STATE OF MINNESOTA

Office of the State Auditor

Patricia Anderson
State Auditor

**DULUTH ENTERTAINMENT AND
CONVENTION CENTER AUTHORITY
FOR THE CITY OF DULUTH AND
THE STATE OF MINNESOTA
(A COMPONENT UNIT OF THE CITY OF DULUTH)**

YEARS ENDED DECEMBER 31, 2004 AND 2003

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's 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@state.mn.us
www.auditor.state.mn.us

**DULUTH ENTERTAINMENT AND
CONVENTION CENTER AUTHORITY
FOR THE CITY OF DULUTH AND
THE STATE OF MINNESOTA
(A COMPONENT UNIT OF THE CITY OF DULUTH)**

Years Ended December 31, 2004 and 2003

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

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

TABLE OF CONTENTS

This page was left blank intentionally.

Introductory Section

This page was left blank intentionally.

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

ORGANIZATION
DECEMBER 31, 2004

	Term Expires
Directors	
Robert Beaudin	June 30, 2006
John Bray	June 30, 2007
Marti Buscaglia	June 30, 2007
Heidi Dulebohn	January 1, 2007
Robert Eaton	January 1, 2007
Mark Emmel	June 30, 2006
Gregory Fox	January 1,2007
Debra Messer	January 1, 2007
Marsha Signorelli	June 30, 2007
Yvonne Prettner Solon	June 30, 2005
Officers	
President	
Gregory Fox	January 1, 2007
Vice-President	
Robert Eaton	January 1, 2007
Treasurer (Duluth City Treasurer)	
Larry Jeneson	Indefinite
Executive Director	
Daniel J. Russell	Indefinite

One Mayor-appointed Board member position was vacant at year-end.

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

PATRICIA ANDERSON
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

Duluth Entertainment and Convention Center
Authority Board

We have audited the accompanying financial statements of the Duluth Entertainment and Convention Center Authority for the City of Duluth and the State of Minnesota, a component unit of the City of Duluth, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Convention Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2005, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 14, 2005

MANAGEMENT’S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(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, 2004. This information should be read in conjunction with the financial statements.

Financial Highlights

- In 2004, total net assets increased $.7 million, or 2.0 percent, over the course of the year's operations.

- Total operating revenue increased 2.1 percent, or $.14 million, in 2004 compared to last year.

- Total operating expenses in 2004 increased by $.28 million, or 3.1 percent, compared to 2003.

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 Convention Center's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Convention Center's strategic plan, budget, and other management tools were used for this analysis.

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

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

The statement of cash flows presents changes in cash and cash equivalents resulting from operational, non-capital 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 Convention Center'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 Convention Center's staff from the detailed books and records of the Convention Center. 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 Convention Center).

The Convention Center 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 Convention Center does not have taxing power. Operations are funded from customer revenues. Customer revenues together with City tourism taxes, City of Duluth grants, 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 Assets
(000's)

	2004	2003	2002	Dollar Change 2003 to 2004 Increase (Decrease)	Dollar Change 2002 to 2003
Current and other assets	$ 1,092	$ 1,349	$ 1,827	$ (257)	$ (478)
Capital assets	43,417	42,893	44,724	524	(1,831)
Total Assets	$ 44,509	$ 44,242	$ 46,551	$ 267	$ (2,309)
Current liabilities	$ 1,679	$ 1,551	$ 1,579	$ 128	$ (28)
Long-term liabilities	4,792	5,396	5,976	(604)	(580)
Total Liabilities	$ 6,471	$ 6,947	$ 7,555	$ (476)	$ (608)
Net Assets					
Invested	$ 37,928	$ 36,826	$ 38,061	$ 1,102	$ (1,235)
Restricted	81	80	191	1	(111)
Unrestricted	29	389	744	(360)	(355)
Total Net Assets	$ 38,038	$ 37,295	$ 38,996	$ 743	$ (1,701)

