STATE OF MINNESOTA
Office of the State Auditor

Julie Blaha
State Auditor

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY (A COMPONENT UNIT OF THE CITY OF DULUTH, MINNESOTA)

YEAR ENDED DECEMBER 31, 2018

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice – conducts financial and legal compliance audits of local governments;

Government Information – collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations – provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension – monitors investment, financial, and actuarial reporting for approximately 600 public pension funds; and

Tax Increment Financing – promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY (A COMPONENT UNIT OF THE CITY OF DULUTH, MINNESOTA)

Year Ended December 31, 2018

Audit Practice Division
Office of the State Auditor
State of Minnesota

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DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

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DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

ORGANIZATION
DECEMBER 31, 2018

	Term Expires
Directors	
Mary Finnegan-Ongaro	January 7, 2019
Gregory Fox	January 7, 2019
Bill Nelson	June 30, 2021
Debra Messer	January 7, 2019
Don Ness	June 30, 2019
Crystal Pelkey	June 30, 2019
Karen Pionk	June 30, 2019
Yvonne Prettner Solon	January 7, 2019
Roz Randorf	June 30, 2021
Roger Reinert	June 30, 2020
David Ross	June 30, 2019
Officers	
President	
Don Ness	
Vice President	
Karen Pionk	
Auditor	
Josh Bailey	Indefinite
Executive Director	
Rochelle Townsend	Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

JULIE BLAHA
STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Entertainment and Convention Center
 Authority
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Duluth Entertainment and Convention Center Authority, a component unit 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 Authority's basic financial statements, as listed in the table of contents.

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 an opinion 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 Authority'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 Authority'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Entertainment and Convention Center Authority as of December 31, 2018, and the changes in its financial position and its cash flows 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 Authority 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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2019, on our consideration of the Duluth Entertainment and Convention Center Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Duluth Entertainment and Convention Center Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Duluth Entertainment and Convention Center Authority's internal control over financial reporting and compliance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 14, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018
(Unaudited)

This section presents a narrative overview and analysis of the Duluth Entertainment and Convention Center Authority's financial condition and activities for the fiscal year ended December 31, 2018. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- In 2018, total net position decreased $3.4 million, or 4.1 percent, over the course of the year's operations.

- Total operating revenue decrease $0.3 million to $9.3 million in 2018 compared to last year.

- Total operating expenses in 2018 decreased by $0.6 million, or 4 percent, compared to 2017.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector.

The financial statements include a statement of net position; statement of revenues, expenses, and changes in net position; statement of cash flows; and notes to the financial statements. The statement of net position presents the financial position of the Authority on a full accrual, historical cost basis. The statement of net position provides information about the nature and amount of resources and obligations at year-end. The statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows presents changes in cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. This statement presents cash receipt and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information on the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted, if material, during the independent external audit process.

SUMMARY OF ORGANIZATION AND BUSINESS

On April 22, 1963, the Minnesota State Legislature approved the Laws, 1963, Chapter 305, creating the Duluth Arena-Auditorium Board (the "Board"). The Board consisted of seven Directors. The Board, according to Section 5, Subdivision 2, is conferred the power and duty to contract for and superintend the erection, construction, equipping, and furnishing of such arena-auditorium and to administer, promote, control, direct, manage, and operate such arena-auditorium as a municipal facility. Legislation in 1985 renamed the Board the Duluth State Convention Center Administrative Board. In addition, the legislation added four Board members to be appointed by the Governor. In 1998, legislation again changed the name to the Duluth Entertainment and Convention Center Authority (the Authority).

The Authority's mission statement, as defined by the Board of Directors, is committed to provide a multi-dimensional entertainment and convention facility with high quality integrated support services that will maximize the economic and social benefit to our business community, our investors, our clients, and our customers. The method used to accomplish the mission will always revolve around: providing a consistently high level of customer service; operating in a fiscally responsible manner; always recognizing our obligations as a public entity; providing a well-maintained facility that is a source of pride for the community; insisting on excellence in all aspects of Duluth Entertainment and Convention Center operations, including safety of the public and employees; broad public access to facility and events; and partnership with community businesses.

The Authority does not have taxing power. Operations are funded from customer revenues. Customer revenues, together with City tourism taxes, City of Duluth contributions, and State of Minnesota grants, fund the acquisition and construction of capital assets.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

Condensed Statement of Net Position
(000s)

	2018	2017	Dollar Change Increase (Decrease) 2017 to 2018
Assets			
Current and other assets	$ 5,104	$ 5,018	$ 86
Capital assets	83,263	86,480	(3,217)
Total Assets	$ 88,367	$ 91,498	$ (3,131)
Deferred Outflows of Resources			
Deferred pension outflows	$ 683	$ 1,773	$ (1,090)
Liabilities			
Current liabilities	$ 3,179	$ 2,962	$ 217
Long-term liabilities	4,995	4,826	169
Total Liabilities	$ 8,174	$ 7,788	$ 386
Deferred Inflows of Resources			
Deferred pension inflows	$ 980	$ 1,317	$ (337)
Deferred other postemployment benefit inflows	76	-	76
Total Deferred Inflows of Resources	$ 1,056	$ 1,317	$ (261)
Net Position			
Net investment in capital assets	$ 83,263	$ 86,480	$ (3,217)
Unrestricted	(3,443)	(2,314)	(1,129)
Total Net Position	$ 79,820	$ 84,166	$ (4,346)

In 2018, net position decreased $3.4 million compared to 2017. Total assets decreased $3.1 million mainly due to depreciation of $3.7 million in 2018. Total liabilities increased $0.4 million due to an increase in net other postemployment benefits liability compared to 2017.

