported above	\$ 89,009,163						

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
General Government:						
Legislative and Executive						
City Council	\$ 124,200	\$ 9,532	\$ 52,197	\$ -	\$ -	\$ 185,929
Mayor's Office	308,768	119,569	17,105	-	-	445,442
Chief Administrative Officer	262,565	110,696	7,643	-	-	380,904
Attorney and Human Rights	1,597,121	537,719	73,452	-	-	2,208,292
Total Legislative and Executive	2,292,654	777,516	150,397	-	-	3,220,567
Public Administration						
Human Resources	717,270	303,509	52,663	-	-	1,073,442
Information Technology	1,569,159	632,217	839,975	-	-	3,041,351
Clerk	528,209	189,705	54,594	-	-	772,508
Facilities Management	1,480,958	650,354	2,218,490	-	-	4,349,802
Other Functions	31,425	818,018	2,381,097	-	193,728	3,424,268
Total Public Administration	4,327,021	2,593,803	5,546,819	-	193,728	12,661,371
Finance						
Budget	294,210	121,840	3,162	-	-	419,212
Auditor	736,391	319,087	285,045	-	-	1,340,523
Purchasing	141,281	79,454	2,253	-	-	222,988
Treasurer	403,510	186,481	10,558	-	-	600,549
Total Finance	1,575,392	706,862	301,018	-	-	2,583,272
Benefits						
Flexible Benefits	-	78,684	-	-	-	78,684
Retiree Insurance	-	7,615,562	-	-	-	7,615,562
PERA Contribution	-	78,625	-	-	-	78,625
Total Benefits	-	7,772,871	-	-	-	7,772,871
Total General Government	8,195,067	11,851,052	5,998,234	-	193,728	26,238,081
Public Safety:						
Fire						
Administration	346,975	129,434	57,444	-	-	533,853
Operations	10,584,628	4,341,320	573,882	-	-	15,499,830
Life Safety	762,699	347,991	62,876	-	-	1,173,566
Total Fire	11,694,302	4,818,745	694,202	-	-	17,207,249
Police						
Administration and Investigation	14,714,305	6,152,081	1,296,910	9,999	-	22,173,295
Police Special Accounts	-	-	85,263	-	-	85,263
Total Police	14,714,305	6,152,081	1,382,173	9,999	-	22,258,558
Benefits						
PERA Contribution	-	219,213	-	-	-	219,213
Total Public Safety	26,408,607	11,190,039	2,076,375	9,999	-	39,685,020

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES/TRANSFERS OUT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Personal Services Salaries	Personal Services Benefits	Other Expenditures	Capital Outlay	Transfers	Total Actual
Public Works:						
Public Administration						
Park Maintenance	1,542,952	592,044	854,447	-	-	2,989,443
Public Works						
Public Works Director Office	74,076	25,686	862	-	-	100,624
Street Maintenance	2,778,266	1,123,937	3,374,358	-	-	7,276,561
Engineering	1,301,238	462,737	98,374	-	-	1,862,349
Total Public Works	4,153,580	1,612,360	3,473,594	-	-	9,239,534
Benefits						
PERA Contribution	-	54,678	-	-	-	54,678
Total Public Works	5,696,532	2,259,082	4,328,041	-	-	12,283,655
Culture and Recreation:						
Public Administration						
Library Services	2,754,961	1,049,097	688,345	-	-	4,492,403
Benefits						
PERA Contribution	-	33,072	-	-	-	33,072
Total Culture and Recreation	2,754,961	1,082,169	688,345	-	-	4,525,475
Urban and Economic Development:						
Planning and Construction Services						
Planning and Development	509,069	201,014	63,173	-	-	773,256
Construction Services and Inspection	1,098,489	454,384	153,489	-	-	1,706,362
Total Planning and Construction Services	1,607,558	655,398	216,662	-	-	2,479,618
Business and Community Development						
Business and Community Development	455,814	162,459	13,860	-	-	632,133
Total Business and Community Development	455,814	162,459	13,860	-	-	632,133
Benefits						
PERA Contribution	-	33,515	-	-	-	33,515
Total Urban and Economic Development	2,063,372	851,372	230,522	-	-	3,145,266
Total Expenditures/Transfers Out	\$ 45,118,539	\$ 27,233,714	\$ 13,321,517	\$ 9,999	\$ 193,728	\$ 85,877,497

Proprietary Funds

ENTERPRISE FUNDS

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

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

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

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

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

INTERNAL SERVICE FUNDS

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

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

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

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

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

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET POSITION
NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2018**

	Golf	Parking	Stormwater	Street Lighting	Total Nonmajor Enterprise Funds
Assets					
Current assets					
Cash and cash equivalents	\$ -	\$ 3,816,478	\$ 1,509,374	\$ 1,742,627	\$ 7,068,479
Receivables, net					
Accounts	821	108,395	519,192	168,699	797,107
Assessments	-	-	25,369	-	25,369
Due from other funds	-	-	5,456	-	5,456
Due from other governments	-	-	-	26,544	26,544
Inventories	28,791	-	107,871	-	136,662
Prepays	3,600	-	1,240,819	-	1,244,419
Total current assets	<u>33,212</u>	<u>3,924,873</u>	<u>3,408,081</u>	<u>1,937,870</u>	<u>9,304,036</u>
Noncurrent assets					
Capital assets, net	1,449,363	19,028,775	17,873,785	2,826,122	41,178,045
Total noncurrent assets	<u>1,449,363</u>	<u>19,028,775</u>	<u>17,873,785</u>	<u>2,826,122</u>	<u>41,178,045</u>
Total Assets	<u>1,482,575</u>	<u>22,953,648</u>	<u>21,281,866</u>	<u>4,763,992</u>	<u>50,482,081</u>
Deferred Outflows of Resources					
Deferred loss from debt refunding	-	366,705	-	-	366,705
Deferred pension obligation outflows	-	45,127	253,518	68,015	366,660
Deferred OPEB outflows	-	-	256,905	-	256,905
Total Deferred Outflows of Resources	<u>-</u>	<u>411,832</u>	<u>510,423</u>	<u>68,015</u>	<u>990,270</u>
Liabilities					
Current liabilities					
Accounts payable	19,244	23,094	88,880	69,653	200,871
Contracts payable	-	9,934	189,946	34,487	234,367
Due to other funds	-	2,867	8,526	1,527	12,920
Interfund loan payable	813,113	-	-	-	813,113
Due to other governments	203	100	843	-	1,146
Accrued interest payable	-	65,744	6,278	-	72,022
Accrued salaries payable	-	11,030	40,012	9,256	60,298
Compensated absences	-	30,833	112,099	14,894	157,826
Unearned revenue	56,980	9,007	11,574	2,594	80,155
Deposits	31,453	-	-	-	31,453
Revenue bonds payable	-	810,000	130,000	-	940,000
Total current liabilities	<u>920,993</u>	<u>962,609</u>	<u>588,158</u>	<u>132,411</u>	<u>2,604,171</u>
Noncurrent liabilities					
Loans payable	62,485	-	-	-	62,485
Interfund loan payable	1,550,000	-	-	-	1,550,000
Pension liability	-	213,149	1,197,432	321,254	1,731,835
Revenue bonds payable	-	6,184,249	440,153	-	6,624,402
Total noncurrent liabilities	<u>1,612,485</u>	<u>6,397,398</u>	<u>1,637,585</u>	<u>321,254</u>	<u>9,968,722</u>
Total Liabilities	<u>2,533,478</u>	<u>7,360,007</u>	<u>2,225,743</u>	<u>453,665</u>	<u>12,572,893</u>
Deferred Inflows of Resources					
Deferred pension obligation inflows	-	68,174	382,987	102,750	553,911
Net Position					
Net investment in capital assets	1,386,878	12,401,231	17,303,632	2,826,122	33,917,863
Unrestricted	(2,437,781)	3,536,068	1,879,927	1,449,470	4,427,684
Total Net Position	<u>\$ (1,050,903)</u>	<u>\$ 15,937,299</u>	<u>\$ 19,183,559</u>	<u>\$ 4,275,592</u>	<u>\$ 38,345,547</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, 2018**

	<u>Golf</u>	<u>Parking</u>	<u>Stormwater</u>	<u>Street Lighting</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating Revenues					
Sales	\$ 512,783	\$ -	\$ -	\$ -	\$ 512,783
Charges for services	1,179,033	2,835,602	5,245,031	1,381,476	10,641,142
Fines and forfeits	-	744,676	-	-	744,676
Miscellaneous revenues	553	162,020	40,764	47,442	250,779
Total Operating Revenues	<u>1,692,369</u>	<u>3,742,298</u>	<u>5,285,795</u>	<u>1,428,918</u>	<u>12,149,380</u>
Operating Expenses					
Cost of sales and services	238,408	-	-	-	238,408
Personal services	-	517,341	2,031,300	550,580	3,099,221
Supplies	-	47,973	229,749	136,194	413,916
Utilities	-	154,893	24,264	670,451	849,608
Other services and charges	1,520,407	1,488,134	703,766	322,813	4,035,120
Depreciation	94,342	560,433	414,418	229,667	1,298,860
Total Operating Expenses	<u>1,853,157</u>	<u>2,768,774</u>	<u>3,403,497</u>	<u>1,909,705</u>	<u>9,935,133</u>
Operating Income (Loss)	<u>(160,788)</u>	<u>973,524</u>	<u>1,882,298</u>	<u>(480,787)</u>	<u>2,214,247</u>
Nonoperating Revenues (Expenses)					
Property taxes	-	-	-	751,231	751,231
Investment income	-	1,411	(4,817)	3,083	(323)
Interest and fiscal fees	-	(211,408)	(9,291)	-	(220,699)
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>(209,997)</u>	<u>(14,108)</u>	<u>754,314</u>	<u>530,209</u>
Income (Loss) Before Contributions and Transfers	<u>(160,788)</u>	<u>763,527</u>	<u>1,868,190</u>	<u>273,527</u>	<u>2,744,456</u>
Capital contributions	-	406,214	-	-	406,214
Transfers in	-	-	5,600	26,588	32,188
Transfers out	-	(1,386,300)	(528,070)	(37,250)	(1,951,620)
Change in Net Position	<u>(160,788)</u>	<u>(216,559)</u>	<u>1,345,720</u>	<u>262,865</u>	<u>1,231,238</u>
Total Net Position - January 1, 2018, as restated (Note 1)	<u>(890,115)</u>	<u>16,153,858</u>	<u>17,837,839</u>	<u>4,012,727</u>	<u>37,114,309</u>
Total Net Position - December 31, 2018	<u>\$ (1,050,903)</u>	<u>\$ 15,937,299</u>	<u>\$ 19,183,559</u>	<u>\$ 4,275,592</u>	<u>\$ 38,345,547</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Golf	Parking	Stormwater	Street Lighting	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities					
Cash received from customers	\$ 1,704,559	\$ 3,643,314	\$ 5,272,638	\$ 1,400,156	\$ 12,020,667
Cash paid to suppliers	(1,765,417)	(1,723,907)	(940,474)	(1,177,146)	(5,606,944)
Cash paid to employees	-	(570,743)	(2,188,453)	(539,687)	(3,298,883)
Other operating revenues	-	162,020	28,557	32,733	223,310
Net cash provided (used) by operating activities	<u>(60,858)</u>	<u>1,510,684</u>	<u>2,172,268</u>	<u>(283,944)</u>	<u>3,338,150</u>
Cash Flows from Noncapital Financing Activities					
Transfers from other funds	-	-	5,600	26,588	32,188
Transfers to other funds	-	(1,386,300)	(528,070)	(37,250)	(1,951,620)
Property taxes	-	-	-	749,710	749,710
Interfund financing	110,862	-	-	-	110,862
Net cash provided (used) by noncapital financing activities	<u>110,862</u>	<u>(1,386,300)</u>	<u>(522,470)</u>	<u>739,048</u>	<u>(1,058,860)</u>
Cash Flows from Capital and Related Financing Activities					
Capital grants and contributions	-	406,214	-	-	406,214
Principal paid on bonds, notes and capitalized leases	-	(795,000)	(241,548)	-	(1,036,548)
Interest paid on bonds, notes and capitalized leases	(50,004)	(167,592)	(18,304)	-	(235,900)
Acquisition or construction of capital assets	-	(122,536)	(764,785)	(1,091,640)	(1,978,961)
Net cash provided (used) by capital and related financing activities	<u>(50,004)</u>	<u>(678,914)</u>	<u>(1,024,637)</u>	<u>(1,091,640)</u>	<u>(2,845,195)</u>
Cash Flows from Investing Activities					
Investment earnings	-	1,411	(4,817)	3,083	(323)
Net increase (decrease) in cash and cash equivalents	-	(553,119)	620,344	(633,453)	(566,228)
Cash and cash equivalents - January 1, 2018	-	4,369,597	889,030	2,376,080	7,634,707
Cash and cash equivalents - December 31, 2018	<u>\$ -</u>	<u>\$ 3,816,478</u>	<u>\$ 1,509,374</u>	<u>\$ 1,742,627</u>	<u>\$ 7,068,479</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	<u>\$ (160,788)</u>	<u>\$ 973,524</u>	<u>\$ 1,882,298</u>	<u>\$ (480,787)</u>	<u>\$ 2,214,247</u>
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation	94,342	560,433	414,418	229,667	1,298,860
Change in assets and liabilities:					
Decrease (increase) in receivables	(751)	54,029	30,074	8,555	91,907
Decrease (increase) in inventories	3,968	-	(20,308)	-	(16,340)
Decrease (increase) in prepaids	(767)	-	248,187	-	247,420
Decrease (increase) in deferred pension obligation outflows	-	101,632	467,485	98,258	667,375
Decrease (increase) in OPEB outflows	-	-	(256,905)	-	(256,905)
Increase (decrease) in payables	(9,803)	(17,338)	47,645	(51,563)	(31,059)
Increase (decrease) in unearned revenues	12,941	9,007	(787)	(58)	21,103
Increase (decrease) in deferred pension obligation inflows	-	(54,253)	(218,481)	(35,956)	(308,690)
Increase (decrease) in pension liability	-	(116,350)	(421,358)	(52,060)	(589,768)
Total adjustments	<u>99,930</u>	<u>537,160</u>	<u>289,970</u>	<u>196,843</u>	<u>1,123,903</u>
Net cash provided (used) by operating activities	<u>\$ (60,858)</u>	<u>\$ 1,510,684</u>	<u>\$ 2,172,268</u>	<u>\$ (283,944)</u>	<u>\$ 3,338,150</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
DECEMBER 31, 2018**

	<u>Self-Insurance</u>	<u>Group Health</u>	<u>Employee Vacation Compensation</u>	<u>Fleet Services</u>	<u>Total Governmental Activities - Internal Service Funds</u>
Assets					
Current assets					
Cash and cash equivalents	\$ 2,147,364	\$ -	\$ 2,962,390	\$ -	\$ 5,109,754
Restricted cash and cash equivalents					
Restricted assets held by trustee	-	6,747,253	-	-	6,747,253
Receivables, net					
Accounts	-	84,065	-	66	84,131
Due from other funds	-	-	47,483	325,292	372,775
Due from component units	7,000	-	-	-	7,000
Inventories	-	-	-	175,283	175,283
Prepays	50,000	-	-	-	50,000
Total current assets	<u>2,204,364</u>	<u>6,831,318</u>	<u>3,009,873</u>	<u>500,641</u>	<u>12,546,196</u>
Noncurrent assets					
Capital assets, net	-	-	-	262,576	262,576
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>262,576</u>	<u>262,576</u>
Total Assets	<u>2,204,364</u>	<u>6,831,318</u>	<u>3,009,873</u>	<u>763,217</u>	<u>12,808,772</u>
Deferred Outflows of Resources					
Deferred pension obligation outflows	<u>15,250</u>	<u>-</u>	<u>-</u>	<u>175,571</u>	<u>190,821</u>
Liabilities					
Current liabilities					
Accounts payable	4,220	2,285	-	128,305	134,810
Contracts payable	11,908	-	-	166	12,074
Claims payable	206,569	1,688,890	-	-	1,895,459
Due to other funds	-	-	13,911	29,781	43,692
Interfund loan payable	-	14,438	-	480,250	494,688
Due to other governments	23,074	-	-	-	23,074
Accrued salaries payable	2,392	-	-	28,993	31,385
Compensated absences	4,942	-	3,016,588	88,599	3,110,129
Total current liabilities	<u>253,105</u>	<u>1,705,613</u>	<u>3,030,499</u>	<u>756,094</u>	<u>5,745,311</u>
Noncurrent liabilities					
Claims payable	963,207	-	-	-	963,207
Pension liability	72,032	-	-	829,266	901,298
Total noncurrent liabilities	<u>1,035,239</u>	<u>-</u>	<u>-</u>	<u>829,266</u>	<u>1,864,505</u>
Total Liabilities	<u>1,288,344</u>	<u>1,705,613</u>	<u>3,030,499</u>	<u>1,585,360</u>	<u>7,609,816</u>
Deferred Inflows of Resources					
Deferred pension obligation inflows	<u>23,039</u>	<u>-</u>	<u>-</u>	<u>265,233</u>	<u>288,272</u>
Net Position					
Net investment in capital assets	-	-	-	262,576	262,576
Restricted for health insurance trust	-	5,125,705	-	-	5,125,705
Unrestricted	908,231	-	(20,626)	(1,174,381)	(286,776)
Total Net Position	<u>\$ 908,231</u>	<u>\$ 5,125,705</u>	<u>\$ (20,626)</u>	<u>\$ (911,805)</u>	<u>\$ 5,101,505</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, 2018**