In 2004, net assets increased $.7 million to $38 million, up from $37 million in 2003. The increase in net assets was primarily due to an increase in capital assets. In 2003, net assets decreased $1.7 million to $37 million, down from $39 million in 2002. The decrease in net assets was primarily due to a $2 million increase in accumulated depreciation.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(000's)

	2004	2003	2002	Dollar Change Increase (Decrease) 2003 to 2004	2002 to 2003
Operating revenues	$ 7,010	$ 6,865	$ 7,499	$ 145	$ (634)
Nonoperating revenues	814	798	978	16	(180)
Total Revenues	$ 7,824	$ 7,663	$ 8,477	$ 161	$ (814)
Operating expenses	$ 9,232	$ 8,956	$ 9,189	$ 276	$ (233)
Interest expense	377	402	423	(25)	(21)
Amortization of bond issue costs	6	6	7	-	(1)
Total Expenses	$ 9,615	$ 9,364	$ 9,619	$ 251	$ (255)
Revenues Over (Under) Expenses	$ (1,791)	$ (1,701)	$ (1,142)	$ (90)	$ (559)
Donated capital	2,534	-	-	2,534	-
Change in Net Assets	$ 743	$ (1,701)	$ (1,142)	$ 2,444	$ (559)
Net Assets - January 1	37,295	38,996	40,138	(1,701)	(1,142)
Net Assets - December 31	$ 38,038	$ 37,295	$ 38,996	$ 743	$ (1,701)

Comparison with Budget
(000's)

	2004 Actual	2004 Budget	Variance with Budget	% Variance
Operating revenues	$ 7,010	$ 7,040	$ (30)	(0.4)
Nonoperating revenues	814	778	36	4.6
Total Revenues	$ 7,824	$ 7,818	$ 6	0.1
Operating expenses	$ 9,232	$ 8,903	$ 329	3.7
Nonoperating expenses	377	379	(2)	(0.5)
Amortization	6	6	-	-
Total Expenses	$ 9,615	$ 9,288	$ 327	3.5
Revenues Over (Under) Expenses	$ (1,791)	$ (1,470)	$ (321)	(22.04)
Donated capital	2,534	-	2,534	N/A
Change in Net Assets	$ 743	$ (1,470)	$ 2,213	150.5
Beginning Net Assets	37,295	37,295	-	-
Ending Net Assets	$ 38,038	$ 35,825	$ 2,213	6.2

Revenues

The Convention Center's operating revenues increased $145,000 to $7.0 million in 2004 due to a slight increase in conventions compared to 2003 and new lease revenue. Nonoperating revenues were up $16,000 due to a gain on sale of capital assets during 2004.

Expenses

The Convention Center's operating expenses increased $276,000 to $9.2 million in 2004 due to utilities, insurance, and costs relating to the acquisition of retired Coast Guard ice cutter, Sundew.

Budgetary Highlights

Operating revenues were lower than budgeted due to a decrease in attraction attendance compared to budget. Operating expenses were higher than budgeted due to increases in utility expense and costs associated with the unbudgeted acquisition of retired Coast Guard ice cutter, Sundew.

Capital Assets

Capital Assets
(000's)

	2004	2003	Dollar Change	% Change
Land	$ 906	$ 906	$ -	-
Land improvements	303	303	-	-
Buildings and structures	61,775	59,226	2,549	4.3
Equipment	6,994	6,910	84	1.2
Work in progress	-	26	(26)	100.0
Subtotal	$ 69,978	$ 67,371	$ 2,607	3.9
Less: accumulated depreciation	(26,561)	(24,478)	(2,083)	(8.5)
Net Capital Assets	$ 43,417	$ 42,893	$ 524	1.2

By the end of 2004, the Convention Center has invested $70 million in capital assets. The $2.6 million increase during the past year was mainly due to the donation of the retired Coast Guard ice cutter, Sundew ($2.5 million), and purchase of the new ice resurfacer ($60,000). For more information, see Note 2.C. to the financial statements.