Condensed Statement of Revenues, Expenses, and Changes in Net Position
(000s)

	2018	2017	Dollar Change Increase (Decrease) 2017 to 2018
Operating revenues	$ 9,347	$ 9,679	$ (332)
Nonoperating revenues	2,048	1,932	116
Total Revenues	$ 11,395	$ 11,611	$ (216)
Operating expenses	14,778	15,389	(611)
Change in Net Position	$ (3,383)	$ (3,778)	$ 395
Net Position – January 1, as restated	*83,203	87,944	(4,741)
Net Position – December 31	$ 79,820	$ 84,166	$ (4,346)

*Amount includes a change in accounting principles.

Comparison with Budget
(000s)

	2018 Actual	2018 Budget	Variance with Budget	Percent Change (%)
Operating revenues	$ 9,347	$ 9,213	$ 134	1.5
Nonoperating revenues	2,048	1,920	128	6.7
Total Revenues	$ 11,395	$ 11,133	$ 262	0.2
Operating expenses	14,778	15,120	342	0.2
Change in Net Position	$ (3,383)	$ (3,987)	$ 604	1.5
Net Position – January 1, a restated	*83,203	83,203	-	-
Net Position – December 31	$ 79,820	$ 79,216	$ 604	1.5

*Amount includes a change in accounting principles.

Revenues

The Authority's operating revenues decreased $0.3 million to $9.3 million in 2018 compared to last year mainly due to the William A. Irvin ore boat closed for tours in 2018.

Expenses

The Authority's operating expenses decreased $0.6 million to $14.8 million in 2018 due minimal expenses with William A. Irvin closure plus reversal of the 2015 ACA liability accrual.

Budgetary Highlights

Operating revenues were over budget by $134,000 in 2018 due mainly to an increase in building rent and ticket office sales related to concerts. Nonoperating revenues were over budget by $128,000 due to larger hotel/motel tax revenue than projected. Operating expenses were $342,000 under budget in 2018 due in part to the season-long closure of the William A. Irvin tourist attraction.

CAPITAL ASSETS

Capital Assets
(000s)

	2018	2017	Dollar Change	Percent Change (%)
Land	$ 906	$ 906	$ -	-
Land improvements	303	303	-	-
Buildings	137,191	136,952	239	0.2
Equipment	11,990	11,711	279	2.4
Construction in progress	-	44	(44)	(100.0)
Total	$ 150,390	$ 149,916	$ 474	0.3
Less: accumulated depreciation	(67,127)	(63,436)	(3,691)	5.8
Net Capital Assets	$ 83,263	$ 86,480	$ (3,217)	(3.7)

By the end of 2018, the Authority had invested $150.4 million in capital assets. The increase in buildings and structures is mainly due to new parking booths, operating equipment, and computer replacements. For more information, see Note 2.C. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Many factors were considered when completing the budget for 2019. The budget includes the William A. Irvin to be open for an abbreviated tourist season. Convention business is projected to be up in 2019 compared to 2018 with a few new conventions. Overall, a slight decrease in revenue is projected for 2019 compared to 2018 mainly due to a decrease in concerts/shows affecting ticket office revenue and bar sales. Rent and building services prices for 2019 were established in 2015 and included a minimal increase for some goods and services. New catering prices will go into effect in 2019, and most concessions prices are increased annually in October. Overall operating expenses in 2018 are projected to increase slightly in 2019 mainly due to labor and cost of sales price increases.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Finance Director, Duluth Entertainment and Convention Center Authority, 350 Harbor Drive, Duluth, Minnesota 55802.

BASIC FINANCIAL STATEMENTS

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DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2018

Assets		
Current assets		
Cash and cash equivalents	$	1,243,814
Accounts receivable		1,176,645
Due from City of Duluth		781,191
Inventory		187,468
Prepaid items		54,286
Total current assets	**$**	**3,443,404**
Restricted current assets		
Assets restricted for customer deposits		
Cash and cash equivalents	$	1,649,823
Accounts receivable		9,895
Assets restricted for employee flexible benefits plan		
Cash and cash equivalents		806
Total restricted current assets	**$**	**1,660,524**
Total current assets	**$**	**5,103,928**
Noncurrent assets		
Capital assets		
Not depreciated	$	905,601
Depreciated		149,484,964
Less: allowance for depreciation		(67,127,402)
Total noncurrent assets – net	**$**	**83,263,163**
Total Assets	**$**	**88,367,091**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**682,469**

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1
(Continued)