	<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	\$ -	\$ -	\$ -	\$ 2,085,914	\$ 2,085,914
Charges for services	1,565,120	15,685,339	3,244,212	1,962,768	22,457,439
Miscellaneous revenues	416,107	637,803	-	1,675	1,055,585
Total Operating Revenues	<u>1,981,227</u>	<u>16,323,142</u>	<u>3,244,212</u>	<u>4,050,357</u>	<u>25,598,938</u>
Operating Expenses					
Cost of sales and services	-	-	-	1,965,134	1,965,134
Personal services	591,165	-	3,244,212	1,543,756	5,379,133
Supplies	4,259	-	-	38,281	42,540
Utilities	-	-	-	34,437	34,437
Other services and charges	976,067	1,570,275	-	384,918	2,931,260
Depreciation	-	-	-	64,934	64,934
Medical and insurance	679,975	15,302,336	-	-	15,982,311
Total Operating Expenses	<u>2,251,466</u>	<u>16,872,611</u>	<u>3,244,212</u>	<u>4,031,460</u>	<u>26,399,749</u>
Operating Income (Loss)	<u>(270,239)</u>	<u>(549,469)</u>	<u>-</u>	<u>18,897</u>	<u>(800,811)</u>
Nonoperating Revenues (Expenses)					
Investment income	1,511	118,191	(1,410)	-	118,292
Intergovernmental revenue	-	-	-	5,835	5,835
Total Nonoperating Revenues (Expenses)	<u>1,511</u>	<u>118,191</u>	<u>(1,410)</u>	<u>5,835</u>	<u>124,127</u>
Change in Net Position	<u>(268,728)</u>	<u>(431,278)</u>	<u>(1,410)</u>	<u>24,732</u>	<u>(676,684)</u>
Total Net Position - January 1, 2018	<u>1,176,959</u>	<u>5,556,983</u>	<u>(19,216)</u>	<u>(936,537)</u>	<u>5,778,189</u>
Total Net Position - December 31, 2018	<u>\$ 908,231</u>	<u>\$ 5,125,705</u>	<u>\$ (20,626)</u>	<u>\$ (911,805)</u>	<u>\$ 5,101,505</u>

**CITY OF DULUTH, MINNESOTA
COMBINING STATEMENT OF CASH FLOWS
GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Self- Insurance	Group Health	Employee Vacation Compensation	Fleet Services	Total Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities					
Cash received from customers	\$ 1,974,227	\$ 16,329,697	\$ 3,173,881	\$ 4,018,041	\$ 25,495,846
Cash paid to suppliers	(1,591,787)	(16,649,472)	-	(2,343,485)	(20,584,744)
Cash paid to employees	(589,919)	-	(3,210,641)	(1,578,769)	(5,379,329)
Other operating revenues	-	-	-	1,675	1,675
Net cash provided (used) by operating activities	<u>(207,479)</u>	<u>(319,775)</u>	<u>(36,760)</u>	<u>97,462</u>	<u>(466,552)</u>
Cash Flows from Noncapital Financing Activities					
Operating grants	-	-	-	5,835	5,835
Interfund financing	-	(1,542)	-	(86,447)	(87,989)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>(1,542)</u>	<u>-</u>	<u>(80,612)</u>	<u>(82,154)</u>
Cash Flows from Capital and Related Financing Activities					
Acquisition or construction of capital assets	-	-	-	(16,850)	(16,850)
Net cash provided (used) by capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,850)</u>	<u>(16,850)</u>
Cash Flows from Investing Activities					
Investment earnings	1,511	118,191	(1,410)	-	118,292
Net increase (decrease) in cash and cash equivalents	<u>(205,968)</u>	<u>(203,126)</u>	<u>(38,170)</u>	<u>-</u>	<u>(447,264)</u>
Cash and cash equivalents - January 1, 2018	2,353,332	6,950,379	3,000,560	-	12,304,271
Cash and cash equivalents - December 31, 2018	<u>\$ 2,147,364</u>	<u>\$ 6,747,253</u>	<u>\$ 2,962,390</u>	<u>\$ -</u>	<u>\$ 11,857,007</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Net operating income (loss)	\$ (270,239)	\$ (549,469)	\$ -	\$ 18,897	\$ (800,811)
Adjustments to reconcile net operating income(loss) to net cash provided (used) by operating activities:					
Depreciation	-	-	-	64,934	64,934
Change in assets and liabilities:					
Decrease (increase) in receivables	(7,000)	6,555	(47,483)	(60,421)	(108,349)
Decrease (increase) in inventories	-	-	-	95,314	95,314
Decrease (increase) in deferred pension obligation outflows	22,994	-	-	288,276	311,270
Increase (decrease) in payables	69,463	223,139	10,723	24,338	327,663
Increase (decrease) in deferred pension obligation inflows	(8,864)	-	-	(121,714)	(130,578)
Increase (decrease) in pension liability	(13,833)	-	-	(212,162)	(225,995)
Total adjustments	<u>62,760</u>	<u>229,694</u>	<u>(36,760)</u>	<u>78,565</u>	<u>334,259</u>
Net cash provided (used) by operating activities	<u>\$ (207,479)</u>	<u>\$ (319,775)</u>	<u>\$ (36,760)</u>	<u>\$ 97,462</u>	<u>\$ (466,552)</u>

Fiduciary Funds

**CITY OF DULUTH, MINNESOTA
FIDUCIARY FUNDS
AGENCY FUNDS
DECEMBER 31, 2018**

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, 2018**

	<u>Balance 01/01/18</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/18</u>
<u>DULUTH 1200 FUND</u>				
Assets				
Cash and cash equivalents	\$ 2,753,166	\$ 252,466	\$ 307,107	\$ 2,698,525
Loans receivable	243,584	256,458	169,553	330,489
Total Assets	<u>\$ 2,996,750</u>	<u>\$ 508,924</u>	<u>\$ 476,660</u>	<u>\$ 3,029,014</u>
Liabilities				
Accounts payable	\$ 1,568	\$ 269,501	\$ 270,149	\$ 920
Due to agency	2,995,182	83,587	50,675	3,028,094
Total Liabilities	<u>\$ 2,996,750</u>	<u>\$ 353,088</u>	<u>\$ 320,824</u>	<u>\$ 3,029,014</u>

**Supplementary
Information**

**CITY OF DULUTH, MINNESOTA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY SOURCE*
 DECEMBER 31, 2018**

Governmental Funds Capital Assets:

Land and land improvements	\$	22,859,321
Buildings		88,294,093
Equipment		38,967,180
Infrastructure		353,294,680
Construction in Progress		27,755,450
		<hr/>

Total Governmental Funds Capital Assets **\$** 531,170,724

Investments in Governmental Funds Capital Assets:

General fund	\$	10,223,286
Special revenue fund		30,272,020
Capital projects fund		488,683,438
Donations		1,991,980
		<hr/>

Total Governmental Funds Capital Assets **\$** 531,170,724

** 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, 2018**

Function and Activity	Land and Land Improvements	Buildings	Equipment	Infrastructure	Construction in Progress	Total
General Government						
Legislative and Executive	\$ -	\$ -	\$ 6,319	\$ -	\$ -	\$ 6,319
Public Administration	-	-	487,215	-	-	487,215
Management Information Systems	-	-	3,910,055	-	-	3,910,055
Facilities Management	1,636,325	15,948,728	1,901,671	14,390,994	6,873,772	40,751,490
Finance	-	-	346,748	-	-	346,748
Total General Government	1,636,325	15,948,728	6,652,008	14,390,994	6,873,772	45,501,827
Public Safety						
Fire	83,006	3,114,984	11,417,743	-	-	14,615,733
Police	2,000	16,627,233	4,922,342	562,251	-	22,113,826
Total Public Safety	85,006	19,742,217	16,340,085	562,251	-	36,729,559
Public Works						
Street Construction	-	-	-	329,058,049	13,853,618	342,911,667
Maintenance Operations	54,434	1,258,642	14,130,858	60,403	-	15,504,337
Engineering	5,145,615	2,278,447	266,084	3,553,552	-	11,243,698
Total Public Works	5,200,049	3,537,089	14,396,942	332,672,004	13,853,618	369,659,702
Culture and Recreation						
Libraries	51,585	7,545,987	154,982	-	-	7,752,554
Parks and Recreation	12,839,443	40,423,042	880,382	5,669,431	7,028,060	66,840,358
Total Culture and Recreation	12,891,028	47,969,029	1,035,364	5,669,431	7,028,060	74,592,912
Urban and Economic Development						
Planning and Construction Services	3,046,913	1,097,030	542,781	-	-	4,686,724
Total Governmental Funds Capital Assets	\$ 22,859,321	\$ 88,294,093	\$ 38,967,180	\$ 353,294,680	\$ 27,755,450	\$ 531,170,724

* 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, 2018**

Function and Activity	Governmental Funds Capital Assets 01/01/18	Additions	Deductions	Governmental Funds Capital Assets 12/31/18
General Government				
Legislative and Executive	\$ 6,319	\$ -	\$ -	\$ 6,319
Public Administration	508,647	-	21,432	487,215
Management Information Systems	3,901,116	8,939	-	3,910,055
Facilities Management	37,130,482	7,528,393	3,907,385	40,751,490
Finance	325,708	21,040	-	346,748
Total General Government	41,872,272	7,558,372	3,928,817	45,501,827
Public Safety				
Fire	14,415,760	221,562	21,589	14,615,733
Police	22,324,486	273,632	484,292	22,113,826
Total Public Safety	36,740,246	495,194	505,881	36,729,559
Public Works				
Street Construction	332,800,013	13,410,297	3,298,643	342,911,667
Maintenance Operations	14,741,850	1,367,516	605,029	15,504,337
Engineering	7,292,665	3,951,033	-	11,243,698
Total Public Works	354,834,528	18,728,846	3,903,672	369,659,702
Culture and Recreation				
Libraries	7,752,554	-	-	7,752,554
Parks and Recreation	62,899,871	4,757,578	817,091	66,840,358
Total Culture and Recreation	70,652,425	4,757,578	817,091	74,592,912
Urban and Economic Development				
Planning and Construction Services	4,660,563	47,154	20,993	4,686,724
Total Governmental Funds Capital Assets	\$ 508,760,034	\$ 31,587,144	\$ 9,176,454	\$ 531,170,724

** 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, 2018**

	<u>Issue Amount</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan 1 Balance</u>
Governmental Activities:				
General Obligation Bonds Payable				
General Obligation				
Airpark Improvement	\$ 945,000	9/1/2004	2/1/2020	\$ 245,000
Aerial Lift Bridge Improvement	1,475,000	8/7/2008	2/1/2019	335,000
Duluth Entertainment and Convention Center Improvement	40,635,000	8/7/2008	2/1/2034	805,000
Capital Improvement	1,600,000	12/9/2008	2/1/2018	210,000
Capital Improvement	7,085,000	12/17/2009	2/1/2020	2,540,000
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	940,000
Capital Improvement	1,870,000	11/29/2011	2/1/2022	1,005,000
Airport Improvement	7,650,000	5/24/2012	2/1/2028	5,850,000
Airport Improvement	3,400,000	12/18/2013	2/1/2029	3,180,000
Capital Improvement	1,795,000	12/18/2013	2/1/2024	1,305,000
Capital Improvement - Lakewalk	1,460,000	12/18/2013	2/1/2029	1,220,000
Wade Stadium Improvement	2,330,000	10/30/2014	2/1/2030	2,095,000
Spirit Mountain Improvement	2,150,000	10/30/2014	2/1/2035	1,995,000
Capital Improvement	1,115,000	10/30/2014	2/1/2025	915,000
Capital Improvement	1,615,000	11/5/2015	2/1/2026	1,475,000
Airport Improvement	2,855,000	11/5/2015	2/1/2031	2,725,000
Capital Improvement - 1/2 & 1/2	13,520,000	11/5/2015	2/1/2032	11,720,000
Duluth Entertainment and Convention Center Improvement Refunding	33,470,000	3/22/2016	2/1/2034	33,470,000
Capital Improvement	1,135,000	11/9/2016	2/1/2027	1,135,000
Capital Improvement	1,545,000	11/21/2017	2/1/2028	1,545,000
Capital Improvement - Seawall	4,450,000	2/14/2018	2/1/2034	-
Capital Improvement	1,310,000	9/27/2018	2/1/2029	-
Total General Obligation				<u>\$ 86,615,000</u>
General Obligation - Tax Abatement				
Spirit Mountain Tax Abatement Bonds	\$ 7,055,000	2/23/2012	2/1/2030	\$ 5,615,000
GO Tax Abatement (Cirrus)	7,820,000	3/22/2016	2/1/2032	7,820,000
Total General Obligation - Tax Abatement				<u>\$ 13,435,000</u>
Total General Obligation Bonds Payable				<u>\$ 100,050,000</u>
Special Assessment Debt with Government Commitment				
General Obligation Improvement	\$ 1,985,000	9/7/2006	2/1/2021	\$ 700,000
General Obligation Improvement Refunding	1,205,000	11/23/2010	2/1/2019	275,425
General Obligation Improvement Refunding	1,135,000	11/23/2010	2/1/2019	259,575
Street Improvement Refunding	6,905,000	11/27/2012	2/1/2021	3,265,000
General Obligation Improvement Refunding	865,000	10/30/2014	2/1/2020	535,000
Street Improvement Refunding	2,630,000	11/5/2015	2/1/2023	2,285,000
Total Special Assessment Debt with Government Commitment				<u>\$ 7,320,000</u>
General Obligation Certificates Payable				
Equipment	\$ 3,275,000	11/27/2012	2/1/2018	\$ 695,000
Equipment	3,835,000	12/18/2013	2/1/2019	1,585,000
Equipment	2,460,000	10/30/2014	2/1/2020	1,505,000
Equipment	3,325,000	11/5/2015	2/1/2021	2,705,000
Equipment	3,565,000	11/9/2016	2/1/2022	3,565,000
Equipment	3,615,000	11/21/2017	2/1/2023	3,615,000
Equipment	3,885,000	9/27/2018	2/1/2024	-
Total General Obligation Certificates Payable				<u>\$ 13,670,000</u>
Total Governmental Activities Bonds and Certificates Payable				<u>\$ 121,040,000</u>