Debt Administration

Debt
(000's)

	2004	2003	Dollar Change	% Change
Copier lease	$ 4	$ 8	$ (4)	(50.0)
Locker room lease	1,298	1,380	(82)	(5.9)
Omni bonds	4,800	5,385	(585)	(10.9)
Total Debt	$ 6,102	$ 6,773	$ (671)	(9.9)

As of December 31, 2004, the Convention Center's outstanding debt decreased $671,000 or 9.9 percent, compared to December 31, 2003. No additional debt was incurred in 2004. For additional information, see Notes 2.J. and 2.K. to the financial statements.

Economic Factors and Next Year's Budget

Many factors were considered when completing the budget for 2005. Convention business in 2005 is similar to the business in 2003 and 2004. A modest increase in revenue is projected for 2005 compared to 2004 mainly to account for new lease revenue. Prices for 2004 were set in January 2000 and included a minimal increase for some goods and services. Catering prices were increased in the fall of 2004.

Requests for Information

This financial report is designed to provide a general overview of the Convention Center's finances and to demonstrate the Convention Center'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.

FINANCIAL STATEMENTS

This page was left blank intentionally.

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

EXHIBIT A

COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003

	2004	2003
Assets		
Current assets		
Cash and cash equivalents	$ 171,518	$ 683,043
Accounts receivable	298,339	231,035
Due from City of Duluth	51,420	43,980
Inventory	158,403	143,324
Prepaid items	2,632	3,658
Total current assets	**$ 682,312**	**$ 1,105,040**
Noncurrent assets		
Assets restricted for customers' deposits		
Cash and cash equivalents	$ 286,952	$ 126,379
Accounts receivable	20,402	9,166
Assets restricted for employee flexible benefits		
Cash and cash equivalents	1,217	2,382
Debt service - assets held by trustee		
Lease financing escrow account	80,417	79,560
Bond issuance costs	20,580	26,193
Total noncurrent assets, other than capital	**$ 409,568**	**$ 243,680**
Capital assets	$ 69,977,585	$ 67,370,908
Less: allowance for depreciation	(26,560,912)	(24,477,484)
Total capital assets (net of accumulated depreciation)	**$ 43,416,673**	**$ 42,893,424**
Total Assets	**$ 44,508,553**	**$ 44,242,144**
Liabilities		
Current liabilities		
Accounts payable	$ 343,049	$ 266,793
Accrued salaries payable	49,829	186,897
Accrued vacation payable	89,842	83,253
Deferred revenue	152,719	162,659
Current portion of general obligation bonds payable	605,000	585,000
Current portion of lease purchase payable	91,177	86,614
Accrued interest payable on general obligation bonds	38,949	42,238
Total current liabilities	**$ 1,370,565**	**$ 1,413,454**
Current liabilities payable from restricted assets		
Customer deposits	$ 307,354	$ 135,545
Employee flexible benefits plan	1,217	2,382
Total current liabilities payable from restricted assets	**$ 308,571**	**$ 137,927**

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

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

EXHIBIT A
(Continued)

COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003

	2004	2003
Liabilities (Continued)		
Noncurrent liabilities		
Bonds payable	$ 4,195,000	$ 4,800,000
Less: unamortized discount	(20,780)	(26,440)
Less: deferred amount on refunding	(593,069)	(678,821)
Lease purchase payable	1,210,954	1,301,642
Total noncurrent liabilities	**$ 4,792,105**	**$ 5,396,381**
Total Liabilities	**$ 6,471,241**	**$ 6,947,762**
Net Assets		
Invested in capital assets, net of related debt	$ 37,928,391	$ 36,825,429
Restricted		
Debt service	80,417	79,560
Unrestricted	28,504	389,393
Total Net Assets	**$ 38,037,312**	**$ 37,294,382**