STATEMENT OF NET POSITION
DECEMBER 31, 2018

<u>Liabilities</u>		
Current liabilities		
Accounts payable	$	467,609
Salaries payable		68,766
Compensated absences payable – current		124,563
Unearned revenue		871,667
Total current liabilities	**$**	**1,532,605**
Current liabilities payable from restricted assets		
Customer deposits	$	1,645,587
Employee flexible benefits plan payable		660
Total current liabilities payable from restricted assets	**$**	**1,646,247**
Total current liabilities	**$**	**3,178,852**
Noncurrent liabilities		
Compensated absences payable – long-term	$	59,998
Net pension liability		3,295,268
Net other postemployment benefits liability		1,639,761
Total noncurrent liabilities	**$**	**4,995,027**
Total Liabilities	**$**	**8,173,879**
<u>Deferred Inflows of Resources</u>		
Deferred pension inflows	$	979,658
Deferred other postemployment benefits inflows		75,521
Total Deferred Inflows of Resources	**$**	**1,055,179**
<u>Net Position</u>		
Net investment in capital assets	$	83,263,163
Unrestricted		(3,442,661)
Total Net Position	**$**	**79,820,502**

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

Operating Revenues		
Sales	$	3,619,495
Charges for services		5,214,824
Miscellaneous		512,510
Total Operating Revenues	**$**	**9,346,829**
Operating Expenses		
Personal services	$	5,514,089
Supplies and services		1,843,378
Utilities		1,555,954
Other services and charges		2,173,425
Depreciation		3,690,839
Total Operating Expenses	**$**	**14,777,685**
Operating Income (Loss)	**$**	**(5,430,856)**
Nonoperating Revenues (Expenses)		
Interest income	$	28,262
Hotel/motel tax revenue		1,818,754
Naming rights revenue		200,000
Gain (loss) on sale or disposition of capital assets		1,000
Total Nonoperating Revenues (Expenses)	**$**	**2,048,016**
Change in Net Position	**$**	**(3,382,840)**
Net Position – January 1, as restated (Note 1)		**83,203,342**
Net Position – December 31	**$**	**79,820,502**

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

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 3

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flows from Operating Activities		
Cash received from customers	$	8,928,826
Payments to suppliers		(5,706,221)
Payments to employees		(5,496,521)
Other operating revenues		512,510
Net cash provided by (used in) operating activities	**$**	**(1,761,406)**
Cash Flows from Noncapital Financing Activities		
City of Duluth hotel/motel taxes	**$**	**1,725,297**
Cash Flows from Capital and Related Financing Activities		
Payment received for naming rights	$	200,000
Proceeds from sale of capital assets		1,000
Acquisition or construction of capital assets		(474,286)
Net cash provided by (used in) capital and related financing activities	**$**	**(273,286)**
Cash Flows from Investing Activities		
Interest on investments	**$**	**28,262**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**(281,133)**
Cash and Cash Equivalents – January 1		**3,175,576**
Cash and Cash Equivalents – December 31	**$**	**2,894,443**

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

EXHIBIT 3
(Continued)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$**	**(5,430,856)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation		3,690,839
(Increase) decrease in accounts receivable		(241,102)
(Increase) decrease in inventory		(26,315)
(Increase) decrease in prepaid items		(6,579)
(Increase) decrease in deferred pension outflows		1,090,939
Increase (decrease) in accounts payable		(100,570)
Increase (decrease) in salaries payable		12,324
Increase (decrease) in deferred revenue		36,150
Increase (decrease) in customer deposits		299,459
Increase (decrease) in compensated absences payable		(30,730)
Increase (decrease) in net other postemployment benefits liability		(111,577)
Increase (decrease) in deferred other postemployment benefits inflows		75,521
Increase (decrease) in deferred pension inflows		(336,986)
Increase (decrease) in net pension liability		(681,923)
Net Cash Provided by (Used in) Operating Activities	**$**	**(1,761,406)**

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

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1. Summary of Significant Accounting Policies

The Duluth Entertainment and Convention Center Authority was created by Minn. Laws 1963, ch. 305; Minn. Laws 1985, 1st Spec. Sess., ch. 15, § 36, as amended; and by Minn. Laws 1998, ch. 404, § 61. The Authority has the power to contract, administer, promote, control, direct, manage, and operate the Duluth Entertainment and Convention Center for the City of Duluth and the State of Minnesota. The Authority consists of seven Directors appointed by the Mayor of the City of Duluth and approved by resolution of the City Council and four Directors appointed by the Governor of Minnesota.

The accounting policies of the Authority conform with accounting principles generally accepted in the United State of America (GAAP). The Governmental Accounting Standards Board (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 Authority are discussed below.

Change in Accounting Principles

During the year ended December 31, 2018, the Authority 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*, changes standards for recognizing and measuring other postemployment benefits (OPEB) liabilities and related deferred outflows of resources, deferred inflows of resources, and OPEB expense. This statement also requires additional note disclosures and a schedule in the required supplementary information. Beginning net position has been restated to reflect this change.

	Governmental Activities
Net Position, January 1, 2018, as previously reported	$ 84,165,992
Change in accounting principles	(962,650)
Net Position, January 1, 2018, as restated	$ 83,203,342

1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity

For financial reporting purposes, a reporting entity includes all funds, organizations, agencies, boards, commissions, and authorities for which it is financially accountable and other organizations for which the nature and significance of their relationship with it are such that exclusion would cause its financial statements to be misleading or incomplete. The 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 reporting entity 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 reporting entity.

