STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

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

YEARS ENDED DECEMBER 31, 2014 AND 2013

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 150 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 700 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.

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

Years Ended December 31, 2014 and 2013

Audit Practice Division
Office of the State Auditor
State of Minnesota

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

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Introductory Section

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

ORGANIZATION
DECEMBER 31, 2014

	Term Expires
Directors	
Mary Finnegan-Ongaro	June 30, 2015
Gregory Fox	June 30, 2015
Carrie Heffernan	June 30, 2015
Debra Messer	June 30, 2015
Nick Patronas	June 30, 2015
Crystal Pelkey	June 30, 2016
Karen Pionk	June 30, 2016
Yvonne Prettner Solon	June 30, 2015
Roger Reinert	June 30, 2015
David Ross	June 30, 2016
Jay Seiler	June 30, 2015
Officers	
President	
David Ross	June 30, 2016
Vice President	
Jay Seiler	June 30, 2015
Treasurer (Duluth City Treasurer)	
Brian Hansen	Indefinite
Executive Director	
Daniel J. Russell	Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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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, as of and for the years ended December 31, 2014 and 2013, 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 of 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 22, 2015, 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, 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 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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 22, 2015

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014
(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, 2014. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- In 2014, total net position decreased $3.2 million, or 3.2 percent, over the course of the year's operations.

- Total operating revenue increased $0.5 million, or 6.3 percent, in 2014 compared to last year.

- Total operating expenses in 2014 increased by $0.8 million, or 5.8 percent, compared to 2013.

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)

	2014	2013	2012	Dollar Change Increase (Decrease) 2013 to 2014	Dollar Change Increase (Decrease) 2012 to 2013
Assets					
Current and other assets	$ 3,126	$ 3,340	$ 2,724	$ (214)	$ 616
Capital assets	95,924	99,335	102,736	(3,411)	(3,401)
Total Assets	$ 99,050	$ 102,675	$ 105,460	$ (3,625)	$ (2,785)
Liabilities					
Current liabilities	$ 1,638	$ 1,974	$ 1,563	$ (336)	$ 411
Long-term liabilities	798	888	988	(90)	(100)
Total Liabilities	$ 2,436	$ 2,862	$ 2,551	$ (426)	$ 311
Net position					
Net investment in capital assets	$ 95,766	$ 99,034	$ 102,286	$ (3,268)	$ (3,252)
Restricted	87	87	87	-	-
Unrestricted	761	692	536	69	156
Total Net position	$ 96,614	$ 99,813	$ 102,909	$ (3,199)	$ (3,096)

In 2014, net position decreased $3.2 million compared to 2013. Total assets decreased $3.6 million due to depreciation of $3.8 million in 2014. Total liabilities decreased $0.4 million due to a decrease in accounts payable and ticket office payables compared to 2013.

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

	2014	2013	2012	Dollar Change Increase (Decrease) 2013 to 2014	Dollar Change Increase (Decrease) 2012 to 2013
Operating revenues	$ 8,953	$ 8,422	$ 8,128	$ 531	$ 294
Nonoperating revenues	1,568	1,472	1,411	96	61
Total Revenues	$ 10,521	$ 9,894	$ 9,539	$ 627	$ 355
Operating expenses	$ 13,727	$ 12,971	$ 12,888	$ 756	$ 83
Interest expense	11	19	25	(8)	(6)
Total Expenses	$ 13,738	$ 12,990	$ 12,913	$ 748	$ 77
Excess of Revenues Over (Under) Expenses	$ (3,217)	$ (3,096)	$ (3,374)	$ (121)	$ 278
Capital contributions	18	-	-	18	-
Change in net position	$ (3,199)	$ (3,096)	$ (3,374)	$ (103)	$ 278
Net Position - January 1	99,813	102,909	106,283	(3,096)	(3,374)
Net Position - December 31	$ 96,614	$ 99,813	$ 102,909	$ (3,199)	$ (3,096)

Comparison with Budget
(000s)

	2014 Actual	2014 Budget	Variance with Budget	Percent Change (%)
Operating revenues	$ 8,953	$ 8,165	$ 788	9.7
Nonoperating revenues	1,568	1,495	73	4.9
Total Revenues	$ 10,521	$ 9,660	$ 861	8.9
Operating expenses	$ 13,727	$ 12,917	$ 810	6.3
Interest expense	11	12	(1)	(8.3)
Total Expenses	$ 13,738	$ 12,929	$ 809	6.3
Excess of Revenues Over (Under) Expenses	$ (3,217)	$ (3,269)	$ 52	1.6
Capital contributions	18	-	18	
Change in net position	$ (3,199)	$ (3,269)	$ 70	2.1
Net Position - January 1	99,813	99,813	-	-
Net Position - December 31	$ 96,614	$ 96,544	$ 70	(0.1)

Revenues

The Authority's operating revenues increased $531,000 to $8.9 million in 2014 due to an increase in rent, concession sales, ticket office, and parking revenues. Nonoperating revenues increased $96,000 compared to last year mainly due to hotel/motel tax contributions.