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

EXHIBIT B

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003

		2004		2003
Operating Revenues				
Sales	$	2,962,641	$	2,806,659
Charges for services		3,895,286		3,909,517
Miscellaneous		151,787		149,149
Total Operating Revenues	**$**	**7,009,714**	**$**	**6,865,325**
Operating Expenses				
Personal services	$	3,816,545	$	3,726,946
Supplies and services		1,316,229		1,233,990
Utilities		778,976		753,499
Other services and charges		1,222,451		1,258,107
Depreciation		2,097,428		1,983,231
Total Operating Expenses	**$**	**9,231,629**	**$**	**8,955,773**
Operating Income (Loss)	**$**	**(2,221,915)**	**$**	**(2,090,448)**
Nonoperating Revenues (Expenses)				
Earnings on investments	$	5,176	$	9,933
Gain on sale of capital assets		22,703		-
Hotel/motel tax revenue		786,287		787,869
Interest expense		(377,581)		(402,119)
Amortization of bond issue costs		(5,613)		(6,203)
Total Nonoperating Revenues (Expenses)	**$**	**430,972**	**$**	**389,480**
Income (Loss) Before Contributions	**$**	**(1,790,943)**	**$**	**(1,700,968)**
Donated capital assets		2,533,873		-
Change in Net Assets	**$**	**742,930**	**$**	**(1,700,968)**
Net Assets - January 1		**37,294,382**		**38,995,350**
Net Assets - December 31	**$**	**38,037,312**	**$**	**37,294,382**

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

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

EXHIBIT C

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	$ 6,941,256	$ 6,864,318
Cash paid to suppliers	(3,255,049)	(3,277,325)
Cash paid to employees	(3,948,189)	(3,691,105)
Other operating revenues	151,787	149,149
Net cash provided by (used in) operating activities	**$ (110,195)**	**$ 45,037**
Cash Flows from Noncapital Financing Activities		
City of Duluth hotel/motel taxes	**$ 778,847**	**$ 802,617**
Cash Flows from Capital and Related Financing Activities		
State grant proceeds received for construction	$ -	$ 112,620
Proceeds from sale of capital assets	22,703	-
Principal paid on lease purchases	(86,125)	(81,823)
Interest paid on lease purchases	(74,306)	(76,785)
Principal paid on bonds payable	(585,000)	(560,000)
Interest paid on bonds payable	(216,413)	(236,012)
Acquisition or construction of fixed assets	(86,804)	(227,323)
Net cash provided by (used in) capital and related financing activities	**$ (1,025,945)**	**$ (1,069,323)**
Cash Flows from Investing Activities		
Interest on investments	**$ 5,176**	**$ 9,933**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (352,117)**	**$ (211,736)**
Cash and Cash Equivalents - January 1	**811,804**	**1,023,540**
Cash and Cash Equivalents - December 31	**$ 459,687**	**$ 811,804**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Net operating loss	$ (2,221,915)	$ (2,090,448)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	2,097,428	1,983,231
Changes in assets and liabilities		
Decrease (increase) in receivables	(78,540)	148,150
Decrease (increase) in inventory	(15,079)	(18,032)
Decrease (increase) in prepaid items	1,026	3,817
Increase (decrease) in payables	(53,819)	16,939
Increase (decrease) in deferred revenue	(9,940)	(3,384)
Increase (decrease) in employee flexible benefits plan deposits	(1,165)	1,388
Increase (decrease) in customer deposits	171,809	3,376
Net Cash Provided by (Used in) Operating Activities	**$ (110,195)**	**$ 45,037**
Noncash Investing, Capital, and Financing Activities		
The Convention Center earned interest on the debt service reserve account.	$ 857	$ 853
The Convention Center received a donated capital asset.	2,533,873	-

FAIRVIEW NURSING HOME
DODGE CENTER, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

1. Summary of Significant Accounting Policies

The Fairview Nursing Home's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Pursuant to Governmental Accounting Standards Board Statement 20, the Nursing Home has elected to apply FASB statements issued on or before November 30, 1989. The more significant accounting policies established in GAAP, and used by the Nursing Home, are discussed below.