As required by accounting principles generally accepted in the United State of America, these financial statements present the Duluth Entertainment and Convention Center Authority, a component unit of the City of Duluth. The Authority is included in the City of Duluth's reporting entity because of the significance of its operational or financial relationships with the City.

B. Basis of Presentation

The accounts of the Duluth Entertainment and Convention Center Authority are presented as an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

Accounting records are maintained on a full accrual, economic resource basis, under which revenues are recorded when earned and expenses are recorded when liabilities are incurred.

D. Budget and Budgetary Accounting

Budgetary control is maintained through an annual budget adopted by the Duluth Entertainment and Convention Center Authority. The budget is prepared on the accrual basis of accounting.

1. Summary of Significant Accounting Policies (Continued)

E. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments held by the Treasurer of the City of Duluth. Investments are stated at fair value, and investment revenue is recorded as it is earned. For purposes of the 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.

F. Inventories of Merchandise for Resale

Inventories are priced at the lower of cost or market value on a first-in, first-out basis and are recorded as expenses when consumed.

G. Capital Assets

All capital assets are valued at historical or estimated historical cost. Donated capital assets are recorded at acquisition value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Net interest costs on funds borrowed to finance construction of capital assets in proprietary funds are capitalized during the construction period and amortized over the life of the related asset.

H. Depreciation

Depreciation of capital assets is determined using the straight-line method. The estimated useful lives of the assets are 40 years for buildings, 20 years for land improvements, and three to 20 years for equipment.

I. 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 will not be recognized as an outflow of resources (expense) until then.

1. Summary of Significant Accounting Policies

I. Deferred Outflows/Inflows of Resources (Continued)

The Authority reports deferred outflows of resources associated with pension plans in the statement of net position.

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 Authority reports deferred inflows of resources associated with pension and OPEB benefits.

J. Restricted Assets

Restricted assets consist of promoter-escrowed funds and the employee flexible benefits plan account. Promoter-escrowed funds consist of cash and receivables escrowed on behalf of various promoters related to advance ticket sales for upcoming events. The employee flexible spending plan account consists of amounts withheld from employees pursuant to Internal Revenue Service regulations designated for reimbursement to employees for specific plan expenses.

K. Unearned Revenue

Unearned revenue represents advance deposits to reserve Authority facilities for future events, proceeds from the sale of gift certificates and gift cards that have not been redeemed as of year-end, and lease revenues that have not been earned as of year-end.

L. Classification of Net Position

Net position is classified in the following categories:

Net investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws, or constitutional provisions or enabling legislation.

1. Summary of Significant Accounting Policies

L. Classification of Net Position (Continued)

Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

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

M. Operating Revenues

Operating revenues, such as sales and charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows or resources; 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.

O. Trade-Offs

The Authority exchanges scoreboard advertising, attraction admissions, building rent, and other services for other non-monetary assets or services such as radio, television, or print advertising. The value of the services exchanged is debited to the appropriate expense accounts and credited to the appropriate revenue accounts.

1. Summary of Significant Accounting Policies (Continued)

   P. Pension Plan

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

2. Detailed Notes

   A. Deposits and Investments

   The City of Duluth Treasurer is designated by Minn. Laws 1963, ch. 305, as the Treasurer of the Authority. The City Treasurer is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit the Authority's cash and to invest in certificates of deposit in financial institutions designated by the Duluth City Council. Minnesota statutes require that all of the Authority's deposits be covered by insurance, surety bond, or collateral.

   The Authority invests funds in the City of Duluth's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The Authority invests in this pool for the purpose of joint investment with the City in order to enhance investment earnings. There are no redemption limitations. The types of investment securities available to the City of Duluth Treasurer are authorized by Minn. Stat. §§ 118A.04 and 118A.05.

   Additional disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the City of Duluth's Comprehensive Annual Financial Report. The Authority is a component unit of the City of Duluth.

2. Detailed Notes

A. Deposits and Investments (Continued)

The following is a summary of the Authority's cash and investments at December 31, 2018:

Current assets	
City of Duluth pooled cash account	$ 142
Checking account – ticket office	7,000
Checking account – employee flexible benefits plan	7,372
Savings account – operating reserve	1,175,000
Petty cash and change funds	54,300
Total current assets	$ 1,243,814
Restricted current assets	
Ticket office customer deposits – checking	$ 1,632,623
Ticket office change fund	17,200
Employee flexible benefits plan – checking	806
Total restricted current assets	$ 1,650,629
Total	$ 2,894,443

B. Due From City of Duluth

Amounts due from the City of Duluth at December 31, 2018, are as follows:

Current	
Hotel/motel tax	$ 781,191

C. Capital Assets

A summary of the changes in the capital asset accounts for the year ended December 31, 2018, follows:

2. Detailed Notes

C. Capital Assets (Continued)

	Balance January 1, 2018	Increase	Decrease	Reclassifications	Balance December 31, 2018
Capital assets not depreciated					
Land	$ 905,601	$ -	$ -	$ -	$ 905,601
Construction in progress	43,905	199,186	-	(243,091)	-
Total capital assets not depreciated	$ 949,506	$ 199,186	$ -	$ (243,091)	$ 905,601
Capital assets depreciated					
Land improvements	$ 302,957	$ -	$ -	$ -	$ 302,957
Buildings	136,952,362	33,351	-	205,751	137,191,464
Equipment	11,711,454	241,749	-	37,340	11,990,543
Total capital assets depreciated	$ 148,966,773	$ 275,100	$ -	$ 243,091	$ 149,484,964
Less: accumulated depreciation for					
Land improvements	$ 302,957	$ -	$ -	$ -	$ 302,957
Buildings	54,372,878	3,224,921	-	-	57,597,799
Equipment	8,760,728	465,918	-	-	9,226,646
Total accumulated depreciation	$ 63,436,563	$ 3,690,839	$ -	$ -	$ 67,127,402
Total capital assets depreciated, net	$ 85,530,210	$ (3,415,739)	$ -	$ 243,091	$ 82,357,562
Total Capital Assets, Net	$ 86,479,716	$ (3,216,553)	$ -	$ -	$ 83,263,163

D. Risk Management

The Authority is exposed to various risks of loss related to torts; injuries to employees; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from the previous year. The Authority retains the risk of loss for the first $10,000 per occurrence.

Permanent employees are eligible to participate in the City of Duluth Joint Powers Enterprise Trust for the benefit of governmental units of the City. The Authority pays an annual premium for health and dental insurance coverage.

2. Detailed Notes (Continued)

E. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the Duluth Entertainment and Convention Center Authority are covered by a defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan 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 Duluth Entertainment and Convention Center Authority employees belong to either the Basic Plan of the Minneapolis Employees Retirement Fund.

2. 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. Benefit recipients receive a future annual 1.00 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.50 percent. If, after reverting to a 2.50 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.00 percent.

2. Detailed Notes

E. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

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. 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 1.20 percent of average salary for each of the first 10 years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees 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. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. 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 Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2018.

In 2018, the Authority was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

2. Detailed Notes

E. Defined Benefit Pension Plan

3. Contributions (Continued)

The Authority's contribution for the General Employees Plan for the year ended December 31, 2018, were $296,680. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2018, the Authority reported a liability of $3,295,268 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 Authority's proportion of the net pension liability was based on the Authority'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 Authority's proportion was 0.0594 percent. It was 0.0623 percent measured as of June 30, 2017. The Authority recognized pension expense of $393,897 for its proportionate share of the General Employees Plan's pension expense.

The Authority also recognized $25,187 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 calendar year 2031.

The Authority's proportionate share of the net pension liability	$	3,295,268
State of Minnesota's proportionate share of the net pension liability associated with the Authority		108,005
Total	$	3,403,273

2. Detailed Notes

   E. Defined Benefit Pension Plan

      4. Pension Costs (Continued)

The Authority 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	$ 91,288	$ 95,625
Changes in actuarial assumptions	313,191	382,632
Difference between projected and actual investment earnings	-	362,550
Changes in proportion	131,208	138,851
Contributions paid to PERA subsequent to the measurement date	146,782	-
Total	$ 682,469	$ 979,658

The $146,782 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	$ 118,781
2020	(172,448)
2021	(321,526)
2022	(68,778)

2. Detailed Notes

   E. Defined Benefit Pension Plan (Continued)

      5. Actuarial Assumptions

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

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

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 percent.

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. 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 percent. 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

2. Detailed Notes

E. Defined Benefit Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent 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 was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2018:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

8. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate disclosed, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Proportionate Share of the Net Pension Liability
1% Decrease	6.50%	$ 5,355,233
Current	7.50	3,295,268
1% Increase	8.50	1,594,826

2. Detailed Notes

E. Defined Benefit Pension Plan (Continued)

9. 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.

F. Other Postemployment Benefits (OPEB)

1. Plan Description

The Duluth Entertainment and Convention Center Authority provides postemployment health insurance benefits for certain retired employees under a single-employer defined benefit health care plan. Employees who retired between January 1, 1983, and January 1, 1995, and employees who were full-time employees prior to January 1, 1995, and retire from the Authority at or after age 62 with at least ten years of full-time service, are eligible to receive hospital/medical benefits to the same extent as active employees for the life of the retiree or surviving spouse. The Authority will pay 80 percent of the premium for these qualifying retirees.

Active employees who retire from the Authority when eligible to receive a retirement benefit from PERA who do not qualify for the aforementioned benefits, and do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependents under the Authority's health benefits program. These retirees are required to pay 100 percent of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy.

The Authority's employment contract with the Executive Director provides for continuing family health insurance coverage for a period of 18 months following the termination of his employment contract. The Authority will provide this benefit.

2. Detailed Notes

F. Other Postemployment Benefits (OPEB)

1. Plan Description (Continued)

The Authority participates in the City of Duluth's Joint Powers Enterprise Trust and pays the required premiums to provide health care benefits for eligible retirees and claimed dependents. Premiums paid for eligible retirees and claimed dependents for health care insurance was $108,031 in 2018.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB 75. The OPEB plan does not issue a stand-alone financial report.