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2018**

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2019</u>	<u>Interest Due in 2019</u>
Governmental Activities:					
General Obligation Bonds Payable					
General Obligation					
Airpark Improvement	\$ -	\$ 80,000	\$ 165,000	\$ 80,000	\$ 5,230
Aerial Lift Bridge Improvement	-	165,000	170,000	170,000	3,655
Duluth Entertainment and Convention Center Improvement	-	805,000	-	-	-
Capital Improvement	-	210,000	-	-	-
Capital Improvement	-	880,000	1,660,000	905,000	48,300
Capital Improvement - Law Enforcement Center	-	-	11,905,000	-	682,282
Capital Improvement	-	225,000	715,000	230,000	18,000
Capital Improvement	-	190,000	815,000	195,000	21,525
Airport Improvement	-	470,000	5,380,000	485,000	136,731
Airport Improvement	-	225,000	2,955,000	225,000	108,259
Capital Improvement	-	170,000	1,135,000	175,000	31,425
Capital Improvement - Lakewalk	-	85,000	1,135,000	85,000	39,987
Wade Stadium Improvement	-	135,000	1,960,000	140,000	61,725
Spirit Mountain Improvement	-	90,000	1,905,000	90,000	54,500
Capital Improvement	-	105,000	810,000	110,000	16,462
Capital Improvement	-	150,000	1,325,000	155,000	26,919
Airport Improvement	-	160,000	2,565,000	165,000	79,863
Capital Improvement - 1/2 & 1/2	-	645,000	11,075,000	655,000	351,770
Duluth Entertainment and Convention Center Improvement Refunding	-	-	33,470,000	840,000	1,473,700
Capital Improvement	-	100,000	1,035,000	100,000	39,400
Capital Improvement	-	-	1,545,000	125,000	44,475
Capital Improvement - Seawall	4,450,000	-	4,450,000	225,000	130,125
Capital Improvement	1,310,000	-	1,310,000	-	51,672
Total General Obligation	\$ 5,760,000	\$ 4,890,000	\$ 87,485,000	\$ 5,155,000	\$ 3,426,005
General Obligation - Tax Abatement					
Spirit Mountain Tax Abatement Bonds	\$ -	\$ 380,000	\$ 5,235,000	\$ 385,000	\$ 127,669
GO Tax Abatement (Cirrus)	-	450,000	7,370,000	450,000	187,525
Total General Obligation - Tax Abatement	\$ -	\$ 830,000	\$ 12,605,000	\$ 835,000	\$ 315,194
Total General Obligation Bonds Payable	\$ 5,760,000	\$ 5,720,000	\$ 100,090,000	\$ 5,990,000	\$ 3,741,199
Special Assessment Debt with Government Commitment					
General Obligation Improvement	\$ -	\$ 165,000	\$ 535,000	\$ 170,000	\$ 18,000
General Obligation Improvement Refunding	-	182,825	92,600	92,600	1,112
General Obligation Improvement Refunding	-	172,175	87,400	87,400	1,048
Street Improvement Refunding	-	1,075,000	2,190,000	1,110,000	49,050
General Obligation Improvement Refunding	-	175,000	360,000	180,000	5,175
Street Improvement Refunding	-	385,000	1,900,000	400,000	68,000
Total Special Assessment Debt with Government Commitment	\$ -	\$ 2,155,000	\$ 5,165,000	\$ 2,040,000	\$ 142,385
General Obligation Certificates Payable					
Equipment	\$ -	\$ 695,000	\$ -	\$ -	\$ -
Equipment	-	785,000	800,000	800,000	8,000
Equipment	-	495,000	1,010,000	500,000	14,575
Equipment	-	650,000	2,055,000	665,000	51,675
Equipment	-	635,000	2,930,000	690,000	103,400
Equipment	-	-	3,615,000	660,000	113,300
Equipment	3,885,000	-	3,885,000	-	117,978
Total General Obligation Certificates Payable	\$ 3,885,000	\$ 3,260,000	\$ 14,295,000	\$ 3,315,000	\$ 408,928
Total Governmental Activities Bonds and Certificates Payable	\$ 9,645,000	\$ 11,135,000	\$ 119,550,000	\$ 11,345,000	\$ 4,292,512

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2018**

	<u>Issue Amount</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan 1 Balance</u>
Business-type Activities:				
Revenue and General Obligation Bonds Payable				
Parking Fund				
Parking Improvement Tax Increment Refunding	\$ 10,270,000	11/27/2012	2/1/2026	\$ 7,780,000
Priley Drive Parking Facility				
Parking Improvement Tax Increment (Note 1)	\$ 11,500,000	5/15/2014	4/1/2044	\$ 12,522,008
Water Fund				
Water Utility Revenue and General Obligation	\$ 196,000	2/19/2009	2/1/2024	\$ 103,000
Water Utility Revenue and General Obligation Refunding	1,625,000	11/23/2010	2/1/2018	250,851
Water Utility Revenue and General Obligation Refunding	515,000	11/5/2015	2/1/2022	435,000
Water Utility Revenue and General Obligation	4,050,000	9/27/2018	2/1/2034	-
Total Water Fund				<u>\$ 788,851</u>
Gas Fund				
Gas Utility Revenue and General Obligation Refunding	\$ 3,125,000	11/29/2011	2/1/2019	\$ 985,000
Steam Fund				
Steam Utility Revenue and General Obligation Refunding	\$ 5,475,000	11/27/2012	2/1/2022	\$ 2,980,000
Steam Utility Revenue and General Obligation	4,015,000	11/5/2015	2/1/2027	4,015,000
Total Steam Fund				<u>\$ 6,995,000</u>
Sewer Fund				
Sewer Utility Revenue and General Obligation	\$ 1,444,000	2/19/2009	2/1/2024	\$ 757,000
Sewer Utility Revenue and General Obligation	905,000	12/17/2009	2/1/2025	540,000
Sewer Utility Revenue and General Obligation Refunding	2,025,000	11/23/2010	2/1/2018	312,599
Sewer Utility Revenue and General Obligation Refunding	2,265,000	11/29/2011	2/1/2020	1,005,000
Sewer Utility Revenue and General Obligation Refunding	2,000,000	11/27/2012	2/1/2020	1,185,000
Sewer Utility Revenue and General Obligation Refunding	1,110,000	11/5/2015	2/1/2023	970,000
Sewer Utility Revenue and General Obligation Refunding	350,000	11/5/2015	2/1/2022	295,000
Total Sewer Fund				<u>\$ 5,064,599</u>
Stormwater Fund				
Stormwater Utility Revenue and General Obligation Refunding	\$ 755,000	11/23/2010	2/1/2018	\$ 116,549
Stormwater Utility Revenue and General Obligation Refunding	790,000	11/5/2015	2/1/2022	675,000
Total Stormwater Fund				<u>\$ 791,549</u>
Total Business-type Activities Bonds Payable				<u>\$ 34,927,007</u> (continued)

Note 1: Issue amount does not include capitalized interest of \$1,020,017

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF BONDS AND CERTIFICATES PAYABLE
FOR THE YEAR DECEMBER 31, 2018**

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2019</u>	<u>Interest Due in 2019</u>
Business-type Activities:					
Revenue and General Obligation Bonds Payable					
Parking Fund					
Parking Improvement Tax Increment Refunding	\$ -	\$ 795,000	\$ 6,985,000	\$ 810,000	\$ 151,069
Priley Drive Parking Facility					
Parking Improvement Tax Increment	\$ -	\$ 74,533	\$ 12,447,475	\$ 300,541	\$ 494,682
Water Fund					
Water Utility Revenue and General Obligation	\$ -	\$ 13,000	\$ 90,000	\$ 14,000	\$ 3,103
Water Utility Revenue and General Obligation Refunding	-	250,851	-	-	-
Water Utility Revenue and General Obligation Refunding	-	85,000	350,000	85,000	8,800
Water Utility Revenue and General Obligation	4,050,000	-	4,050,000	-	98,404
Total Water Fund	\$ 4,050,000	\$ 348,851	\$ 4,490,000	\$ 99,000	\$ 110,307
Gas Fund					
Gas Utility Revenue and General Obligation Refunding	\$ -	\$ 480,000	\$ 505,000	\$ 505,000	\$ 10,100
Steam Fund					
Steam Utility Revenue and General Obligation Refunding	\$ -	\$ 650,000	\$ 2,330,000	\$ 655,000	\$ 38,625
Steam Utility Revenue and General Obligation	-	-	4,015,000	-	122,388
Total Steam Fund	\$ -	\$ 650,000	\$ 6,345,000	\$ 655,000	\$ 161,013
Sewer Fund					
Sewer Utility Revenue and General Obligation	\$ -	\$ 97,000	\$ 660,000	\$ 101,000	\$ 22,772
Sewer Utility Revenue and General Obligation	-	60,000	480,000	60,000	18,000
Sewer Utility Revenue and General Obligation Refunding	-	312,599	-	-	-
Sewer Utility Revenue and General Obligation Refunding	-	325,000	680,000	335,000	15,375
Sewer Utility Revenue and General Obligation Refunding	-	290,000	895,000	290,000	15,000
Sewer Utility Revenue and General Obligation Refunding	-	150,000	820,000	155,000	21,500
Sewer Utility Revenue and General Obligation Refunding	-	55,000	240,000	60,000	6,000
Total Sewer Fund	\$ -	\$ 1,289,599	\$ 3,775,000	\$ 1,001,000	\$ 98,647
Stormwater Fund					
Stormwater Utility Revenue and General Obligation Refunding	\$ -	\$ 116,549	\$ -	\$ -	\$ -
Stormwater Utility Revenue and General Obligation Refunding	-	125,000	550,000	130,000	13,900
Total Stormwater Fund	\$ -	\$ 241,549	\$ 550,000	\$ 130,000	\$ 13,900
Total Business-type Activities Bonds Payable	\$ 4,050,000	\$ 3,879,532	\$ 35,097,475	\$ 3,500,541	\$ 1,039,718

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2018**

	<u>Issue Amount</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Jan. 1 Balance</u>
Governmental Activities:				
General Obligation				
Public Facilities Authority Note	\$ 364,195	8/8/2002	8/20/2018	<u>\$ 27,000</u>
Revenue Note				
U.S. Dept. of Housing and Urban Development	\$ 7,876,000	8/1/2005	8/1/2025	<u>\$ 2,646,000</u>
Total Governmental Activities				<u>\$ 2,673,000</u>
Business-type Activities:				
General Obligation				
Water Fund -				
Public Facilities Authority Note	\$ 870,000	8/25/2003	8/20/2018	\$ 70,856
Public Facilities Authority Note	1,971,532	7/23/2004	8/20/2018	158,000
Public Facilities Authority Note	1,668,813	10/28/2009	8/20/2019	346,000
Public Facilities Authority Note	1,293,200	7/28/2010	8/20/2025	709,000
Public Facilities Authority Note	3,344,131	12/7/2010	8/20/2025	1,902,000
Public Facilities Authority Note	1,221,631	11/18/2011	8/20/2026	731,000
Public Facilities Authority Note	4,778,806	2/25/2014	8/20/2029	<u>3,731,000</u>
Total Water Fund				<u>\$ 7,647,856</u>
Sewer Fund -				
Public Facilities Authority Note	\$ 100,000	8/25/2003	8/20/2018	\$ 8,144
Public Facilities Authority Note	1,179,115	12/12/2003	8/20/2018	93,000
Public Facilities Authority Note	1,973,033	7/12/2007	8/20/2022	766,000
Public Facilities Authority Note	796,835	8/20/2009	8/20/2024	409,000
Public Facilities Authority Note	2,414,150	11/25/2009	8/20/2024	1,278,000
Public Facilities Authority Note	3,753,059	7/28/2010	8/20/2025	2,090,000
Public Facilities Authority Note	8,504,224	7/28/2010	8/20/2025	4,663,000
Public Facilities Authority Note	279,117	11/18/2011	8/20/2021	108,000
Public Facilities Authority Note	265,418	11/30/2011	8/20/2021	113,000
Public Facilities Authority Note	278,149	11/18/2011	8/20/2021	121,000
Public Facilities Authority Note	476,537	9/10/2012	8/20/2022	239,000
Public Facilities Authority Note	860,847	10/29/2014	8/20/2024	<u>512,383</u>
Total Sewer Fund				<u>\$ 10,400,527</u>
Total Business-type Activities				<u>\$ 18,048,383</u>
Component Unit:				
Duluth Airport Authority				
Revenue Note	\$ 497,379	11/1/2005	6/1/2019	<u>\$ 103,232</u>

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF NOTES PAYABLE
DECEMBER 31, 2018**

	<u>Issued</u>	<u>Retired</u>	<u>Dec 31 Balance</u>	<u>Principal Due in 2019</u>	<u>Interest Due in 2019</u>
Governmental Activities:					
General Obligation					
Public Facilities Authority Note	\$ -	\$ 27,000	\$ -	\$ -	\$ -
Revenue Note					
U.S. Dept. of Housing and Urban Development	\$ -	\$ 10,000	\$ 2,636,000	\$ 15,000	\$ 151,151
Total Governmental Activities	\$ -	\$ 37,000	\$ 2,636,000	\$ 15,000	\$ 151,151
Business-type Activities:					
General Obligation					
Water Fund -					
Public Facilities Authority Note	\$ -	\$ 70,856	\$ -	\$ -	\$ -
Public Facilities Authority Note	-	158,000	-	-	-
Public Facilities Authority Note	-	172,000	174,000	174,000	1,874
Public Facilities Authority Note	-	85,000	624,000	86,000	7,850
Public Facilities Authority Note	-	229,000	1,673,000	231,000	18,001
Public Facilities Authority Note	-	77,000	654,000	78,000	7,986
Public Facilities Authority Note	-	294,000	3,437,000	297,000	34,370
Total Water Fund	\$ -	\$ 1,085,856	\$ 6,562,000	\$ 866,000	\$ 70,081
Sewer Fund -					
Public Facilities Authority Note	\$ -	\$ 8,144	\$ -	\$ -	\$ -
Public Facilities Authority Note	-	93,000	-	-	-
Public Facilities Authority Note	-	150,000	616,000	151,000	7,084
Public Facilities Authority Note	-	55,000	354,000	56,000	6,970
Public Facilities Authority Note	-	172,000	1,106,000	175,000	22,308
Public Facilities Authority Note	-	250,000	1,840,000	253,000	23,147
Public Facilities Authority Note	-	558,000	4,105,000	565,000	51,641
Public Facilities Authority Note	-	26,000	82,000	27,000	820
Public Facilities Authority Note	-	28,000	85,000	28,000	850
Public Facilities Authority Note	-	30,000	91,000	30,000	910
Public Facilities Authority Note	-	47,000	192,000	47,000	1,920
Public Facilities Authority Note	-	71,383	441,000	72,000	4,410
Total Sewer Fund	\$ -	\$ 1,488,527	\$ 8,912,000	\$ 1,404,000	\$ 120,060
Total Business-type Activities	\$ -	\$ 2,574,383	\$ 15,474,000	\$ 2,270,000	\$ 190,141
Component Unit:					
Duluth Airport Authority					
Revenue Note	\$ -	\$ 67,321	\$ 35,911	\$ 35,911	\$ 1,589

**CITY OF DULUTH, MINNESOTA
BALANCE SHEET
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNIT - GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	General Operating	Loan Programs	Debt Service	Capital Projects	Total
Assets					
Cash and cash equivalents	\$ 3,303,119	\$ 101,581	\$ 820,142	\$ 2,031,226	\$ 6,256,068
Taxes receivable, net	-	-	9,278	-	9,278
Accounts receivable, net	30,164	-	-	-	30,164
Loans receivable, net	728,103	3,633,230	-	3,711,325	8,072,658
Due from other funds	222,166	-	-	727,782	949,948
Capital assets held for resale	192,500	-	-	-	192,500
Total Assets	\$ 4,476,052	\$ 3,734,811	\$ 829,420	\$ 6,470,333	\$ 15,510,616
Liabilities					
Accounts payable	\$ 90,142	\$ -	\$ 63,048	\$ 154	\$ 153,344
Contracts payable	62,234	-	-	-	62,234
Due to other funds	-	-	727,782	222,166	949,948
Due to primary government	629,000	-	-	8,417	637,417
Due to other governments	10,404	-	21,833	-	32,237
Total Liabilities	791,780	-	812,663	230,737	1,835,180
Deferred Inflows of Resources					
Unavailable revenue	728,103	3,633,230	9,278	3,711,325	8,081,936
Fund Balances					
Nonspendable	192,500	-	-	-	192,500
Restricted	-	-	7,479	2,528,271	2,535,750
Assigned	-	101,581	-	-	101,581
Unassigned	2,763,669	-	-	-	2,763,669
Total Fund Balances	2,956,169	101,581	7,479	2,528,271	5,593,500
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,476,052	\$ 3,734,811	\$ 829,420	\$ 6,470,333	

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.	13,599,039
Other long-term assets are not available to pay for current-period expenditures, and therefore are deferred in the funds.	7,694,529
Other assets that are not available to pay for current period expenditures, and therefore are not reported in the funds.	219
Net position of governmental activities	\$ 26,887,287