A. Financial Reporting Entity

The Fairview Nursing Home was established pursuant to Minn. Stat. § 376.55-.60 to provide care to chronically ill or convalescent persons. The Fairview Nursing Home Board consists of five Dodge County Commissioners.

The current nursing home facility was completed in 1976 and is classified as a skilled-care facility. The capacity of the facility is 72 beds and the rate of occupancy was 82.02 percent in 2004 and 92.66 percent in 2003. In May 2004, the Board agreed to enter into a layaway program with the State permitting the Nursing Home to take seven licensed beds temporarily out of service and have those beds treated as though they were de-licensed.

The Fairview Nursing Home is owned and operated by Dodge County. Therefore, the Nursing Home is an integral part of the County's financial reporting entity. The Nursing Home's financial statements are included in Dodge County's financial statements as an enterprise fund.

B. Measurement Focus and Basis of Accounting

The Nursing Home accounts are organized as an enterprise fund of the County. The enterprise fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when

1. Summary of Significant Accounting Policies

B. Measurement Focus and Basis of Accounting (Continued)

earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise 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 the enterprise fund's principal ongoing activities. The principal operating revenues of the Nursing Home are charges for services to citizens. Operating expenses for the enterprise fund include costs of proving services to citizens, administrative expenses, and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Assets, Liabilities, and Net Assets

1. Cash and Investments

The Nursing Home's cash balance is combined with Dodge County funds and invested with the County's pooled investments. Investments are reported at their fair value at December 31, 2004, based on market prices. For the purposes of the statement of cash flows, the cash balance in the County's pooled investments (including amounts shown as restricted assets) is considered to be cash equivalents.

2. Receivables and Payables

The Nursing Home uses the direct write-off method for uncollectible accounts. Charges to this account are made on an individual case basis. Various Nursing Home accounts totaling $36,209 and $63,771 were considered uncollectible at December 31, 2004 and 2003, respectively.

3. Restricted Assets

Certain funds of the Nursing Home are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable law and regulations.

1. Summary of Significant Accounting Policies

C. Assets, Liabilities, and Net Assets

3. Restricted Assets (Continued)

Fairview Nursing Home restricted assets are set aside to secure outstanding debt. It is the County's policy to first use restricted assets when both current and restricted assets are available to finance expenses.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are defined by the Nursing Home as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Assets	Years
Buildings	35
Improvements other than buildings	20
Fixed equipment	10 - 35
Movable equipment	5 - 15

5. Compensated Absences

Under the Nursing Home's personnel policies, employees are granted personal time off (PTO) in varying amounts based on their length of service and whether they are salaried or paid hourly. PTO accrual varies from 23.5 to 47.5 days per year. Upon termination, the dollar value of PTO is paid out at 100 percent to a maximum of 480 hours.

1. Summary of Significant Accounting Policies

C. Assets, Liabilities, and Net Assets (Continued)

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

7. 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.

2. Detailed Notes

A. Assets

Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not depreciated				
Land	$ 15,600	$ -	$ -	$ 15,600
Capital assets depreciated				
Buildings	$ 1,243,757	$ -	$ 518	$ 1,243,239
Improvements other than buildings	87,408	-	4,072	83,336
Equipment	772,067	18,484	96,177	694,374
Total capital assets depreciated	$ 2,103,232	$ 18,484	$ 100,767	$ 2,020,949
Less: accumulated depreciation for				
Buildings	$ 615,356	$ 34,981	$ 506	$ 649,831
Improvements other than buildings	83,828	988	4,072	80,744
Equipment	613,054	38,240	88,190	563,104
Total accumulated depreciation	$ 1,312,238	$ 74,209	$ 92,768	$ 1,293,679
Total capital assets, depreciated - net	$ 790,994	$ (55,725)	$ 7,999	$ 727,270
Total Capital Assets - Net	$ 806,594	$ (55,725)	$ 7,999	$ 742,870

2. Detailed Notes

A. Assets

Capital Assets (Continued)

Included in the increase column are $13,156 of capital assets, fully depreciated, transferred to the Nursing Home. Depreciation expense of $61,053 was expensed in 2004.