As of the January 1, 2017, actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	23
Active plan participants	35
Total	58

2. Total OPEB Liability

The Authority's total OPEB liability of $1,639,761 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.20 percent
Salary increases	3.50 percent, average wage inflation plus merit/productivity increases
Health care cost trend	10.0 percent, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent

2. Detailed Notes

F. Other Postemployment Benefits (OPEB)

2. Total OPEB Liability (Continued)

The current year discount rate is 3.64 percent, which is a change from the prior year rate of 3.16 percent. For the current valuation, the discount rate was selected from a range of the Bond Buyer G.O. 20-year bond Municipal Bond Index, the S&P Municipal Bond 20-year High Grade Rate Index, and the Fidelity 20-year G.O. Municipal Bond Index, where the range is given as the spread between the lowest and highest rate.

Mortality rates are based on SOA RPH-2014 Total Dataset Headcount-weighted Mortality projected with Scale MP-2016.

3. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2017, as restated	$ 1,751,338
Changes for the year	
Service cost	$ 20,995
Interest	54,083
Changes in assumptions	(85,938)
Benefit payments	(100,717)
Net change	$ (111,577)
Balance at December 31, 2018	$ 1,639,761

2. Detailed Notes

F. Other Postemployment Benefits (OPEB) (Continued)

4. OPEB Liability Sensitivity

The following presents the total OPEB liability of the Authority, calculated using the discount rate previously disclosed, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Total OPEB Liability
1% Decrease	2.64%	$ 1,865,468
Current	3.64	1,639,761
1% Increase	4.64	1,453,392

The following presents the total OPEB liability of the Authority, calculated using the health care cost trend previously disclosed, as well as what the Authority's total OPEB liability would be if it were calculated using health care cost trend rates that are 1.00 percentage point lower or 1.00 percentage point higher than the current health care cost trend rate:

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	9.0% Decreasing to 4.0%	$ 1,455,273
Current	10.0% Decreasing to 5.0%	1,639,761
1% Increase	11.0% Decreasing to 6.0%	1,860,657

5. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Authority recognized OPEB expense of $64,661. The Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	$ -	$ 75,521

2. Detailed Notes

F. Other Postemployment Benefits (OPEB)

5. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

Year Ended December 31	OPEB Expense Amount
2019	$ (10,417)
2020	(10,417)
2021	(10,417)
2022	(10,417)
2023	(10,417)
Thereafter	(23,436)

6. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred for the 2018 valuation:

- Per-capita costs were updated to reflect experiences since the previous valuation.
- Health care trend was shifted to maintain the same immediate rate.
- Mortality was updated to reflect more current rates based on the 2014 SOA Study.
- The actuarial cost method was changed to Entry Age Normal as a level percentage of payroll, per GASB 75 standards.
- Discount rate increased from 3.25 percent to 3.70 percent to reflect the current municipal bond market.

2. Detailed Notes (Continued)

G. Compensated Absences

Full-time employees are granted from 10 to 25 days of vacation time per year depending on their years of service. Vacation earned during one year must be taken within the following year. The Executive Director is allowed to carry forward up to 50 days of vacation. Upon termination of employment, employees are compensated for the full value of all unused vacation pay. Part-time employees who work more than 1,000 hours in a calendar year will receive a personal day off (eight hours) for each 100 hours worked in excess of 1,000 hours. Unused vacation and personal leave earned as of December 31, 2018, is estimated to be $124,563 and is recognized as a liability in the financial statements.

The Executive Director's employment contract provides a benefit of six months of current salary upon termination. This has been accrued in the financial statements in the amount of $59,998 as of December 31, 2018.

Sick leave is earned at the rate of 1.5 days per month for full-time personnel. No more than 150 days may be carried at any time. Employees are not compensated for unused sick leave upon termination of employment.

The contingent liability for sick leave at December 31, 2018, was estimated to be $698,829 and is not recognized as a liability in the financial statements.

H. Unearned Revenue

Unearned revenue as of December 31, 2018, consists of the following:

Advance deposits for future events	$	164,281
Gift certificates		12,612
Unearned lease revenue		694,774
Total	$	871,667

I. Minimum Future Rents Receivable

On January 1, 2012, the Authority entered into a lease agreement with Vistas Cruises, Inc., for ten years, with two five-year options to renew. This agreement is for the lease of space and facilities. Rent is adjusted by 3.0 percent annually. In 2018, rent was $65,673.

2. Detailed Notes

I. Minimum Future Rents Receivable (Continued)

On April 13, 2004, the Authority entered into a lease agreement with Cinema Entertainment Corporation (CEC) for 20 years, with two five-year options to renew. This agreement is for the lease of property on which CEC constructed a theater. The annual rent of $175,000 will be increased by 2.0 percent each year in years two through 10 and 3.0 percent each year in years 11 through 20. In May 2007, Marcus Theatre Corporation purchased the Duluth 10 theater from CEC and is now responsible for the lease. On January 1, 2012, an amended lease agreement was signed with B & G Realty, LLC, to include the OMNIMAX Theatre space in the leased premises for an additional $36,000 per year, with an annual Consumer Price Index increase beginning January 1, 2015. In addition, the Authority agreed to reimburse B & G Realty, through lease payment deductions, $25,000 for expenses related to the conversion and remodeling of said space. On April 18 and August 1, 2012, the reimbursable amount to B & G Realty was increased $10,000 and $11,417, respectively, for a total of $46,417 for conversion and remodeling.