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, 2018

	<u>General Operating</u>	<u>Loan Programs</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues					
Taxes					
Tax increments	\$ -	\$ -	\$ 2,770,948	\$ -	\$ 2,770,948
Intergovernmental revenues					
State of Minnesota grants	1,743,764	-	-	-	1,743,764
Charges for services					
Parking meters	586,470	-	-	-	586,470
Building rent	460,160	-	-	-	460,160
Other	1,684,685	-	-	-	1,684,685
Miscellaneous revenues					
Earnings on investments	12,504	1,485	9,246	32,787	56,022
Interest	-	4,362	-	-	4,362
Other	335,869	18,528	-	-	354,397
Total Revenues	<u>4,823,452</u>	<u>24,375</u>	<u>2,780,194</u>	<u>32,787</u>	<u>7,660,808</u>
Expenditures					
Current					
Urban and economic development					
Other services and charges	-	-	-	27,450	27,450
Economic development projects	2,899,940	-	430,993	50,000	3,380,933
Capital outlay					
Urban and economic development					
Land	124,241	-	-	-	124,241
Debt service					
Principal retirement	-	-	453,477	-	453,477
Interest and fiscal fees	-	-	1,161,476	-	1,161,476
Total Expenditures	<u>3,024,181</u>	<u>-</u>	<u>2,045,946</u>	<u>77,450</u>	<u>5,147,577</u>
Excess of Revenues Over (Under) Expenditures	<u>1,799,271</u>	<u>24,375</u>	<u>734,248</u>	<u>(44,663)</u>	<u>2,513,231</u>
Other Financing Sources (Uses)					
Transfers in					
DEDA Capital Projects	108,806	-	-	-	108,806
DEDA Debt Service	-	-	-	735,389	735,389
Total Transfers In	<u>108,806</u>	<u>-</u>	<u>-</u>	<u>735,389</u>	<u>844,195</u>
Transfers out					
DEDA General Operating	-	-	-	(108,806)	(108,806)
DEDA Capital Projects	-	-	(735,389)	-	(735,389)
Total Transfers Out	<u>-</u>	<u>-</u>	<u>(735,389)</u>	<u>(108,806)</u>	<u>(844,195)</u>
Total Other Financing Sources (Uses)	<u>108,806</u>	<u>-</u>	<u>(735,389)</u>	<u>626,583</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>1,908,077</u>	<u>24,375</u>	<u>(1,141)</u>	<u>581,920</u>	<u>2,513,231</u>
Fund Balances					
Fund Balance - January 1, 2018, as restated (see Note 1)	1,048,092	77,206	8,620	1,946,351	3,080,269
Fund Balance - December 31, 2018	<u>\$ 2,956,169</u>	<u>\$ 101,581</u>	<u>\$ 7,479</u>	<u>\$ 2,528,271</u>	<u>\$ 5,593,500</u>

**CITY OF DULUTH, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
DULUTH ECONOMIC DEVELOPMENT AUTHORITY
COMPONENT UNITS - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net change in fund balances - total governmental funds	\$ 2,513,231
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.	(872,238)
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.	(437,907)
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.	(24,011)
Change in net position of governmental activities	<u>\$ 1,179,075</u>

**DULUTH JPE TRUST
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2018**

	<u>Health Fund</u>	<u>Dental Fund</u>	<u>JPE Trust Total</u>
Assets			
Investments:			
Money market	\$ 1,514,447	\$ 84,349	\$ 1,598,796
US government treasury securities	3,651,374	199,598	3,850,972
US government agency securities	1,247,316	50,169	1,297,485
Receivables:			
Other	70,414	13,651	84,065
Total assets	<u>\$ 6,483,551</u>	<u>\$ 347,767</u>	<u>\$ 6,831,318</u>
Liabilities			
Claims payable	\$ 1,596,944	\$ 91,946	\$ 1,688,890
Accounts payable	16,723	-	16,723
Total liabilities	<u>\$ 1,613,667</u>	<u>\$ 91,946</u>	<u>\$ 1,705,613</u>
Net Position			
Held in trust	<u>\$ 4,869,884</u>	<u>\$ 255,821</u>	<u>\$ 5,125,705</u>

DULUTH JPE TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

	Health Fund	Dental Fund	JPE Trust Total
Additions			
Health premiums:			
Active employees	\$ 16,024,662	\$ -	\$ 16,024,662
Inactive employees	9,669,851	-	9,669,851
Dental premiums	-	892,265	892,265
Refunds and reimbursements:			
Prescription drug rebates	384,932	-	384,932
Flexible benefit forfeitures	-	-	-
Health Partners shared savings	252,871	-	252,871
Investment earnings	112,963	5,228	118,191
Total additions	<u>26,445,279</u>	<u>897,493</u>	<u>27,342,772</u>
Deductions			
Medical and drug claims:			
Active employees	14,071,591	-	14,071,591
Inactive employees	7,334,815	-	7,334,815
Medical insurance - medicare supplement	3,972,163	-	3,972,163
Dental claims	-	825,206	825,206
Administrative fees:			
Health Partners	802,784	-	802,784
Delta Dental	-	61,333	61,333
City of Duluth	360,500	-	360,500
Trust services	19,379	899	20,278
Consulting services	93,882	-	93,882
Wellness activities	25,955	-	25,955
Patient centered outcomes research fee	3,864	-	3,864
Stop loss insurance	198,680	-	198,680
Miscellaneous	2,999	-	2,999
Total deductions	<u>26,886,612</u>	<u>887,438</u>	<u>27,774,050</u>
Change in Net Position	(441,333)	10,055	(431,278)
Net Position - January 1, 2018	<u>5,311,217</u>	<u>245,766</u>	<u>5,556,983</u>
Net Position - December 31, 2018	<u>\$ 4,869,884</u>	<u>\$ 255,821</u>	<u>\$ 5,125,705</u>

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	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	\$ 29,645,975	\$ -	\$ -	\$ -	\$ -	\$ 29,645,975
PERA Aid	124,428	-	-	-	54,402	178,830
PERA Contribution	419,103	-	-	-	-	419,103
Insurance Premium	2,039,452	-	-	-	-	2,039,452
Total Shared Revenue	32,228,958	-	-	-	54,402	32,283,360
State Grants:						
State of Minnesota, Department of Education						
Minnesota Library Information Network	4,661	-	-	-	-	4,661
Employment and Economic Development						
Dislocated Workers	-	98,228	-	-	-	98,228
Regional Industry Sector Grant	-	40,000	-	-	-	40,000
Women's Economic Security Act	-	28,602	-	-	-	28,602
Workforce Housing Development Program	-	120,000	-	-	-	120,000
Workforce Housing Grant Program	-	30,001	-	-	-	30,001
Youth Program	-	255,802	-	-	-	255,802
Employment and Economic Development Total	-	572,633	-	-	-	572,633
Labor and Industry						
Safety Grant Project	5,000	9,000	-	-	-	14,000
Natural Resources						
Conservation Partners Legacy Grant Program	-	380,000	-	254,567	-	634,567
Cross Country Ski Trail	11,000	-	-	-	-	11,000
Lake Superior Zoo	-	160,000	-	-	-	160,000
Minnesota Flood Relief 2012	-	357,483	-	-	-	357,483
Parks Legacy Grant	-	183,107	-	-	-	183,107
Regional Trail Program	-	-	-	196,890	-	196,890
Snowmobile Trail	14,662	-	-	-	-	14,662
Natural Resources Total	25,662	1,080,590	-	451,457	-	1,557,709
Peace Officers Board						
Post Training Reimbursement	134,938	-	-	-	-	134,938
Public Safety						
Bulletproof Vests	16,143	-	-	-	-	16,143
Community Justice Reinvestment Grant	-	93,545	-	-	-	93,545
Crime Victim Services Prosecutorial 2018	-	6,307	-	-	-	6,307
Financial Crimes Task Force	-	7,402	-	-	-	7,402
Firefighter Education Reimbursement	-	32,015	-	-	-	32,015
HAZMAT Regional Response Team	-	448,657	-	-	-	448,657
MN Anti-Heroin Task Force Program	-	25,822	-	-	-	25,822
State of Minnesota Disaster Funds	-	54,458	-	-	-	54,458
Violent Crime Enforcement Team	-	410,000	-	-	-	410,000
Public Safety Total	16,143	1,078,206	-	-	-	1,094,349

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Proprietary and Internal Service Funds	Totals
Pollution Control Agency Minnesota Slip Dock Wall Reconstruction and SS William Irvin Removal	-	-	-	1,940,094	-	1,940,094
Revenue						
Market Value Credit	230	-	-	-	-	230
Transportation						
MSA Street Construction Allotment	-	-	-	6,768,755	-	6,768,755
MSA Street Maintenance Allotment	1,533,400	-	-	-	-	1,533,400
Transportation Total	1,533,400	-	-	6,768,755	-	8,302,155
Total State Grants	1,720,034	2,740,429	-	9,160,306	-	13,620,769
Other Grants:						
St. Louis County						
Job Training Services	-	943,380	-	-	-	943,380
Other	138,411	-	-	49,803	-	188,214
St. Louis County Total	138,411	943,380	-	49,803	-	1,131,594
Duluth Seaway Port Authority	-	-	-	68,985	-	68,985
Duluth Transit Authority	-	101,329	-	-	-	101,329
Housing and Redevelopment Authority	66,012	315,770	-	-	-	381,782
Independent School District #709	261,820	-	-	-	-	261,820
Total Other Grants	466,243	1,360,479	-	118,788	-	1,945,510
Federal Grants:						
Federal, Department of						
Agriculture						
Cooperative Forestry Assistance	-	1,745	-	-	-	1,745
Forest Health Protection	-	65,000	-	-	-	65,000
Urban and Community Forestry Program	-	8,402	-	-	-	8,402
Agriculture Total	-	75,147	-	-	-	75,147
Commerce						
Coastal Zone Management Grant	-	100,000	-	81,275	-	181,275
Corporation for National and Community Service Social Innovation Fund	-	18,579	-	-	-	18,579
Education						
Rehabilitation Services Vocational Rehabilitation Grants to States	-	7,665	-	-	-	7,665
Environmental Protection Agency						
Brownfields Assessment and Cleanup Cooperative	-	97,737	-	-	-	97,737
Great Lakes Program	-	144,898	-	-	-	144,898
Environmental Protection Agency Total	-	242,635	-	-	-	242,635
Homeland Security						
Assistance to Firefighters Grant	-	40,870	-	-	-	40,870
Emergency Management Performance Grants	-	16,258	-	-	-	16,258
FEMA Disaster Assistance	-	988	-	-	-	988
Port Security Grant Program	-	139,661	-	-	-	139,661
Operation Stonegarden Grant Program	-	34,242	-	-	-	34,242
Homeland Security Total	-	232,019	-	-	-	232,019

(continued)

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	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	-	2,162,508	-	-	-	2,162,508
Emergency Solutions Grant Program	-	266,686	-	-	-	266,686
Home Investment Partnerships Program	-	581,139	-	-	-	581,139
Lead-Based Paint Hazard Control Grant Program	-	152,337	-	-	-	152,337
Housing and Urban Development Total	-	3,162,670	-	-	-	3,162,670
Justice						
ATF (Alcohol Tobacco Firearms) Task Force	20,617	-	-	-	-	20,617
Bulletproof Vest Partnership Program	17,637	-	-	-	-	17,637
Crime Victim Services Prosecutorial 2018	-	34,772	-	-	-	34,772
Edward Bryne Memorial Formula Grant	-	18,615	-	-	-	18,615
Grants to Encourage Arrest Policies	-	112,617	-	-	-	112,617
National Sexual Assault Kit Initiative	-	581,532	-	-	-	581,532
Justice Total	38,254	747,536	-	-	-	785,790
Labor						
WIA Dislocated Workers Formula Grant	-	87,468	-	-	-	87,468
Senior Community Service Employment	-	426,068	-	-	-	426,068
Temporary Assistance to Needy Families	-	937	-	-	-	937
Workforce Investment Act	-	581,557	-	-	-	581,557
Labor Total	-	1,096,030	-	-	-	1,096,030
Transportation						
Highway Planning and Construction	-	-	-	2,293,655	-	2,293,655
Interagency Hazardous Materials Public Sector	-	18,066	-	-	-	18,066
NHTSA: DWI Officers	-	105,904	-	-	-	105,904
Recreational Trails Program	-	-	-	392,648	-	392,648
Toward Zero Deaths Law Enforcement Grant	-	246,729	-	-	-	246,729
Transportation Total	-	370,699	-	2,686,303	-	3,057,002
Total Federal Grants	38,254	6,052,980	-	2,767,578	-	8,858,812
Other Federal:						
Treasury Build America Interest Rebate	-	-	223,038	-	-	223,038
Total Intergovernmental Revenue	\$ 34,453,489	\$ 10,153,888	\$ 223,038	\$ 12,046,672	\$ 54,402	\$ 56,931,489

**CITY OF DULUTH, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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				
Cooperative Forestry Assistance		10.664	\$ 1,745	\$ -
Passed Through Minnesota Department of Natural Resources Urban and Community Forestry Program	140175	10.675	14,492	-
Passed Through Minnesota Department of Agriculture Forest Health Protection	JPA-133100	10.680	<u>65,000</u>	<u>-</u>
Total U.S. Department of Agriculture			\$ 81,237	\$ -
U.S. Department of Commerce				
Passed Through Minnesota Department of Natural Resources Coastal Zone Management Administration Awards	16-306A	11.419	\$ 107,819	\$ -
U.S. Department of Housing and Urban Development				
Direct				
CDBG - Entitlement Grants Cluster Community Development Block Grants/Entitlement Grants (Total expenditures for CDBG - Entitlement Grants Cluster \$2,042,424)		14.218	\$ 2,042,424	\$ 1,417,390
Emergency Solutions Grant Program		14.231	269,014	240,837
Home Investment Partnerships Program		14.239	520,035	484,020
Lead-Based Paint Hazard Control in Privately-Owned Housing		14.900	<u>104,713</u>	<u>104,713</u>
Total U.S. Department of Housing and Urban Development			\$ 2,936,186	\$ 2,246,960
U.S. Department of Justice				
Direct				
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		16.590	\$ 112,617	\$ -
Bulletproof Vest Partnership Program		16.607	18,584	-
Edward Byrne Memorial Justice Assistance Grant Program		16.738	18,615	-
National Sexual Assault Kit Initiative		16.833	587,136	-
Comprehensive Opioid Abuse Site-Based Program		16.838	2,444	-
Passed Through ATF Northern Minnesota Task Force Alcohol, Tobacco, and Firearms - Training Assistance	18-STP-238-AFF	16.012	20,617	-
Passed through the Minnesota Department of Public Safety Crime Victim Assistance	A-CVSP-2018-DULUTHAO-00031	16.575	<u>34,772</u>	<u>-</u>
Total U.S. Department of Justice			\$ 794,785	\$ -
U.S. Department of Labor				
Passed Through Senior Service America, Inc. Senior Community Service Employment Program (Total Senior Community Service Employment Program 17.235 \$426,088)	116	17.235	\$ 312,008	\$ -
Passed Through Minnesota Department of Employment and Economic Development				
Senior Community Service Employment Program	8045100	17.235	57,932	-
Senior Community Service Employment Program	9045100	17.235	56,148	-
(Total Senior Community Service Employment Program 17.235 \$426,088)				
Workforce Investment Act (WIA) Cluster				
WIA/WIOA Adult Program	6043100	17.258	5,794	-
WIA/WIOA Adult Program	7043100	17.258	180,827	-
WIA/WIOA Adult Program	8043100	17.258	<u>15,694</u>	<u>-</u>
Total CFDA # 17.258			<u>202,315</u>	<u>-</u>