Capital asset activity for the year ended December 31, 2003, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not depreciated				
Land	$ 15,600	$ -	$ -	$ 15,600
Capital assets depreciated				
Buildings	$ 1,243,757	$ -	$ -	$ 1,243,757
Improvements other than buildings	87,408	-	-	87,408
Equipment	766,873	6,462	1,268	772,067
Total capital assets depreciated	$ 2,098,038	$ 6,462	$ 1,268	$ 2,103,232
Less: accumulated depreciation for				
Buildings	$ 580,295	$ 35,061	$ -	$ 615,356
Improvements other than buildings	82,521	1,307	-	83,828
Equipment	583,522	30,800	1,268	613,054
Total accumulated depreciation	$ 1,246,338	$ 67,168	$ 1,268	$ 1,312,238
Total capital assets, depreciated - Net	$ 851,700	$ (60,706)	$ -	$ 790,994
Total Capital Assets – Net	$ 867,300	$ (60,706)	$ -	$ 806,594

B. Liabilities

1. Long-Term Debt

Types of Indebtedness	Final Maturity	Installment Amounts	Interest Rates (%)	Original Issues Amount	Outstanding Balance December 31, 2004	Outstanding Balance December 31, 2003
1996 G.O. Nursing Home Revenue Notes	2006	$ 28,490	5.690	$ 430,000	$ 106,295	$ 155,133
2004 G.O Nursing Home Revenue Notes	2012	52,075 - 57,700	2.50-4.15	335,000	335,000	-
Less: unamortized discount					(5,320)	-
Total General Obligation Bonds					$ 435,975	$ 155,133

2. Detailed Notes

B. Liabilities (Continued)

2. Debt Service Requirements

General Obligation debt service requirements at December 31 were as follows:

Year Ending December 31	2004 Principal	2004 Interest	2003 Principal	2003 Interest
2005	$ -	$ 13,420	$ 51,657	$ 5,324
2006	45,000	10,940	54,638	2,342
2007	45,000	9,758	-	-
2008	45,000	8,420	-	-
2009	50,000	6,825	-	-
2010-2012	150,000	9,125	-	-
Total	$ 335,000	$ 58,488	$ 106,295	$ 7,666

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
G.O. revenue notes	$ 155,133	$ 335,000	$ 48,838	$ 441,295	$ 51,657
Less: unamortized discount	-	(5,695)	(375)	(5,320)	(751)
Total bonds payable	$ 155,133	$ 329,305	$ 48,463	$ 435,975	$ 50,906
Compensated absences	218,935	16,431	65,056	170,310	69,955
Total Long-Term Liabilities	$ 374,068	$ 345,736	$ 113,519	$ 606,285	$ 120,861

Long-term liability activity for the year ended December 31, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
G.O. revenue notes	$ 201,306	$ -	$ 46,173	$ 155,133	$ 48,839
Compensated absences	247,880	-	28,945	218,935	65,056
Total Long-Term Liabilities	$ 449,186	$ -	$ 75,118	$ 374,068	$ 113,895

2. Detailed Notes (Continued)

C. Interfund Activities and Balances

Advances/Transfers

Changes in advances payable to the Dodge County General Fund for the years ending December 31 were:

	2004	2003
Payable - January 1	$ 60,000	$ -
Loans made	314,000	209,000
Loans repaid	(158,000)	(149,000)
Loans forgiven - reported as a transfer in	(216,000)	-
Payable - December 31	$ -	$ 60,000

Due to General Fund

At December 31, the Nursing Home reports the following amounts due the Dodge County General Fund for routine interfund transactions.