On November 18, 2010, the Authority entered into a lease agreement with the University of Minnesota for 25 years to rent space, facilities, and advertising for the men's and women's hockey programs in the new AMSOIL Arena. The annual rent ranges from $468,800 in 2011 to $898,270 in 2033. These lease revenues are dedicated to repay the City of Duluth bonds which were used to construct the new arena.

On October 1, 2015, the Authority entered into a 22-year lease agreement with the Duluth Curling Club, Inc., to occupy a portion of the Pioneer Hall Clubrooms for year-round rental at an annual rate of $43,358, and the Pioneer Hall Annex Ice Arena for a rental rate of $43,358 for pre-defined curling season dates. The rental rate increases annually by 2.0 percent.

Minimum future rents on non-cancellable leases are:

Year	
2019	$ 1,038,580
2020	1,068,827
2021	1,099,966
2022	1,058,103
2023	1,088,882
After 2023	9,853,983
Total	$ 15,208,341

2. Detailed Notes (Continued)

J. Naming Rights Agreement

On June 29, 2010, the Authority entered into an agreement with AMSOIL, Inc., for naming rights to the new arena which was completed in 2010. The agreement grants AMSOIL, Inc., the rights to name the new arena in exchange for an initial payment of $2,000,000 in 2010 and payments of $200,000 per year for the years 2011 through 2031.

Minimum future rents on this agreement are:

Year	
2019	$ 200,000
2020	200,000
2021	200,000
2022	200,000
2023	200,000
After 2023	1,400,000
Total	$ 2,400,000

K. Long-Term Liabilities

The following is a schedule of long-term liability activity of the Duluth Entertainment and Convention Center Authority for the year ended December 31, 2018:

	Balance January 1, 2018	Additions	Reductions	Balance December 31, 2018	Due Within One Year
Compensated absences payable	$ 215,291	$ 155,434	$ 186,164	$ 184,561	$ 124,563

L. Pledge Agreement with City of Duluth

In 2010, the Authority completed construction on a new arena and parking ramp. The total project cost of $78,285,000 was funded by a state grant of $38,000,000 and City of Duluth general obligation bond proceeds of $40,285,000.

2. Detailed Notes

L. Pledge Agreement with City of Duluth (Continued)

In March 2016, the City of Duluth issued $33,440,000 in General Obligation Duluth Entertainment and Convention Center Authority Improvement Refunding Bonds, Series 2016A, to refund the City of Duluth's Series 2008A Duluth Entertainment and Convention Center Authority Improvement Bonds of $40,285,000. The transaction resulted in a net present value savings of $5,414,950.

The Authority entered into a pledge agreement with the City of Duluth dated August 7, 2008, that requires the Authority to pledge $461,000 per year of Authority revenues beginning in 2012 through the life of the bonds ending in 2034. The pledged revenues will be used in combination with City of Duluth 0.75 percent food and beverage taxes and University of Minnesota Duluth lease revenues to repay the principal and interest on the bonds.

M. Budget to Actual for 2018

The Duluth Entertainment and Convention Center Authority adopts a budget to be approved by the Duluth City Council. A summary of the operating budget compared to actual for the year ended December 31, 2018, follows.

	Budget	Actual	Favorable (Unfavorable)
Operating Revenues	$ 9,213,300	$ 9,346,829	$ 133,529
Operating Expenses	15,119,770	14,777,685	342,085
Operating Income (Loss)	$ (5,906,470)	$ (5,430,856)	$ 475,614
Nonoperating Revenues (Expenses)	1,920,231	2,048,016	127,785
Change in Net Position	$ (3,986,239)	$ (3,382,840)	$ 603,399

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REQUIRED SUPPLEMENTARY INFORMATION

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DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A-1

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFITS
DECEMBER 31, 2018

Total OPEB Liability		
Service cost	$	20,995
Interest		54,083
Changes of benefit terms		(100,717)
Changes of assumption or other inputs		(85,938)
Net change in total OPEB liability	**$**	**(111,577)**
Total OPEB Liability – Beginning, as restated		**1,751,338**
Total OPEB Liability – Ending	**$**	**1,639,761**
Covered-employee payroll	$	1,783,617
Net OPEB liability (asset) as a percentage of covered-employee payroll		91.93%

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.

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A-2

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Authority (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0594 %	$ 3,295,268	$ 108,005	$ 3,403,273	$ 3,986,093	82.67 %	79.53 %
2017	0.0623	3,977,191	50,003	4,027,194	3,635,889	109.39	75.90
2016	0.0591	4,798,627	62,701	4,861,328	3,620,162	132.55	68.91
2015	0.0590	3,057,686	N/A	3,057,686	3,463,401	88.29	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A - Not Applicable

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A-3

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b – a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	$ 296,680	$ 296,680	$ -	$ 3,955,733	7.50 %
2017	300,466	300,466	-	4,006,219	7.50
2016	267,844	267,844	-	3,715,149	7.21
2015	277,570	264,824	(12,746)	3,700,932	7.16

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

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

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018

1. Other Postemployment Benefits Funded Status

   In 2018, the Duluth Entertainment and Convention Center Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 2.F. in the notes to the financial statements for additional information regarding the Authority's other postemployment benefits.