(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, 2018**

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)				
WIA/WIOA Youth Activities	6043600	17.259	781	-
WIA/WIOA Youth Activities	6043601	17.259	2,561	-
WIA/WIOA Youth Activities	7043600	17.259	225,309	-
WIA/WIOA Youth Activities	8043600	17.259	150,697	-
Total CFDA # 17.259			379,348	-
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	5047200	17.277	15,734	-
WIA/WIOA Dislocated Worker Formula Grants	6048000	17.278	2,008	-
WIA/WIOA Dislocated Worker Formula Grants	6048001	17.278	1,561	-
WIA/WIOA Dislocated Worker Formula Grants	7048000	17.278	62,226	-
WIA/WIOA Dislocated Worker Formula Grants	8048000	17.278	5,962	-
Total CFDA # 17.278			71,757	-
Passed Through Minnesota Workforce Council Association WIA/WIOA Dislocated Worker Formula Grants (Total expenditures for Workforce Investment Act (WIA) Cluster \$661,691)	7025302	17.278	8,271	-
Total U.S. Department of Labor			\$ 1,103,513	\$ -
U.S. Department of Transportation				
Passed Through Minnesota Department of Transportation				
Highway Planning and Construction Cluster				
Highway Planning and Construction	99887	20.205	\$ 793,506	\$ -
Highway Planning and Construction	1029940	20.205	1,653,635	-
Highway Planning and Construction	118-090-023	20.205	48,362	-
Total CFDA # 20.205			2,495,503	-
Passed Through Minnesota Department of Natural Resources				
Highway Planning and Construction Cluster				
Recreational Trails Program	TRAL022	20.219	219,336	-
Recreational Trails Program	TRAL023	20.219	111,748	-
Total CFDA # 20.219 (Total expenditures for Highway Planning and Construction Cluster \$2,826,587)			331,084	-
Passed Through Minnesota Department of Public Safety				
Highway Safety Cluster				
State and Community Highway Safety	A-ENFRC18-2018-DULUTHPD-001	20.600	25,820	-
State and Community Highway Safety	A-ENFRC19-2019-DULUTHPD-037	20.600	951	-
Total CFDA # 20.600			26,771	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-ENFRC18-2018-DULUTHPD-001	20.608	147,926	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-ENFRC-19-2019-DULUTHPD-037	20.608	48,608	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-OFFICR18-2018-DULUTHPD-002	20.608	17,873	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	A-OFFICR19-2019-DULUTHPD-003	20.608	53,082	-
Total CFDA # 20.608			267,489	-
Highway Safety Cluster				
National Priority Safety Programs	A-ENFRC18-2018-DULUTHPD-001	20.616	23,423	-
National Priority Safety Programs	A-OFFICR18-2018-DULUTHPD-002	20.616	8,803	-
National Priority Safety Programs	A-OFFICR19-2019-DULUTHPD-003	20.616	26,145	-
Total CFDA # 20.616 (Total expenditures for Highway Safety Cluster \$85,142)			58,371	-
Passed through Minnesota Department of Homeland Security and Emergency Management Interagency Hazardous Materials Public Sector Training and Planning Grants				
	A-HMEP-2017-DULUTHFD-012	20.703	18,066	-
Total U.S. Department of Transportation			\$ 3,197,284	\$ -

(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, 2018**

Federal Grantor Pass-Through Agency Grant Program Title	Pass-Through Grant Numbers	Federal CFDA Number	Expenditures	Passed Through to Subrecipients
U.S. Department of the Treasury				
Direct				
Equitable Sharing		21.016	\$ 423,309	\$ -
U.S. Environmental Protection Agency				
Direct				
Great Lakes Program		66.469	\$ 144,898	\$ -
Brownfields Assessment and Cleanup Cooperative Agreements		66.818	103,288	-
Total U.S. Environmental Protection Agency			\$ 248,186	\$ -
U.S. Department of Education				
Passed through Minnesota Department of Employment and Economic Development				
Rehabilitation Services Vocational Rehabilitation Grants to States	7047300	84.126	\$ 7,665	\$ -
Corporation for National and Community Service				
Passed Through SOAR Career Solutions				
Social Innovation Fund	15SIHMN001	94.019	\$ 13,634	\$ -
U.S. Department of Homeland Security				
Direct				
Assistance to Firefighters Grant		97.044	\$ 40,870	\$ -
Port Security Grant Program		97.056	142,379	-
Passed Through Minnesota Department of Public Safety				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-4069-DR-MN	97.036	(4,156)	-
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	FEMA-4414-DR-MN	97.036	165,539	-
Total CFDA # 97.036			161,383	-
Emergency Management Performance Grants	A-EMPG-2017-DULUTHCI-00022	97.042	13,042	-
Passed Through St. Louis County Homeland Security Grant Program	A-OPSG-2016-STLOUICO-007	97.067	34,242	-
Total U.S. Department of Homeland Security			\$ 391,916	\$ -
Total Federal Awards			\$ 9,305,534	\$ 2,246,960

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, 2018

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 \$8,737,558 and \$11,912,328 in federal awards expended by the Duluth Airport Authority and Duluth Transit Authority, respectively, component units of the City, which had a 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, 2018. 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 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	\$ 8,858,812
Expenditures of Revolving Loan Fund	
Community Development Block Grants	79,739
Expenditures of Equitable Sharing Funds	423,309
Grants received more than 45 days after year-end, unavailable in 2018	
Urban and Community Forestry Program	6,091
Brownfields Assessment and Cleanup Cooperative Agreements	5,551
Bulletproof Vest Partnership Program	3,494
Community Development Block Grants	157,102
Disaster Grants - Public Assistance	1,927,353
Emergency Solutions Grant Program	8,994
Highway Planning and Construction	368,896
Home Investment Partnerships Program	7,597
Recreational Trails Program	19,101
Senior Community Service Employment Program	18
WIA/WIOA Dislocated Worker Formula Grant	8,288
WIOA Adult Program	1,081
WIOA National Dislocated Worker Grants/WIA National	
Emergency Grants	6
WIOA Youth Program	7
Unavailable in 2017, recognized as revenue in 2018	
Coastal Zone Management Administration Awards	(73,456)
Community Development Block Grants	(356,844)
Disaster Grants - Public Assistance	(1,766,958)
Emergency Solutions Grant Program	(6,664)
Highway Planning and Construction	(165,529)
Home Investment Partnerships Program	(68,702)
Lead-Based Paint Hazard Control in Privately-Owned Housing	(41,387)
Local Law Enforcement Block Grant Program	(13,722)
Recreational Trails Program	(80,664)
Social Innovative Fund	(4,945)

**CITY OF DULUTH, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Temporary Assistance for Needy Families	(937)
WIOA Adult Program	(384)
WIOA Youth Program	(598)
Timing Differences Between Expenditures and Related Reimbursements	<u>10,885</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 9,305,534</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 155-161

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 163-165

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

Debt Capacity - Pages 166-169

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 171

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 172-177

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Governmental activities					
Net investment in capital assets	\$ 202,558,996	\$ 197,355,610	\$ 213,619,166	\$ 209,484,876	\$ 210,631,129
Restricted	23,345,567	22,294,675	43,113,335	36,781,284	40,778,013
Unrestricted *	<u>53,057,668</u>	<u>9,970,184</u>	<u>(22,596,696)</u>	<u>(21,202,511)</u>	<u>(27,519,849)</u>
Total governmental activities net position	<u>\$ 278,962,231</u>	<u>\$ 229,620,469</u>	<u>\$ 234,135,805</u>	<u>\$ 225,063,649</u>	<u>\$ 223,889,293</u>
Business-type activities					
Net investment in capital assets	\$ 117,943,713	\$ 136,180,485	\$ 150,333,747	\$ 158,415,070	\$ 168,290,764
Restricted	2,088,446	2,108,171	1,998,139	1,864,068	1,877,950
Unrestricted *	<u>24,767,225</u>	<u>22,771,757</u>	<u>21,865,404</u>	<u>24,618,744</u>	<u>26,878,191</u>
Total business-type activities net position	<u>\$ 144,799,384</u>	<u>\$ 161,060,413</u>	<u>\$ 174,197,290</u>	<u>\$ 184,897,882</u>	<u>\$ 197,046,905</u>
Primary government					
Net investment in capital assets	320,502,709	333,536,095	363,952,913	367,899,946	378,921,893
Restricted	25,434,013	24,402,846	45,111,474	38,645,352	42,655,963
Unrestricted *	<u>77,824,893</u>	<u>32,741,941</u>	<u>(731,292)</u>	<u>3,416,233</u>	<u>(641,658)</u>
Total primary government net position	<u>\$ 423,761,615</u>	<u>\$ 390,680,882</u>	<u>\$ 408,333,095</u>	<u>\$ 409,961,531</u>	<u>\$ 420,936,198</u>

	Fiscal Year				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Governmental activities					
Net investment in capital assets	\$ 235,177,972	\$ 242,346,774	\$ 242,875,012	\$ 245,733,061	\$ 249,612,707
Restricted	46,063,716	43,143,639	45,703,757	46,203,035	42,919,978
Unrestricted *	<u>(45,926,755)</u>	<u>(100,062,238)</u>	<u>(113,329,374)</u>	<u>(117,374,039)</u>	<u>(181,539,392)</u>
Total governmental activities net position	<u>\$ 235,314,933</u>	<u>\$ 185,428,175</u>	<u>\$ 175,249,395</u>	<u>\$ 174,562,057</u>	<u>\$ 110,993,293</u>
Business-type activities					
Net investment in capital assets	\$ 182,656,056	\$ 204,789,234	\$ 218,517,664	\$ 227,778,536	\$ 240,473,773
Restricted	2,881,659	2,892,969	2,072,379	2,119,974	2,114,827
Unrestricted *	<u>28,779,936</u>	<u>14,843,438</u>	<u>11,153,671</u>	<u>13,766,078</u>	<u>11,262,947</u>
Total business-type activities net position	<u>\$ 214,317,651</u>	<u>\$ 222,525,641</u>	<u>\$ 231,743,714</u>	<u>\$ 243,664,588</u>	<u>\$ 253,851,547</u>
Primary government					
Net investment in capital assets	417,834,028	447,136,008	461,392,676	473,511,597	490,086,480
Restricted	48,945,375	46,036,608	47,776,136	48,323,009	45,034,805
Unrestricted *	<u>(17,146,819)</u>	<u>(85,218,800)</u>	<u>(102,175,703)</u>	<u>(103,607,961)</u>	<u>(170,276,445)</u>
Total primary government net position	<u>\$ 449,632,584</u>	<u>\$ 407,953,816</u>	<u>\$ 406,993,109</u>	<u>\$ 418,226,645</u>	<u>\$ 364,844,840</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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Expenses					
Governmental activities:					
General government	\$ 35,376,090	\$ 36,014,153	\$ 38,577,305	\$ 40,761,298	\$ 24,455,977
Public safety	36,397,795	38,100,958	37,895,850	38,190,780	39,860,955
Public works	7,616,214	13,657,626	9,040,308	12,320,891	26,286,454
Culture and recreation	24,655,278	25,434,289	7,986,366	15,125,570	11,872,741
Urban and economic development	15,722,245	14,549,117	15,446,838	13,275,120	14,922,283
Interest	<u>5,175,178</u>	<u>5,409,679</u>	<u>4,692,654</u>	<u>4,907,447</u>	<u>4,535,639</u>
Total governmental activities expenses	<u>124,942,800</u>	<u>133,165,822</u>	<u>113,639,321</u>	<u>124,581,106</u>	<u>121,934,049</u>
Business-type activities:					
Water	10,717,468	10,810,875	11,218,488	10,243,435	11,015,475
Gas	38,462,243	35,800,001	36,217,536	30,351,746	35,174,140
Sewer	17,569,046	16,259,669	17,291,803	18,216,008	17,882,780
Stormwater	3,308,604	3,333,875	3,474,137	3,447,389	3,581,689
Steam district #1	5,994,665	6,258,368	6,974,162	7,083,477	7,692,984
Steam district #2	9,031,530	-	-	-	-
Golf	1,895,162	2,006,633	2,056,166	2,192,560	2,059,673
Parking	1,881,852	1,957,414	1,939,941	2,923,741	2,901,617
Priley Drive parking facility	-	-	-	-	-
Street lighting	<u>1,391,981</u>	<u>1,557,525</u>	<u>1,480,674</u>	<u>1,583,897</u>	<u>1,545,598</u>
Total business-type activities expenses	<u>90,252,551</u>	<u>77,984,360</u>	<u>80,652,907</u>	<u>76,042,253</u>	<u>81,853,956</u>
Total primary government expenses	<u>\$ 215,195,351</u>	<u>\$ 211,150,182</u>	<u>\$ 194,292,228</u>	<u>\$ 200,623,359</u>	<u>\$ 203,788,005</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 4,514,042	\$ 4,619,911	\$ 4,673,037	\$ 4,415,328	\$ 4,675,590
Public safety	2,555,541	3,330,905	2,975,998	2,925,524	1,948,070
Public works	349,364	369,068	370,237	394,422	111,061
Culture and recreation	1,108,600	1,297,370	1,273,472	1,082,261	1,332,448
Urban and economic development	525,437	280,880	310,839	347,895	2,816,814
Operating grants and contributions	11,846,124	14,164,865	15,685,467	13,668,138	13,309,497
Capital grants and contributions	<u>7,095,416</u>	<u>17,075,628</u>	<u>13,067,199</u>	<u>12,230,295</u>	<u>17,878,748</u>
Total governmental activities program revenues	<u>27,994,524</u>	<u>41,138,627</u>	<u>38,356,249</u>	<u>35,063,863</u>	<u>42,072,228</u>
Business-type activities:					
Charges for services:					
Water	11,961,915	12,024,675	11,743,510	13,911,617	14,866,657
Gas	46,419,426	39,882,397	41,415,145	34,071,373	40,587,986
Sewer	20,320,378	20,347,330	20,040,992	20,350,506	20,535,669
Stormwater	5,222,917	4,730,608	4,632,541	4,798,166	4,750,421
Steam district #1	6,152,268	6,617,346	7,169,021	7,239,203	7,858,968
Steam district #2	8,384,720	-	-	-	-
Golf	1,945,446	1,967,401	1,872,577	1,926,929	1,738,980
Parking	2,524,682	2,563,215	2,567,703	3,185,152	3,777,759
Priley Drive parking facility	-	-	-	-	-
Street lighting	<u>1,271,623</u>	<u>1,270,118</u>	<u>1,894,038</u>	<u>2,272,395</u>	<u>2,147,449</u>
Operating grants and contributions	-	-	-	-	60,699
Capital grants and contributions	<u>3,836,174</u>	<u>9,104,643</u>	<u>5,135,700</u>	<u>3,366,852</u>	<u>2,812,199</u>
Total business-type activities program revenues	<u>108,039,549</u>	<u>98,507,733</u>	<u>96,471,227</u>	<u>91,122,193</u>	<u>99,136,787</u>
Total primary government program revenues	<u>\$ 136,034,073</u>	<u>\$ 139,646,360</u>	<u>\$ 134,827,476</u>	<u>\$ 126,186,056</u>	<u>\$ 141,209,015</u>

(continued)