Expenses

The Authority's operating expenses increased $756,000 to $13.7 million in 2014 mainly due to an increase in labor, food cost, utilities, and show promotion expenses compared to 2013.

Budgetary Highlights

Operating revenues were over budget by $788,000 in 2014 due mainly to an increase in lease and building rent, concession sales, Irvin and ticket office revenues, and event parking. Nonoperating revenues were over budget by $73,000 due to larger hotel/motel tax revenue than projected. Operating expenses were $810,000 over budget in 2014 mainly due to labor, utilities, food costs, and entertainment expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets
(000s)

	2014	2013	Dollar Change	Percent Change (%)
Land	$ 906	$ 906	$ -	-
Land improvements	303	303	-	-
Buildings and structures	136,097	136,012	85	0.1
Equipment	10,589	10,302	287	2.8
Work in progress	45	-	45	-
Total	$ 147,940	$ 147,523	$ 417	0.3
Less: accumulated depreciation	(52,016)	(48,188)	(3,828)	7.9
Net Capital Assets	$ 95,924	$ 99,335	$ (3,411)	(3.4)

By the end of 2014, the Authority had invested $147.9 million in capital assets. The increase in buildings and structures is mainly due to new hockey dasher boards and new kitchen equipment. For more information, see Note 2.C. to the financial statements.

Debt Administration

Debt
(000s)

	2014		2013		Dollar Change		Percent Change (%)
Locker room lease	$	159	$	301	$	(142)	(47.2)

As of December 31, 2014, the Authority's outstanding debt decreased $0.1 million, or 47.2 percent, compared to December 31, 2013. No additional debt was incurred during the year. For additional information, see Notes 2.K. and 2.L. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Many factors were considered when completing the budget for 2015. Convention business is projected to be up slightly in 2015 compared to 2014. Overall, a slight increase in revenue is projected for 2015 compared to 2014 mainly due to an increase in parking, catering, and concessions revenue. Rent and building services prices for 2015 were established in 2011 and included a minimal increase for some goods and services. New catering prices will be in effect in April 2015, and most concessions prices are increased annually in October. Overall operating expenses in 2014 are projected to increase due to annual pay increases, minimum wage increase, and food costs.

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
(A COMPONENT UNIT OF THE CITY OF DULUTH)

EXHIBIT 1

COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 2,057,026	$ 1,569,622
Accounts receivable	220,537	809,455
Due from City of Duluth	380,710	300,191
Inventory	136,244	117,982
Prepaid items	11,176	8,355
Total current assets	**$ 2,805,693**	**$ 2,805,605**
Restricted current assets		
Assets restricted for customer deposits		
Cash and cash equivalents	$ 225,421	$ 433,279
Accounts receivable	6,641	13,641
Assets restricted for employee flexible benefits plan		
Cash and cash equivalents	806	806
Total restricted current assets	**$ 232,868**	**$ 447,726**
Total current assets	**$ 3,038,561**	**$ 3,253,331**
Noncurrent assets		
Restricted debt service - assets held by trustee		
Lease financing escrow account	$ 87,143	$ 87,056
Capital assets		
Not depreciated	951,392	905,601
Depreciated	146,989,579	146,617,417
Less: allowance for depreciation	(52,016,455)	(48,188,002)
Total capital assets - net of accumulated depreciation	**$ 95,924,516**	**$ 99,335,016**
Total noncurrent assets	**$ 96,011,659**	**$ 99,422,072**
Total Assets	**$ 99,050,220**	**$ 102,675,403**

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

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

EXHIBIT 1
(Continued)

COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
Liabilities		
Current liabilities		
Accounts payable	$ 178,478	$ 269,583
Salaries payable	139,872	123,612
Compensated absences payable - current	124,626	105,768
Accrued interest payable	3,818	6,113
Unearned revenue	806,492	879,429
Capital leases payable - current	149,008	141,925
Total current liabilities	**$ 1,402,294**	**$ 1,526,430**
Current liabilities payable from restricted assets		
Customer deposits	$ 235,062	$ 446,920
Employee flexible benefits plan payable	806	807
Total current liabilities payable from restricted assets	**$ 235,868**	**$ 447,727**
Total current liabilities	**$ 1,638,162**	**$ 1,974,157**
Noncurrent liabilities		
Compensated absences payable - long-term	$ 80,714	$ 78,364
Capital leases payable - long-term	9,939	158,947
Net other postemployment benefits liability	707,235	650,546
Total noncurrent liabilities	**$ 797,888**	**$ 887,857**
Total Liabilities	**$ 2,436,050**	**$ 2,862,014**
Net Position		
Net investment in capital assets	$ 95,765,569	$ 99,034,144
Restricted for debt service	87,143	87,056
Unrestricted	761,458	692,189
Total Net Position	**$ 96,614,170**	**$ 99,813,389**