2. Employer Contributions to Other Postemployment Benefits

   Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

   The following changes in actuarial assumptions occurred for the 2018 valuation:

   - Per-capita costs were updated to reflect experience.
   - Health care trend was shifted to maintain the same immediate rate.
   - Mortality was updated to reflect more current rates based on the 2014 SOA study.
   - The actuarial cost method was changed to Entry Age Normal as a level percentage of payroll, per GASB 75 standards.
   - Discount rate increased from 3.25 percent to 3.70 percent to reflect the current municipal bond market.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, 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 Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019, and returns to $6,000,000 annually through calendar year 2031.

3. Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2016

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

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

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

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Management and Compliance Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

JULIE BLAHA
STATE AUDITOR

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

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Duluth Entertainment and Convention Center
 Authority
Duluth, Minnesota

We have audited, 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, the financial statements of the Duluth Entertainment and Convention Center Authority, a component unit 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 Authority's basic financial statements, and have issued our report thereon dated May 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Duluth Entertainment and Convention Center Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Duluth Entertainment and Convention Center Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Authority did not administer any tax increment financing districts. The provisions for deposits and investments, contracting and bidding, and public indebtedness were tested in conjunction with our audit of the City of Duluth, Minnesota, which holds the Authority's cash and investments, bid out an Authority-related project, and issued debt on behalf of the Authority.

In connection with our audit, nothing came to our attention that caused us to believe that the Duluth Entertainment and Convention Center Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

Duluth Entertainment and Convention Center Authority's Response to Findings

The Duluth Entertainment and Convention Center Authority's response to the internal control finding identified in our audit is described in the Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 14, 2019

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DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
DULUTH, MINNESOTA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

I. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2017-001

Credit Card Policy and Procedures

Criteria: The Duluth Entertainment and Convention Center Authority utilizes credit cards to make purchases. In November 2018, the Authority adopted a credit card policy establishing procedures and internal controls over the use of credit cards. The policy includes a system for tracking all credit cards issued by the Authority, as well as requiring all employees who were issued a credit card to sign a credit card user agreement form acknowledging they have read the credit card policy. The credit card policy also includes a review process for all purchases made by credit card to verify purchases are legitimate purchases of the Authority.

Condition: During the testing of four monthly credit card statements, seven purchases were found that did not have proper supporting documentation. Six of these seven purchases were made before the Authority's Board-approved credit card policy in November 2018, and one was made after the policy was approved.

Context: The Authority tracks who is allowed to use the credit cards and has procedures for the payment of credit cards. However, the Authority did not have a credit card policy that outlines the policies and procedures followed by the Authority until November 2018.

Effect: Failure to implement and/or follow the credit card policy increases the likelihood for the misuse of credit cards and Authority funds.

Cause: The Authority did not implement a credit card policy until November 2018.

Recommendation: We recognize the effort taken by the Authority for establishing a formal credit card policy and the Board's subsequent approval of that policy. We recommend the Authority follow its Board-approved credit card policy and ensure employees are submitting the proper documentation to the Finance Department for payment.

View of Responsible Official: Acknowledged

II. PREVIOUSLY REPORTED ITEM RESOLVED

2017-002 Contracting and Bid Laws – Alternative Dissemination of Bids

REPRESENTATION OF DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY (DULUTH, MINNESOTA)

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 2017-001
Finding Title: Credit Card Policies and Procedures

Name of Contact Person Responsible for Corrective Action:

Caty Kaups, Finance Director

Corrective Action Planned:

In November 2018, the Board of Directors adopted a credit card policy. All authorized credit card users were provided a copy of the policy and signed an acknowledgement letter that they read the policy.

Anticipated Completion Date:

The Authority will continue to work towards 100% compliance during 2019.

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REPRESENTATION OF DULUTH ENTERTAINMENT AND CONVENTION AUTHORITY DULUTH, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

Finding Number: 2017-001
Finding Title: Credit Card Policy and Procedures

Summary of Condition: The Duluth Entertainment and Convention Center Authority has managers that utilize credit cards to make purchases; however, the Authority does not have a Credit Card Policy. Without a policy there is no way to track and monitor the use of credit cards. There are procedures in place for who is issued a credit card and for payment processing; however, the Authority does not have a formal policy outlining policies and procedures.

Summary of Corrective Action Previously Reported: The DECC will establish a credit card policy that complies with Minnesota law. Once approved by the Board of Directors, all authorized credit card holders will sign acknowledgement of the policy allowing enforcement of the policy.

Status: Partially Corrected. A credit card policy was approved by the board in November 2018 and the Authority will continue to work towards compliance with the policy in 2019.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

Finding Number: 2017-002
Finding Title: Contracting and Bid Laws – Alternative Dissemination of Bids

Summary of Condition: The Authority bid out a project in 2017 but did not properly advertise the solicitation of bids. The Authority worked with an engineering company to manage the capital project including creating and advertising bid documents. The Solicitation of bids was only published in trade journals and not published in the official newspaper. The Authority has not met the requirements satisfying Minn.Stat. 331A.03, subd. 3 (c), f, for the alternative dissemination of bids.

Summary of Corrective Action Previously Reported: Until the DECC meets the requirements to satisfy Minn.Stat. 331A.03, subd. 3 (c), f, solicitation of bids will be published in the official newspaper in additional to alternative trade publications.

Status: Fully Corrected. Corrective action was taken.
Was corrective action taken significantly different than the action previously reported?
Yes _______ No ___X___

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