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

	Fiscal Year				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Net (expense)/revenue					
Governmental activities	\$ (96,948,276)	\$ (92,027,195)	\$ (75,283,072)	\$ (89,517,243)	\$ (79,861,821)
Business-type activities	<u>17,786,998</u>	<u>20,523,373</u>	<u>15,818,320</u>	<u>15,079,940</u>	<u>17,282,831</u>
Total primary government net expense	<u>\$ (79,161,278)</u>	<u>\$ (71,503,822)</u>	<u>\$ (59,464,752)</u>	<u>\$ (74,437,303)</u>	<u>\$ (62,578,990)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
General Revenues:					
Property taxes	\$ 18,125,284	\$ 16,001,873	\$ 16,718,385	\$ 21,379,384	\$ 21,924,954
Market value credit aid	1,147,029	33,675	34,071	9,759	-
Sales taxes	18,009,914	19,252,407	20,071,454	20,888,940	20,388,588
Franchise taxes	1,889,796	1,917,379	1,922,796	1,928,149	1,958,297
Other taxes	684,088	97,549	159,416	141,927	134,580
Casino shared revenues	5,963,162	6,258,727	2,096,800	579,478	-
Grants and shared revenues not restricted to specific programs	31,498,519	29,130,992	29,154,013	29,148,898	29,401,345
Investment income	4,034,753	2,307,506	2,934,301	506,168	(1,632,312)
Gain on sale or disposition of capital assets	84,278	19,174	169,695	19,124	550,473
Miscellaneous	1,031,930	13,584	1,157,996	1,172,063	2,694,159
Extraordinary items	-	-	-	-	-
Transfers	<u>7,839,803</u>	<u>4,552,145</u>	<u>5,379,481</u>	<u>4,671,197</u>	<u>4,714,434</u>
Total governmental activities	<u>90,308,556</u>	<u>79,585,011</u>	<u>79,798,408</u>	<u>80,445,087</u>	<u>80,134,518</u>
Business-type activities:					
General Revenues:					
Property taxes	-	-	-	-	-
Grants and shared revenues not restricted to specific programs	-	-	48,567	51,272	48,566
Investment income	320,540	282,545	349,471	184,954	33,206
Gain on sale or disposition of capital assets	112,447	7,256	-	55,623	(4,983)
Miscellaneous	-	-	2,300,000	-	69,099
Extraordinary items	(5,441,237)	-	-	-	-
Transfers	<u>(7,839,803)</u>	<u>(4,552,145)</u>	<u>(5,379,481)</u>	<u>(4,671,197)</u>	<u>(4,714,434)</u>
Total business-type activities	<u>(12,848,053)</u>	<u>(4,262,344)</u>	<u>(2,681,443)</u>	<u>(4,379,348)</u>	<u>(4,568,546)</u>
Total primary government	<u>\$ 77,460,503</u>	<u>\$ 75,322,667</u>	<u>\$ 77,116,965</u>	<u>\$ 76,065,739</u>	<u>\$ 75,565,972</u>
Change in Net Position					
Governmental activities	\$ (6,639,720)	\$ (12,442,184)	\$ 4,515,336	\$ (9,072,156)	\$ 272,697
Business-type activities	<u>4,938,945</u>	<u>16,261,029</u>	<u>13,136,877</u>	<u>10,700,592</u>	<u>12,714,285</u>
Total primary government	<u>\$ (1,700,775)</u>	<u>\$ 3,818,845</u>	<u>\$ 17,652,213</u>	<u>\$ 1,628,436</u>	<u>\$ 12,986,982</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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Expenses					
Governmental activities:					
General government	\$ 27,045,420	\$ 26,652,865	\$ 28,487,636	\$ 29,490,639	\$ 31,093,037
Public safety	40,104,416	40,798,398	55,526,260	47,268,796	43,352,480
Public works	21,622,112	22,230,628	25,219,128	23,999,112	24,997,278
Culture and recreation	11,584,949	18,319,587	10,407,695	12,497,000	13,169,901
Urban and economic development	14,294,290	14,265,141	17,688,597	15,406,291	13,664,386
Interest	<u>4,338,915</u>	<u>4,619,216</u>	<u>4,543,299</u>	<u>3,951,480</u>	<u>4,025,051</u>
Total governmental activities expenses	<u>118,990,102</u>	<u>126,885,835</u>	<u>141,872,615</u>	<u>132,613,318</u>	<u>130,302,133</u>
Business-type activities:					
Water	11,255,835	10,187,477	10,997,029	11,159,899	11,268,976
Gas	49,131,965	29,262,281	27,526,208	31,537,930	33,160,799
Sewer	16,963,128	16,284,112	16,034,063	16,018,954	16,835,052
Stormwater	3,701,827	3,764,611	4,208,833	3,564,421	3,430,458
Steam district #1	7,254,245	7,666,582	8,364,984	8,298,624	8,185,310
Steam district #2	-	-	-	-	-
Golf	2,020,655	2,309,016	2,068,650	1,940,477	1,853,157
Parking	2,701,445	2,550,028	2,630,605	2,748,883	2,980,182
Priley Drive parking facility	-	-	768,011	1,266,511	1,254,483
Street lighting	<u>1,910,875</u>	<u>1,914,331</u>	<u>2,307,565</u>	<u>2,123,129</u>	<u>1,909,552</u>
Total business-type activities expenses	<u>94,939,975</u>	<u>73,938,438</u>	<u>74,905,948</u>	<u>78,658,828</u>	<u>80,877,969</u>
Total primary government expenses	<u>\$ 213,930,077</u>	<u>\$ 200,824,273</u>	<u>\$ 216,778,563</u>	<u>\$ 211,272,146</u>	<u>\$ 211,180,102</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 5,018,181	\$ 4,854,823	\$ 4,934,248	\$ 5,706,995	\$ 5,869,145
Public safety	1,501,647	1,562,794	1,698,161	2,869,629	2,023,574
Public works	1,320,130	2,801,089	2,723,412	56,549	82,235
Culture and recreation	1,299,671	1,310,840	1,182,738	1,247,455	1,270,730
Urban and economic development	3,383,810	3,095,554	2,655,700	2,183,548	2,682,020
Operating grants and contributions	11,487,629	10,096,446	12,402,217	11,758,737	12,019,093
Capital grants and contributions	<u>19,388,699</u>	<u>19,174,980</u>	<u>15,968,844</u>	<u>11,096,107</u>	<u>12,912,987</u>
Total governmental activities program revenues	<u>43,399,767</u>	<u>42,896,526</u>	<u>41,565,320</u>	<u>34,919,020</u>	<u>36,859,784</u>
Business-type activities:					
Charges for services:					
Water	14,529,002	14,426,316	14,479,884	14,428,987	14,910,171
Gas	58,291,132	35,495,409	31,209,095	36,122,015	39,182,666
Sewer	19,493,753	19,973,712	19,527,000	19,538,573	19,709,102
Stormwater	4,624,063	4,754,516	5,243,461	5,298,272	5,283,440
Steam district #1	6,820,043	6,725,164	7,064,402	7,712,154	7,880,094
Steam district #2	-	-	-	-	-
Golf	1,734,534	1,931,016	1,822,938	1,730,447	1,692,369
Parking	4,207,977	4,516,797	4,552,144	4,060,636	3,740,640
Priley Drive parking facility	-	-	339,417	446,597	457,088
Street lighting	<u>2,146,270</u>	<u>1,922,930</u>	<u>1,501,926</u>	<u>1,399,669</u>	<u>1,390,572</u>
Operating grants and contributions	76,493	-	164,101	104,170	-
Capital grants and contributions	<u>4,597,404</u>	<u>8,380,978</u>	<u>2,251,332</u>	<u>2,832,186</u>	<u>5,602,821</u>
Total business-type activities program revenues	<u>116,520,671</u>	<u>98,126,838</u>	<u>88,155,700</u>	<u>93,673,706</u>	<u>99,848,963</u>
Total primary government program revenues	<u>\$ 159,920,438</u>	<u>\$ 141,023,364</u>	<u>\$ 129,721,020</u>	<u>\$ 128,592,726</u>	<u>\$ 136,708,747</u>

(continued)

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

	Fiscal Year				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net (expense)/revenue					
Governmental activities	\$ (75,590,335)	\$ (83,989,309)	\$ (100,307,295)	\$ (97,694,298)	\$ (93,442,349)
Business-type activities	<u>21,580,696</u>	<u>24,188,400</u>	<u>13,249,752</u>	<u>15,014,878</u>	<u>18,970,994</u>
Total primary government net expense	<u>\$ (54,009,639)</u>	<u>\$ (59,800,909)</u>	<u>\$ (87,057,543)</u>	<u>\$ (82,679,420)</u>	<u>\$ (74,471,355)</u>
General Revenues and Other Changes in Net Position					
Governmental activities:					
General Revenues:					
Property taxes	\$ 22,146,676	\$ 22,405,560	\$ 23,587,371	\$ 27,596,775	\$ 30,265,657
Market value credit aid	-	-	-	-	-
Sales taxes	22,031,014	24,305,293	24,585,124	25,188,254	26,267,168
Franchise taxes	2,013,126	2,008,194	1,998,457	3,883,316	3,997,060
Other taxes	622,015	255,491	198,546	204,587	254,096
Casino shared revenues	-	-	-	-	-
Grants and shared revenues not restricted to specific programs	30,995,305	31,232,887	31,345,365	31,420,457	31,810,084
Investment income	2,148,194	328,502	1,805,404	3,571,853	(440,856)
Gain on sale or disposition of capital assets	54,776	-	-	-	-
Miscellaneous	1,996,119	1,323,545	1,726,300	997,006	1,689,582
Extraordinary items	-	(13,264,958)	-	-	-
Transfers	<u>5,008,750</u>	<u>6,336,860</u>	<u>4,881,948</u>	<u>4,144,712</u>	<u>4,354,903</u>
Total governmental activities	<u>87,015,975</u>	<u>74,931,374</u>	<u>90,128,515</u>	<u>97,006,960</u>	<u>98,197,694</u>
Business-type activities:					
General Revenues:					
Property taxes	-	220,293	647,013	756,037	751,231
Grants and shared revenues not restricted to specific programs	48,566	48,566	48,566	59,826	48,567
Investment income	468,471	124,243	99,045	86,837	43,383
Gain on sale or disposition of capital assets	58,974	79,246	2,220	57,913	81,868
Miscellaneous	122,789	56,606	53,425	90,095	61,272
Extraordinary items	-	-	-	-	-
Transfers	<u>(5,008,750)</u>	<u>(6,336,860)</u>	<u>(4,881,948)</u>	<u>(4,144,712)</u>	<u>(4,354,903)</u>
Total business-type activities	<u>(4,309,950)</u>	<u>(5,807,906)</u>	<u>(4,031,679)</u>	<u>(3,094,004)</u>	<u>(3,368,582)</u>
Total primary government	<u>\$ 82,706,025</u>	<u>\$ 69,123,468</u>	<u>\$ 86,096,836</u>	<u>\$ 93,912,956</u>	<u>\$ 94,829,112</u>
Change in Net Position					
Governmental activities	\$ 11,425,640	\$ (9,057,935)	\$ (10,178,780)	\$ (687,338)	\$ 4,755,345
Business-type activities	<u>17,270,746</u>	<u>18,380,494</u>	<u>9,218,073</u>	<u>11,920,874</u>	<u>15,602,412</u>
Total primary government	<u>\$ 28,696,386</u>	<u>\$ 9,322,559</u>	<u>\$ (960,707)</u>	<u>\$ 11,233,536</u>	<u>\$ 20,357,757</u>

Unaudited

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

	Fiscal Year				
	<u>2009</u>	<u>2010</u>	<u>2011*</u>	<u>2012</u>	<u>2013</u>
General fund					
Reserved	\$ 436,860	\$ 368,134	\$ -	\$ -	\$ -
Unreserved	1,962,587	5,579,282	-	-	-
Nonspendable*	-	-	138,012	431,795	414,309
Restricted*	-	-	120,766	97,811	75,741
Committed*	-	-	-	9,067	13,454
Assigned*	-	-	332,997	583,777	821,114
Unassigned*	-	-	7,664,417	7,587,726	7,746,042
Total general fund	<u>\$ 2,399,447</u>	<u>\$ 5,947,416</u>	<u>\$ 8,256,192</u>	<u>\$ 8,710,176</u>	<u>\$ 9,070,660</u>
All other governmental funds					
Reserved	\$ 17,658,025	\$ 22,178,725	\$ -	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	55,293,268	38,712,371	-	-	-
Debt service funds	12,384,602	13,496,346	-	-	-
Capital projects funds	45,990,283	10,263,175	-	-	-
Restricted*	-	-	36,801,571	29,787,935	31,790,209
Committed*	-	-	144,721	294,971	18,095,100
Assigned*	-	-	27,983,067	23,258,693	576,094
Unassigned*	-	-	(255,786)	(2,995,479)	(5,512,643)
Total all other governmental funds	<u>\$ 131,326,178</u>	<u>\$ 84,650,617</u>	<u>\$ 64,673,573</u>	<u>\$ 50,346,120</u>	<u>\$ 44,948,760</u>

	Fiscal Year				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	-
Nonspendable*	258,535	-	-	-	-
Restricted*	91,324	95,801	85,776	99,766	184,891
Committed*	13,129	21,781	32,075	36,242	41,996
Assigned*	1,634,029	2,132,059	1,616,063	2,280,311	3,236,770
Unassigned*	9,320,545	11,624,121	11,634,076	13,190,484	13,422,108
Total general fund	<u>\$ 11,317,562</u>	<u>\$ 13,873,762</u>	<u>\$ 13,367,990</u>	<u>\$ 15,606,803</u>	<u>\$ 16,885,765</u>
All other governmental funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:					
Special revenue funds	-	-	-	-	-
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Restricted*	31,233,325	44,269,018	45,235,185	42,708,250	41,801,543
Committed*	19,705,618	19,846,164	21,707,282	24,583,093	23,357,054
Assigned*	445,627	389,344	824,467	1,209,071	1,691,541
Unassigned*	(4,232,523)	(8,155,193)	(2,101,580)	(1,981,450)	(3,130,083)
Total all other governmental funds	<u>\$ 47,152,047</u>	<u>\$ 56,349,333</u>	<u>\$ 65,665,354</u>	<u>\$ 66,518,964</u>	<u>\$ 63,720,055</u>

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

Source: Balance Sheet - Governmental Funds

Unaudited

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

	Fiscal Year				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues					
Taxes:					
Property taxes	\$ 17,859,578	\$ 15,953,934	\$ 16,581,461	\$ 21,336,285	\$ 21,913,489
Sales taxes	18,009,914	19,252,407	20,071,454	20,888,940	20,388,588
Other taxes	2,573,884	2,014,928	2,082,212	2,070,076	2,092,877
Licenses and permits	1,149,265	1,182,044	1,407,951	1,625,826	1,863,333
Intergovernmental revenues	50,047,221	55,756,919	56,211,950	49,469,851	55,451,614
Charges for services	6,348,063	6,902,683	6,453,510	5,891,728	6,441,338
Fines and forfeits	1,770,427	1,791,604	1,579,021	1,075,167	699,846
Special assessments	2,948,975	2,741,754	2,837,628	2,884,597	2,328,821
Investment income	3,691,734	2,051,772	2,669,071	430,056	(1,675,875)
Miscellaneous revenues	<u>6,321,696</u>	<u>3,285,276</u>	<u>3,956,649</u>	<u>4,124,685</u>	<u>4,521,654</u>
Total revenues	<u>110,720,757</u>	<u>110,933,321</u>	<u>113,850,907</u>	<u>109,797,211</u>	<u>114,025,685</u>
Expenditures					
General government	32,743,783	32,628,277	33,469,098	34,625,147	22,290,793
Public safety	36,718,739	33,901,872	34,606,780	36,476,109	35,035,481
Public works	1,872,986	7,164,216	2,081,437	6,046,513	19,397,379
Culture and recreation	6,095,879	6,570,834	6,865,686	7,761,926	9,469,074
Urban and economic development	14,059,428	14,177,365	15,251,986	20,203,006	17,762,959
Debt service					
Principal retirement	12,354,000	10,254,000	11,395,000	13,045,000	8,655,000
Interest and fiscal fees	5,264,029	5,441,345	4,989,456	5,097,486	4,673,854
Bond issuance costs	442,358	140,135	80,184	280,600	203,741
Capital outlay	<u>36,274,174</u>	<u>37,344,799</u>	<u>33,452,857</u>	<u>23,247,154</u>	<u>17,169,385</u>
Total expenditures	<u>145,825,376</u>	<u>147,622,843</u>	<u>142,192,484</u>	<u>146,782,941</u>	<u>134,657,666</u>
Excess of revenues over (under) expenditures	<u>(35,104,619)</u>	<u>(36,689,522)</u>	<u>(28,341,577)</u>	<u>(36,985,730)</u>	<u>(20,631,981)</u>
Other financing sources (uses)					
Issuance of bonds	21,560,000	4,470,000	4,965,000	17,980,000	10,490,000
Proceeds from refundings	2,150,000	4,190,000	-	6,905,000	-
Premium on issuance of bonds	578,200	109,851	138,232	868,419	271,507
Payment to refunded bond escrow agent	(2,150,000)	(4,155,250)	-	(7,363,043)	-
Transfers in	37,591,473	26,903,985	23,957,020	19,166,548	16,753,906
Transfers out	<u>(29,787,535)</u>	<u>(22,207,637)</u>	<u>(18,386,943)</u>	<u>(14,444,663)</u>	<u>(11,988,958)</u>
Total other financing sources (uses)	<u>29,942,138</u>	<u>9,310,949</u>	<u>10,673,309</u>	<u>23,112,261</u>	<u>15,526,455</u>
Net change in fund balances	<u>\$ (5,162,481)</u>	<u>\$ (27,378,573)</u>	<u>\$ (17,668,268)</u>	<u>\$ (13,873,469)</u>	<u>\$ (5,105,526)</u>
Debt service as a percentage of noncapital expenditures	13.7%	12.3%	14.8%	14.0%	11.4%