	2004	2003
Due to Dodge County General Fund	$ 3,416	$ 3,526

3. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Fairview Nursing Home are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

3. Pension Plans

   A. Plan Description (Continued)

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

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

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

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

   B. Funding Policy

   Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Nursing Home makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Nursing Home is required to contribute the following percentages of annual covered payroll:

3. Pension Plans

B. Funding Policy (Continued)

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Nursing Home's contributions for the years ending December 31, 2004, 2003, and 2002, were $99,181, $97,064, and $113,699, respectively, equal to the contractually required contributions for each year as set by state statute.

4. Risk Management

The Nursing Home is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. Risks of loss associated with workers' compensation are covered through Minnesota Counties Insurance Trust (MCIT) as the Nursing Home is a member through Dodge County. For all other risks, the Nursing Home carries commercial insurance. The Nursing Home retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at $720,000 and $760,000 per claim in 2004 and 2005, respectively. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the County in a method and amount to be determined by MCIT.

This page was left blank intentionally.

Management and Compliance Section

This page was left blank intentionally.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

I. INTERNAL CONTROL

ITEM ARISING THIS YEAR

04-1 Ticket Office Reconciliation

The Duluth Entertainment and Convention Center's ticket office sells tickets to upcoming events. The ticket office also pays certain expenses of upcoming events and prepares a close-out settlement report for each event. A ticket office bank account is maintained to account for these activities.

At least annually, the ticket office manager reconciles the cash held on hand and in the ticket office bank account to the amounts due to promoters, the convention center, and other parties. The account reconciliation is very complex because there are multiple events on sale and many charges associated with each event.

Past reconciliations have generally included some minor unidentified variances. However, at December 31, 2004, the ticket office reconciliation had an unexplained variance of $20,830. The ticket office held more cash at year-end than what was due to others. The amount of the variance has increased substantially from previous years' reconciliations.

We recommend the ticket office manager perform a reconciliation of the ticket office accounts on a monthly basis. If the reconciliation is performed more frequently, the process should be less difficult than trying to reconcile the activity on an annual basis. Any errors identified and adjustments that need to be made can be handled more timely and will give the Convention Center better control over this account. The Convention Center should consider developing a standardized format that could be used each month to make the process easier. The Finance Director should review the reconciliation and actually perform the reconciliation periodically.

Client's Response:

Due to processing of Ticketmaster and credit card fees, there will always be a miscellaneous amount that cannot be identified in the ticket office account. In addition, more promoters are now receiving Ticketmaster royalties. These royalties are handled differently depending on the promoter. If the ticket office does not process royalties and other payments correctly, there will be additional unidentified cash in the ticket office. The ticket office is still working to identify the unreconciled balance from 2004.

It will be recommended that the ticket office manager reconcile the cash on a monthly basis. The Finance Director will review the reconciliation and periodically help prepare it. Since the Convention Center is event driven, the actual date of the monthly reconciliation will be worked around event calendars and work schedules. The finance director and ticket office manager will work on a standardized format to make the process easier.

II. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

99-1 Meals

In our prior audit, we noted nine instances where the Duluth Entertainment and Convention Center paid for meals for meetings between staff members with no outside parties present. During our current audit, we noted seven occasions where staff-on-staff meals were paid for by the Convention Center. During our review of this area, we found that while Convention Center staff documented who attended the meeting and the topics discussed, they did not document the necessity of meeting during the meal time.

The Minnesota Attorney General held in Op. Atty. Gen. 63a-2, May 6, 1965, that there exists no public purpose for a public unit to pay lunch expenses when its employees meet over a lunch hour. Stated another way, public employees who work together cannot go to lunch and charge their employer, even if they do business while eating.