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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues					
Taxes:					
Property taxes	\$ 22,118,257	\$ 22,549,109	\$ 23,671,256	\$ 27,606,911	\$ 30,318,865
Sales taxes	22,031,014	24,305,293	24,585,124	25,188,254	26,267,167
Other taxes	2,635,141	2,263,685	2,197,003	4,087,903	4,251,157
Licenses and permits	1,737,068	1,783,741	1,786,472	1,759,507	2,053,375
Intergovernmental revenues	57,455,627	55,941,414	60,343,948	51,353,893	56,877,087
Charges for services	7,987,527	9,289,681	8,510,151	6,171,005	6,576,669
Fines and forfeits	709,213	652,033	719,928	1,906,404	604,357
Special assessments	2,458,912	1,983,776	2,095,202	1,752,933	1,605,337
Investment income	2,022,447	230,692	1,740,987	3,527,779	(559,148)
Miscellaneous revenues	<u>4,304,525</u>	<u>5,326,755</u>	<u>5,980,771</u>	<u>4,809,871</u>	<u>6,138,325</u>
Total revenues	<u>123,459,731</u>	<u>124,326,179</u>	<u>131,630,842</u>	<u>128,164,460</u>	<u>134,133,191</u>
Expenditures					
General government	23,174,447	24,004,445	24,378,741	24,722,755	28,330,883
Public safety	35,512,569	37,150,741	38,524,220	39,263,288	41,552,331
Public works	12,536,734	14,388,357	14,515,792	13,194,918	15,226,399
Culture and recreation	9,645,981	15,954,443	9,117,853	9,779,866	10,530,034
Urban and economic development	13,858,327	16,906,657	24,913,908	15,022,941	13,637,293
Debt service					
Principal retirement	11,350,000	10,501,000	9,531,000	13,271,000	11,172,000
Interest and fiscal fees	4,600,843	4,577,976	4,422,939	4,603,199	4,487,446
Bond issuance costs	223,753	361,424	595,689	91,522	163,704
Capital outlay	<u>21,355,037</u>	<u>16,962,641</u>	<u>15,016,363</u>	<u>14,753,506</u>	<u>25,106,738</u>
Total expenditures	<u>132,257,691</u>	<u>140,807,684</u>	<u>141,016,505</u>	<u>134,702,995</u>	<u>150,206,828</u>
Excess of revenues over (under) expenditures	<u>(8,797,960)</u>	<u>(16,481,505)</u>	<u>(9,385,663)</u>	<u>(6,538,535)</u>	<u>(16,073,637)</u>
Other financing sources (uses)					
Issuance of bonds	8,055,000	21,315,000	12,520,000	5,160,000	9,645,000
Proceeds from refundings	865,000	2,630,000	33,470,000	-	-
Premium on issuance of bonds	153,373	799,031	7,185,320	326,247	553,787
Payment to refunded bond escrow agent	(865,000)	(2,845,900)	(39,861,356)	-	-
Transfers in	16,540,403	19,136,245	22,385,436	21,369,040	21,752,295
Transfers out	<u>(11,500,627)</u>	<u>(12,799,385)</u>	<u>(17,503,488)</u>	<u>(17,224,328)</u>	<u>(17,397,392)</u>
Total other financing sources (uses)	<u>13,248,149</u>	<u>28,234,991</u>	<u>18,195,912</u>	<u>9,630,959</u>	<u>14,553,690</u>
Net change in fund balances	<u>\$ 4,450,189</u>	<u>\$ 11,753,486</u>	<u>\$ 8,810,249</u>	<u>\$ 3,092,424</u>	<u>\$ (1,519,947)</u>
Debt service as a percentage of noncapital expenditures	14.1%	12.1%	11.0%	14.7%	12.4%

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
2009	4,596,572,476	46,544,301	1,006,191,824	18,391,705
2010	4,545,577,900	46,457,611	1,041,761,700	19,131,580
2011	4,391,758,200	44,888,003	1,026,682,900	18,853,813
2012	4,399,683,300	40,350,188	1,033,199,600	19,007,636
2013	4,276,314,100	40,087,613	1,057,616,100	19,632,127
2014	4,338,067,800	39,838,986	1,113,116,900	20,463,377
2015	4,441,627,300	40,989,014	1,144,647,100	21,018,612
2016	4,561,213,000	42,373,863	1,202,773,500	22,169,916
2017	4,694,140,900	44,079,263	1,297,252,450	23,998,224
2018	4,662,466,600	45,369,851	1,423,489,056	26,075,238

Fiscal Year Ended December 31	Personal Property			
	Residential		Commercial	
	Estimated Market Value	Tax Capacity	Estimated Market Value	Tax Capacity
2009	28,487,600	283,617	75,268,900	1,435,838
2010	30,139,300	307,525	78,621,200	1,447,720
2011	28,363,500	284,857	84,724,000	1,551,297
2012	28,591,200	208,707	107,565,700	1,966,342
2013	29,300,100	217,752	109,785,500	2,011,293
2014	28,448,100	221,073	104,465,800	1,906,608
2015	33,827,800	276,580	105,380,900	1,937,051
2016	33,899,000	271,921	105,806,200	1,961,029
2017	33,802,700	271,921	99,447,550	1,815,452
2018	33,771,200	271,796	104,460,500	1,919,504

Fiscal Year Ended December 31	Total		Percentage of Total Tax Capacity to Total Estimated Market Value	
	Estimated Market Value	Tax Capacity		Tax Rate
	2009	5,706,520,800	66,655,461	1.17%
2010	5,696,100,100	67,344,436	1.18%	0.26331
2011	5,531,528,600	65,577,970	1.19%	0.27956
2012	5,569,039,800	61,532,873	1.10%	0.31597
2013	5,473,015,800	61,948,785	1.13%	0.33198
2014	5,584,098,600	62,430,044	1.12%	0.32338
2015	5,725,483,100	64,221,257	1.12%	0.32509
2016	5,903,691,700	66,776,729	1.13%	0.33378
2017	6,124,643,600	70,164,860	1.15%	0.37568
2018	6,224,187,356	73,636,389	1.18%	0.39701

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	
2009	0.16193	0.09210	0.25403	0.20940	0.57645	0.06497	1.10485
2010	0.18050	0.08281	0.26331	0.20971	0.55365	0.05654	1.08321
2011	0.18686	0.09270	0.27956	0.23373	0.56011	0.05829	1.13169
2012	0.21847	0.09750	0.31597	0.27706	0.62325	0.05975	1.27603
2013	0.22411	0.10787	0.33198	0.32886	0.63885	0.06180	1.36149
2014	0.23152	0.09186	0.32338	0.34314	0.63613	0.06319	1.36584
2015	0.23089	0.09420	0.32509	0.34108	0.64457	0.06216	1.37290
2016	0.24322	0.09056	0.33378	0.31825	0.61443	0.06193	1.32839
2017	0.28416	0.09152	0.37568	0.29516	0.65056	0.06049	1.38189
2018	0.30848	0.08853	0.39701	0.28598	0.65286	0.06040	1.39625

* 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	2018			2009		
		Estimated Market Value	Rank	Percentage of Total Estimated Market Value	Estimated Market Value	Rank	Percentage of Total Estimated Market Value
Allete (Minnesota Power)	Electric utility	145,648,500	1	2.34%	125,570,580	1	2.20%
Essentia Health (SMDC)	Healthcare & hospital	110,949,500	2	1.78%	46,851,800	2	0.82%
Simon Property, Inc.	Shopping mall	52,790,900	3	0.85%	45,779,200	3	0.80%
D M & I R Railroad	Railroad	37,484,100	4	0.60%			
Ascena Retail Group	Lease administration	34,758,500	5	0.56%			
Burlington Northern	Railroad	21,116,500	6	0.34%			
Hall Equities Group	Real estate development	18,855,700	7	0.30%			
St. Luke's Hospital	Healthcare & hospital	18,139,100	8	0.29%			
NewPage (StoraEnso)	Paper mill	18,099,100	9	0.29%	22,419,100	5	0.39%
Tech Village	Office & tech building	17,738,800	10	0.28%	10,879,700	9	0.19%
Sherman Associates	Real estate development				39,143,800	4	0.69%
IRET Properties	Property management				22,356,600	6	0.39%
ZMC Hotels	Hotels				14,155,500	7	0.25%
US Bank	Bank & office building				11,293,000	8	0.20%
Centro Properties Group	Real estate investment				10,662,300	10	0.19%
		<u>\$475,580,700</u>		<u>7.63%</u>	<u>\$349,111,580</u>		<u>6.12%</u>

Source: St. Louis County Assessor

Unaudited

**CITY OF DULUTH, MINNESOTA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
AND NET CAPACITY OF REAL PROPERTY BY CATEGORY 2018**

**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
2009	14,366,814	13,790,094	96.0%	418,529	14,208,623	98.9%
2010	16,050,825	15,531,833	96.8%	411,885	15,943,718	99.3%
2011	16,648,242	16,102,214	96.7%	382,016	16,484,230	99.0%
2012	21,403,582	20,835,227	97.3%	400,831	21,236,058	99.2%
2013	21,966,088	21,396,584	97.4%	445,759	21,842,343	99.4%
2014	22,040,149	21,498,351	97.5%	325,436	21,823,787	99.0%
2015	22,686,100	22,310,465	98.3%	277,846	22,588,311	99.6%
2016	24,233,053	23,842,607	98.4%	197,564	24,040,171	99.2%
2017	28,039,466	27,593,516	98.4%	172,368	27,765,884	99.0%
2018	30,649,272	30,083,315	98.2%	-	30,083,315	98.2%

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

Unaudited

**NET CAPACITY OF REAL PROPERTY BY CATEGORY
TAXES PAYABLE IN 2018**

<u>Real Estate Only</u>	<u>Net Tax Capacity</u>	<u>% of Total Net Tax Capacity</u>
Residential	\$ 30,360,133	42.50%
Non-Homestead Residential	15,009,718	21.01%
Commercial/Industrial	23,258,653	32.55%
Agricultural	18,890	0.03%
Public Utility	1,384,960	1.94%
Railroad	1,189,120	1.66%
Seasonal/Recreational	223,615	0.31%
Total	<u>\$ 71,445,089</u>	<u>100.00%</u>

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

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

Governmental Activities						
Fiscal Year	General Obligation Bonds	General Obligation Tax Abatement Bonds	Tax Increment Revenue Bonds	Lease Revenue Bonds	Special Assessment Debt with Government Commitment	General Obligation Certificates
2009	76,699	310	135	995	41,106	8,065
2010	** 75,449	310	-	860	36,011	8,920
2011	74,561	285	-	715	29,569	10,275
2012	76,927	7,315	-	565	23,943	11,300
2013	80,754	7,290	-	415	20,901	12,625
2014	82,936	6,705	-	-	16,814	12,340
2015	97,340	6,350	-	-	13,080	12,670
2016	91,300	13,805	-	-	10,765	13,250
2017	86,615	13,435	-	-	7,320	13,670
2018	87,485	12,605	-	-	5,165	14,295

Governmental Activities				Business Activities		
Fiscal Year	Deferred Amount for Bond Premium	Revenue and General Obligation Notes	Capital Leases	Revenue Bonds	Revenue and General Obligation Bonds	Deferred Amount for Bond Discounts/Premiums
2009	1,042	3,415	114	420	54,505	(16)
2010	** 989	3,171	70	285	47,900	67
2011	938	3,086	24	145	44,005	127
2012	1,612	2,996	-	-	41,045	608
2013	1,579	2,896	-	-	37,305	505
2014	1,419	2,791	-	-	44,343	401
2015	1,910	2,735	110	-	42,760	496
2016	8,418	2,704	75	-	39,222	377
2017	7,917	2,673	38	-	34,927	270
2018	7,648	2,636	-	-	35,097	223

Business Activities					
Fiscal Year	General Obligation Notes	Capital Leases	Total Primary Government	Percentage of Personal Income*	Per Capita*
2009	5,906	9,120	201,816	8.83%	2,360
2010	** 10,766	8,725	193,523	8.56%	2,243
2011	20,562	8,672	192,964	8.30%	2,237
2012	23,084	8,041	197,436	8.34%	2,290
2013	21,904	7,385	193,559	7.71%	2,247
2014	24,581	6,704	199,034	7.64%	2,308
2015	23,034	5,995	206,480	7.47%	2,398
2016	20,519	5,385	205,820	7.60%	2,385
2017	18,048	4,752	189,665	6.85%	2,204
2018	15,474	4,094	184,722	6.47%	2,146

*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
2009	85,530	66,655,461	85,074,118	18,612,250	66,461,868	99.71%	777.06
2010*	86,265	67,344,436	84,679,118	19,144,190	65,534,928	97.31%	759.69
2011	86,277	65,577,970	86,059,378	18,629,920	67,429,458	102.82%	781.55
2012	86,200	61,532,873	97,154,314	17,742,090	79,412,224	129.06%	921.26
2013	86,128	61,948,785	102,247,605	19,802,762	82,444,843	133.09%	957.24
2014	86,238	62,430,044	103,399,159	22,948,537	80,450,622	128.87%	932.89
2015	86,110	64,221,257	118,269,847	19,496,773	98,773,074	153.80%	1,147.06
2016	86,293	66,776,729	126,772,630	22,581,641	104,190,989	156.03%	1,207.41
2017	86,066	70,164,860	121,637,268	7,639,067	113,998,201	162.47%	1,324.54
2018	86,066	73,636,389	122,033,234	21,344,176	100,689,058	136.74%	1,169.91

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, 2018**

Governmental Unit	General Obligation Debt	Percent Chargeable to City	Amount Chargeable to City
Independent School District 709	\$47,100,000	87.89%	\$ 41,395,703
Independent School District 704	26,505,000	6.26%	1,658,456
St. Louis County	145,215,000	37.17%	53,978,515
Subtotal, overlapping debt			97,032,674
City of Duluth direct debt			122,186,000
Total direct and overlapping debt			<u>\$ 219,218,674</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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Taxable market value	\$ 5,706,520,800	\$ 5,696,100,100	\$ 5,531,528,600	\$ 5,569,039,800	\$ 5,473,015,800
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	\$ 114,130,416	\$ 113,922,002	\$ 110,630,572	\$ 111,380,796	\$ 109,460,316
Debt applicable to limit:					
Total bonds payable	\$ 182,235,000	\$ 169,735,000	\$ 159,554,999	\$ 161,095,000	\$ 159,290,002
Less: Deductions allowable	(141,965,882)	(128,955,882)	(117,723,976)	(123,073,029)	(118,746,296)
Total net debt applicable to limit	\$ 40,269,118	\$ 40,779,118	\$ 41,831,023	\$ 38,021,971	\$ 40,543,706
Total net debt applicable to the limit as a percentage of debt limit	35.28%	35.80%	37.81%	34.14%	37.04%

	Fiscal Year				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Taxable market value	\$ 5,584,098,600	\$ 5,725,483,100	\$ 5,903,691,700	\$ 6,124,643,600	\$ 6,224,187,356
Legal debt limit %	2%	2%	2%	2%	2%
Legal debt limit	\$ 111,681,972	\$ 114,509,662	\$ 118,073,834	\$ 122,492,872	\$ 124,483,747
Debt applicable to limit:					
Total bonds payable	\$ 163,138,242	\$ 172,200,045	\$ 168,342,029	\$ 155,967,007	\$ 154,647,475
Less: Deductions allowable	(123,892,674)	(133,220,045)	(129,827,029)	(117,767,007)	(112,342,475)
Total net debt applicable to limit	\$ 39,245,568	\$ 38,980,000	\$ 38,515,000	\$ 38,200,000	\$ 42,305,000
Total net debt applicable to the limit as a percentage of debt limit	35.14%	34.04%	32.62%	31.19%	33.98%

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>							
2009	11,997,431	9,250,685	2,746,746	460,000	157,856	617,856	4.45
2010	12,045,133	9,275,099	2,770,034	186,000	94,605	280,605	9.87
2011	11,747,715	9,395,019	2,352,696	399,428	97,166	496,594	4.74
2012	13,928,511	8,897,762	5,030,749	427,028	85,385	512,413	9.82
2013	14,892,290	9,394,544	5,497,746	433,873	73,085	506,958	10.84
2014	14,555,607	9,529,831	5,025,776	451,251	60,371	511,622	9.82
2015	14,440,052	8,528,252	5,911,800	388,095	33,951	422,046	14.01
2016	14,494,396	9,008,318	5,486,078	336,473	27,326	363,799	15.08
2017	14,443,317	9,286,000	5,157,317	348,851	17,833	366,684	14.06
2018	14,891,148	9,255,377	5,635,771	99,000	110,307	209,307	26.93
<u>GAS REVENUE BOND</u>							
2009	46,526,246	36,939,946	9,586,300	652,000	341,269	993,269	9.65
2010	39,970,909	34,319,333	5,651,576	821,000	255,813	1,076,813	5.25
2011	41,552,067	34,549,583	7,002,484	855,957	305,411	1,161,368	6.03
2012	34,148,624	28,790,209	5,358,415	857,980	185,574	1,043,554	5.13
2013	40,611,707	33,701,058	6,910,649	896,020	161,825	1,057,845	6.53
2014	58,554,131	47,699,256	10,854,875	922,972	136,104	1,059,076	10.25
2015	35,584,151	27,708,531	7,875,620	869,955	84,237	954,192	8.25
2016	31,767,073	25,294,510	6,472,563	902,931	55,294	958,225	6.75
2017	36,217,772	29,677,464	6,540,308	480,000	29,800	509,800	12.83
2018	39,256,630	31,544,174	7,712,456	505,000	10,100	515,100	14.97
<u>SEWER REVENUE BOND</u>							
2009	20,344,639	15,900,214	4,444,425	1,274,000	567,498	1,841,498	2.41
2010	20,388,169	14,482,465	5,905,704	1,008,000	482,913	1,490,913	3.96
2011	20,130,587	15,215,558	4,915,029	1,317,776	404,300	1,722,076	2.85
2012	20,387,041	15,946,629	4,440,412	1,390,440	324,927	1,715,367	2.59
2013	20,541,361	16,013,024	4,528,337	1,454,699	296,240	1,750,939	2.59
2014	19,545,030	14,653,139	4,891,891	1,506,941	257,061	1,764,002	2.77
2015	19,986,777	13,852,969	6,133,808	1,177,256	179,515	1,356,771	4.52
2016	20,670,314	13,608,142	7,062,172	1,357,475	159,416	1,516,891	4.66
2017	19,543,095	13,717,618	5,825,477	1,289,599	127,358	1,416,957	4.11
2018	19,715,390	14,511,632	5,203,758	1,001,000	98,648	1,099,648	4.73
<u>STORMWATER REVENUE BOND</u>							
2009	5,187,017	2,862,787	2,324,230	179,000	96,730	275,730	8.43
2010	4,734,525	2,845,983	1,888,542	95,000	67,887	162,887	11.59
2011	4,672,485	2,868,448	1,804,037	196,839	68,295	265,134	6.80
2012	4,820,629	2,897,725	1,922,904	204,552	62,297	266,849	7.21
2013	4,755,764	3,059,690	1,696,074	210,409	56,115	266,524	6.36
2014	4,670,074	3,248,954	1,421,120	218,837	49,690	268,527	5.29
2015	4,767,610	3,291,078	1,476,532	109,694	22,700	132,394	11.15
2016	5,253,324	3,670,639	1,582,685	228,121	24,001	252,122	6.28
2017	5,293,060	3,141,177	2,151,883	241,549	18,184	259,733	8.28
2018	5,280,978	2,989,079	2,291,899	130,000	13,900	143,900	15.93

(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>							
2009	6,152,268	4,784,338	1,367,930	500,000	280,645	780,645	1.75
2010	6,497,846	5,032,398	1,465,448	515,000	260,912	775,912	1.89
2011	7,169,515	5,712,409	1,457,106	495,000	241,246	736,246	1.98
2012	7,239,954	5,867,609	1,372,345	-	52,148	52,148	26.32
2013	7,847,524	6,547,268	1,300,256	600,000	73,940	673,940	1.93
2014	6,861,228	6,060,699	800,529	625,000	67,815	692,815	1.16
2015	6,728,330	6,230,054	498,276	635,000	151,946	786,946	0.63
2016	7,069,377	6,896,627	172,750	635,000	177,553	812,553	0.21
2017	7,712,154	6,845,368	866,786	650,000	170,315	820,315	1.06
2018	7,883,080	6,761,475	1,121,605	655,000	161,013	816,013	1.37
<u>GOLF REVENUE BOND (3)</u>							
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>							
2009	2,592,185	693,301	1,898,884	745,000	692,013	1,437,013	1.32
2010	2,610,111	789,126	1,820,985	790,000	657,056	1,447,056	1.26
2011	2,645,997	800,256	1,845,741	825,000	620,263	1,445,263	1.28
2012	3,216,205	1,860,989	1,355,216	860,000	211,266	1,071,266	1.27
2013	3,780,214	2,085,827	1,694,387	1,045,000	234,363	1,279,363	1.32
2014	4,286,789	1,983,869	2,302,920	1,130,000	201,694	1,331,694	1.73
2015	4,513,311	1,789,669	2,723,642	780,000	186,819	966,819	2.82
2016	4,563,427	1,850,051	2,713,376	785,000	178,994	963,994	2.81
2017	4,054,780	1,971,083	2,083,697	795,000	167,119	962,119	2.17
2018	3,743,709	2,208,341	1,535,368	810,000	151,069	961,069	1.60

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>
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	7.1%
2012	86,200	2,368,110,337	27,472	8,686	6.0%
2013	86,128	2,510,223,601	29,145	8,517	5.4%
2014	86,238	2,605,207,475	30,210	8,517	4.8%
2015	86,110	2,763,072,824	32,088	8,353	3.4%
2016	86,293	2,709,298,125	31,396	8,115	4.1%
2017	86,066	2,770,534,310	32,191	8,067	3.8%
2018	86,066 *	2,854,793,339 *	33,170	8,515	2.9%

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>2018</u>			<u>2009</u>		
		<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Essentia Health (SMDC)	Healthcare / hospital	6,569	1	11.11%	4,693	1	8.03%
St. Luke's Hospital	Healthcare / hospital	2,051	2	3.47%	1,515	4	2.59%
St. Louis County	Government	1,956	3	3.31%	1,301	6	2.23%
University of Minnesota - Duluth	Education	1,635	4	2.77%	1,700	2	2.91%
Independent School District No. 709	Education	1,426	5	2.41%	1,426	5	2.44%
Allete (Minnesota Power)	Electric utility	1,314	6	2.22%	1,245	7	2.13%
Duluth Air National Guard Base	Military	1,068	7	1.81%	1,068	8	1.83%
Cirrus Design	Aviation	1,000	8	1.69%			
United Health Care	Insurance	999	9	1.69%	1,634	3	2.80%
City of Duluth	Government	854	10	1.44%	822	10	1.41%
US Government	Government				850	9	1.45%
		<u>18,872</u>		<u>31.92%</u>	<u>16,254</u>		<u>27.82%</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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General government	107.20	114.40	113.90	115.90	125.75
Public safety					
Police	182.00	187.00	185.00	185.00	178.50
Fire	134.00	140.00	140.00	138.00	141.00
Public works	100.20	123.80	118.60	106.60	87.10
Culture and recreation					
Parks and recreation	7.50	7.50	7.50	9.00	10.00
Library	47.30	43.50	43.50	48.50	49.00
Urban and economic development	56.00	59.00	62.50	61.50	60.25
Water & Gas	120.50	124.80	128.20	131.00	133.00
Sewer	38.60	38.40	38.40	39.20	40.20
Stormwater	21.10	24.20	24.20	26.00	26.00
Parking	4.00	4.00	3.00	3.00	8.00
Street lighting	4.00	4.00	5.00	5.00	5.00
Total	822.40	870.60	869.80	868.70	863.80

Function:	Full-time Equivalent Employees as of December 31				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
General government	127.65	131.65	132.40	133.00	126.50
Public safety					
Police	178.50	178.50	180.50	184.14	182.14
Fire	142.00	143.00	144.50	146.50	146.50
Public works	85.90	85.05	86.25	86.50	82.95
Culture and recreation					
Parks and recreation	10.00	9.75	11.75	11.95	11.70
Library	49.00	46.50	46.50	46.70	46.70
Urban and economic development	59.53	55.50	54.05	54.05	50.64
Water & Gas	132.60	128.65	129.15	134.75	134.75
Sewer	39.33	36.93	35.80	33.15	34.65
Stormwater	25.52	26.87	27.30	25.85	23.15
Parking	8.00	8.00	9.00	9.00	9.00
Street lighting	5.10	5.10	5.10	5.10	5.10
Total	863.13	855.50	862.30	870.69	853.78

Source: City of Duluth Budget Office

Unaudited

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

Function:	Fiscal Year				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Police					
Criminal offences	11,071	10,540	11,278	9,924	10,828
Cleared by arrest	4,393	4,436	4,231	3,785	4,473
Traffic violations	2,153	5,241	9,746	9,499	11,152
Parking violations	54,953	56,292	51,991	46,492	51,361
Fire					
Number of calls answered	9,319	8,484	9,262	9,857	10,816
Number of inspections conducted	1,200	1,200	1,200	1,200	1,200
Public works					
Construction permits:					
Permits issued	2,362	2,026	1,700	2,325	2,054
Estimated cost of construction during year	\$ 113,965,408	\$ 238,186,019	\$ 173,357,959	\$ 104,841,877	\$ 137,097,967
Culture and recreation					
Parks and recreation department					
Participation in special events	42,858	48,896	15,436	18,129	40,045
Participation in recreation	36,217	31,905	39,839	35,681	27,393
Zoo regular customers	91,606	102,986	93,705	71,842	58,306
Library					
Registered borrowers	47,662	46,592	47,965	50,171	50,491
Items in collection*	620,941	620,101	463,418	457,999	467,050
Items loaned	881,268	929,161	902,221	953,270	959,432
Library visits	362,719	380,982	376,817	460,918	484,917
Internet uses	43,907	62,379	66,394	89,070	106,662
Reference/research questions answered**	67,460	80,678	79,443	90,155	84,838
Water					
Meters in service	27,950	30,317	29,069	28,082	28,051
Average number of gallons treated per month	516,805,833	481,950,833	461,125,000	468,170,000	433,795,000
Water pumped - million cubic feet	829.10	773.10	739.80	756.10	695.90
Water sold - million cubic feet	658.00	665.50	589.60	644.40	605.95
Daily average consumption in gallons	16,973,333	15,844,958	15,160,274	13,206,643	12,418,716
Gas					
Meters in service	26,148	26,668	26,693	27,542	27,452
MMBTU sold	4,804,897	4,617,923	5,184,800	4,528,009	5,355,988
Sewer					
Number of service connections	28,845	28,845	28,845	27,250	27,956
Daily average treatment in gallons	13,740,000	14,859,000	13,284,575	12,137,000	12,843,000
Stormwater					
Cleaning storm sewer pipe (in feet)	23,358	14,734	14,750	230,165	31,658
Steam District #1					
Steam sold (in 1,000 lbs)	441,808	403,085	409,295	379,257	394,762
Golf					
Season passes	863	823	810	803	695
Daily tickets	33,815	32,252	32,101	35,121	31,401
Carts	11,128	10,670	12,553	14,751	14,019
Rounds played	80,987	79,430	75,480	84,740	63,196

* 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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Police					
Criminal offences	9,472	10,262	10,447	10,561	10,437
Cleared by arrest	4,070	4,081	4,062	3,802	3,267
Traffic violations	9,307	8,525	6,819	5,196	5,421
Parking violations	55,097	50,647	55,226	34,437	31,934
Fire					
Number of calls answered	11,114	12,231	12,799	13,239	13,255
Number of inspections conducted	1,200	1,200	1,200	7,490	7,367
Public works					
Construction permits:					
Permits issued	2,030	1,896	2,085	2,071	1,882
Estimated cost of construction during year	\$ 182,409,369	\$ 160,884,495	\$ 108,815,274	\$ 92,039,794	\$ 120,632,556
Culture and recreation					
Parks and recreation department					
Participation in special events	30,749	23,122	49,125	67,300	62,925
Participation in recreation	28,304	22,586	31,555	25,210	27,197
Zoo regular customers	65,270	64,071	76,316	81,538	78,439
Library					
Registered borrowers	48,147	47,086	45,424	42,674	51,636
Items in collection*	456,753	444,790	435,385	424,304	419,907
Items loaned	923,063	927,389	848,293	871,704	847,237
Library visits	492,106	474,982	461,403	475,363	426,082
Internet uses	118,825	109,965	92,656	90,489	81,685
Reference/research questions answered**	89,232	77,896	59,321	71,253	59,579
Water					
Meters in service	28,131	28,134	28,134	28,243	28,345
Average number of gallons treated per month	433,676,667	431,616,667	415,642,500	408,434,167	388,512,500
Water pumped - million cubic feet	695.74	692.4	666.8	655.2	623.3
Water sold - million cubic feet	591.00	589.8	565.6	568.4	561.9
Daily average consumption in gallons	14,257,863	14,190,136	11,590,274	11,648,560	12,773,013
Gas					
Meters in service	26,585	26,896	28,540	28,712	28,957
MMBTU sold	5,679,683	4,885,371	4,770,804	5,218,978	5,063,708
Sewer					
Number of service connections	27,956	27,963	27,985	27,993	28,030
Daily average treatment in gallons	14,257,000	13,000,530	13,729,690	14,355,390	12,093,510
Stormwater					
Cleaning storm sewer pipe (in feet)	2,700	3,330	20,017	107,965	125,776
Steam District #1					
Steam sold (in 1,000 lbs)	300,669	332,830	313,408	305,465	345,262
Golf					
Season passes	644	795	731	436	462
Daily tickets	28,860	46,700	38,894	34,358	39,661
Carts	15,056	42,606	39,846	28,555	25,048
Rounds played	60,172	81,082	75,544	67,657	60,988

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

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

Sources: Various government departments

Unaudited

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

Function:	Fiscal Year				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Police					
Patrol units	91	96	94	93	93
Fire					
Fire stations	9	9	9	8	8
Public works					
Miles of streets and alleys:					
Miles of streets - paved	476.30	469.00	470.23	470.43	470.49
Miles of streets - unpaved	73.11	48.02	48.02	48.02	47.96
Miles of sidewalk	382.56	277.00	409.00	409.90	410.98
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,930	3,930	3,930	3,930	3,930
Overhead street lamps	3,657	3,665	3,665	3,665	3,665
Culture and recreation					
Parks and recreation department					
Number of parks	145	127	127	128	128
Park acreage	11,880	15,255	15,255	12,000	12,000
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	15	17	17	17	17
Community clubs/field houses operated	22	22	22	21	21
Number of athletic fields	57	57	57	57	57
Number of hiking trails	13	13	14	14	14
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	414.59	424.10	426.30	426.74	428.30
Number of hydrants	2,506	2,535	2,583	2,597	2,671
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	506.00	512.40	511.00	520.00	527.00
Sewer					
Miles of sanitary sewers	444.00	392.00	382.00	406.20	398.00
Stormwater					
Miles of storm sewers	431.00	431.00	431.00	431.00	443.00
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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Police					
Patrol units	93	93	97	102	123
Fire					
Fire stations	8	8	8	8	8
Public works					
Miles of streets and alleys:					
Miles of streets - paved	472.51	473.80	475.77	475.74	475.77
Miles of streets - unpaved	47.96	47.96	47.96	47.96	47.96
Miles of sidewalk	410.98	410.98	411.08	352.00	352.13
Number of street lights:					
Ornamental lamps (no. of bulbs)	3,930	3,930	3,940	3,930	3,809
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	129	129	129
Park acreage	12,000	12,000	12,000	12,000	12,000
Number of ski hills	2	2	2	2	2
Number of municipal tennis courts	19	19	17	17	17
Community clubs/field houses operated	19	19	19	19	18
Number of athletic fields	57	57	48	48	48
Number of hiking trails	14	14	14	14	14
Library department					
Libraries/branches	3	3	3	3	3
Water					
Miles of water mains	429.50	430.40	428.30	428.40	429.40
Number of hydrants	2,677	2,688	2,699	2,708	2,717
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	534.70	534.10	538.20	544.40	548.10
Sewer					
Miles of sanitary sewers	402.00	395.30	397.60	398.80	398.10
Stormwater					
Miles of storm sewers	435.00	398.07	404.56	412.00	413.00
Steam District #1					
Miles of line	11.00	11.00	11.00	11.00	11.00
Golf					
Number of municipal golf courses	2	2	2	2	2

Sources: Various government departments.

Unaudited

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

	Fiscal Year				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
COMPONENT UNITS					
Duluth Entertainment and Convention Center Authority (DECC)					
Number of events	536	690	510	515	471
Number of conventions	48	49	46	45	51
Duluth Airport Authority					
Number of passengers	257,561	306,330	295,212	322,208	313,839
Duluth Transit Authority					
Number of buses	67	66	66	66	66
Number of routes	18	18	19	20	19
Number of passengers	3,173,485	3,171,087	3,264,479	3,278,682	3,195,020
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority					
Skier visits	153,287	144,579	155,450	130,013	136,990
Season passes	8,123	7,728	7,835	6,915	6,773

	Fiscal Year				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
COMPONENT UNITS					
Duluth Entertainment and Convention Center Authority (DECC)					
Number of events	516	519	506	510	494
Number of conventions	45	52	47	45	46
Duluth Airport Authority					
Number of passengers	310,893	266,500	251,459	244,839	275,969
Duluth Transit Authority					
Number of buses	67	66	67	67	75
Number of routes	19	19	20	23	23
Number of passengers	3,107,305	2,850,000	2,804,000	2,786,000	2,760,000
Service area (square miles)	143	143	143	143	143
Spirit Mountain Recreation Area Authority					
Skier visits	140,017	95,401	89,483	78,739	46,963
Season passes	6,728	5,697	4,275	3,386	4,970

Unaudited



Photo by Austin Carlson