In prior audits, we have also noted instances where liquor was reimbursed as part of the meal. During the current audit, we noted six occasions where liquor was reimbursed. Instances where liquor was reimbursed did not involve the staff-on-staff meetings. In many instances, vouchers reviewed for meal reimbursement were not itemized; therefore, we were unable to determine the nature of the charges.

The issue of the Convention Center reimbursing employees for meals has been addressed in past management letters. The position of the Office of the State Auditor and the Attorney General's Office is that staff-on-staff meals do not meet the "public purpose" standard required by the State Constitution. It is the position of the Office of the State Auditor that reimbursement for liquor as part of a meal would never meet the "public purpose" standard.

The Convention Center's travel and entertainment policy does not address that liquor is an unallowable cost. The City of Duluth's meal reimbursement policy and the State of Minnesota's policies do not allow alcohol as a reimbursable cost.

Reimbursements of liquor as part of a meal should not be allowed by the Convention Center's Board of Directors. We recommend the Convention Center's travel and entertainment policy specifically prohibit reimbursement for alcohol. Some cities have avoided expenditures for alcohol by allowing separate non-profit entities, such as convention and visitors' bureaus, to handle some promotional services. We suggest this type of arrangement be considered by the Convention Center.

We recommend the Convention Center Board discontinue the practice of paying for meals where only staff attends. Itemized receipts should support vouchers so that accounting staff can determine that only appropriate charges are reimbursed.

Client's Response:

The uniqueness of the Convention Center compared to other State facilities, especially in coordinating manager schedules around a facility that operates 7 days a week plus nights, we find it necessary for staff to occasionally meet during a meal. Convention Center policy allows for such meetings with prior approval of the Executive Director.

While the Convention Center regularly entertains potential show promoters and convention planners, we occasionally find it necessary to provide alcoholic beverages as part of meal expenses to certain guests. This is a business decision and standard throughout the industry. We recognize the State Auditor's Office position on the matter; however, we do not believe it prudent to change our policy to prohibit reimbursement for alcohol. Whenever possible, we have an event partner pick up the cost of the alcohol.

ITEM ARISING THIS YEAR

04-2 Bidding

The Convention Center purchased a new ice resurfacer in 2004 at a cost exceeding $50,000. This purchase was required to comply with the bidding requirements set forth in Minn. Stat. § 471.345 which states that contracts in excess of $50,000 must be entered into on the basis of sealed bids solicited by public notice.

The Convention Center could not locate any documentation to verify that this purchase had been formally bid. When items are formally bid, the governmental unit should maintain a bid file with the following documents:

- specifications
- publication notice
- original bids received
- bid bonds, if required
- performance bond of contractor awarded the bid
- contract

We recommend the Convention Center Board follow the bid requirements of Minn. Stat. § 471.345 when making purchases exceeding $50,000. Proper documentation of the process should be maintained in a bid file.

Client's Response:

In the past, the Convention Center has complied with the State's bidding requirements. Because there are only two companies that actually make ice resurfacers (Zamboni and Olympia), we felt that it was not necessary to formally bid for the ice resurfacer. It was an oversight on our part to not follow the appropriate bid process due to the circumstances surrounding this particular purchase.

In the future, we will comply with the State's bidding requirements when necessary, including maintaining a bid file.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

Mayor and City Council
City of Duluth

Duluth Entertainment and Convention Center
Authority Board

We have audited the financial statements of the Duluth Entertainment and Convention Center Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated February 14, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Duluth Entertainment and Convention Center Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Convention Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 04-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Duluth Entertainment and Convention Center Authority's financial statements are free of 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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Duluth Entertainment and Convention Center Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 99-1 and 04-2.

This report is intended solely for the information and use of the Duluth Entertainment and Convention Center Authority Board, Mayor and City Council of Duluth, and the Convention Center's management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson	*/s/Greg Hierlinger*
PATRICIA ANDERSON STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

End of Fieldwork: February 14, 2005