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

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

EXHIBIT 2

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Operating Revenues		
Sales	$ 3,399,922	$ 3,284,022
Charges for services	5,127,428	4,705,332
Miscellaneous	425,636	432,653
Total Operating Revenues	**$ 8,952,986**	**$ 8,422,007**
Operating Expenses		
Personal services	$ 4,769,389	$ 4,376,275
Supplies and services	1,810,849	1,712,267
Utilities	1,301,933	1,108,958
Other services and charges	2,016,993	1,954,592
Depreciation	3,828,453	3,819,272
Total Operating Expenses	**$ 13,727,617**	**$ 12,971,364**
Operating Income (Loss)	**$ (4,774,631)**	**$ (4,549,357)**
Nonoperating Revenues (Expenses)		
Interest income	$ 14,212	$ 13,642
Hotel/motel tax revenue	1,353,981	1,258,541
Naming rights revenue	200,000	200,000
Interest expense	(10,781)	(18,833)
Total Nonoperating Revenues (Expenses)	**$ 1,557,412**	**$ 1,453,350**
Income (Loss) Before Contributions	$ **(3,217,219)**	**$ (3,096,007)**
Capital contributions	18,000	-
Change in Net Position	$ **(3,199,219)**	**$ (3,096,007)**
Net Position - January 1	**99,813,389**	**102,909,396**
Net Position - December 31	**$ 96,614,170**	**$ 99,813,389**

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

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

EXHIBIT 3

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	$ 8,838,473	$ 7,711,026
Payments to suppliers	(5,241,964)	(4,700,244)
Payments to employees	(4,675,232)	(4,331,431)
Other operating revenues	425,636	432,653
Net cash provided by (used in) operating activities	**$ (653,087)**	**$ (887,996)**
Cash Flows from Noncapital Financing Activities		
City of Duluth hotel/motel taxes	**$ 1,273,462**	**$ 1,210,425**
Cash Flows from Capital and Related Financing Activities		
Payment received for naming rights	$ 200,000	$ 200,000
Principal paid on lease purchases	(141,925)	(135,177)
Interest paid on lease purchases	(13,076)	(19,822)
Acquisition or construction of capital assets	(399,953)	(417,810)
Net cash provided by (used in) capital and related financing activities	**$ (354,954)**	**$ (372,809)**
Cash Flows from Investing Activities		
Interest on investments	**$ 14,125**	**$ 13,534**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 279,546**	**$ (36,846)**
Cash and Cash Equivalents - January 1	**2,003,707**	**2,040,553**
Cash and Cash Equivalents - December 31	**$ 2,283,253**	**$ 2,003,707**

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

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

EXHIBIT 3
(Continued)

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$ (4,774,631)**	**$ (4,549,357)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	3,828,453	3,819,272
(Increase) decrease in accounts receivable	595,918	(605,282)
(Increase) decrease in inventory	(18,262)	(3,282)
(Increase) decrease in prepaid items	(2,821)	3,332
Increase (decrease) in accounts payable	(91,106)	75,523
Increase (decrease) in salaries payable	16,260	19,409
Increase (decrease) in unearned revenue	(72,937)	40,831
Increase (decrease) in customer deposits	(211,858)	286,123
Increase (decrease) in employee flexible benefits plan payable	-	459
Increase (decrease) in compensated absences payable	21,208	(20,424)
Increase (decrease) in net other postemployment benefits liability	56,689	45,400
Net Cash Provided by (Used in) Operating Activities	**$ (653,087)**	**$ (887,996)**
Noncash Investing, Capital, and Financing Activities		
Interest earned on the debt service reserve account	$ 87	$ 108
Capital contributions	18,000	-

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 to generally accepted accounting principles.

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 Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the 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 generally accepted accounting principles, 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.

1. Summary of Significant Accounting Policies (Continued)

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 the accrual 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.

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. The lease financing escrow account is not considered to be a cash equivalent because the Authority cannot withdraw from this account at any time without penalty.

F. Inventories of Merchandise for Resale

Inventories are priced at the lower of cost or market value on a first-in, first-out basis.

1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets

All capital assets are valued at historical or estimated historical cost. Donated capital assets are recorded at estimated fair 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 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 and structures, 20 years for improvements, and 3 to 20 years for equipment.

I. Restricted Assets

Restricted assets consist of promoter-escrowed funds, the employee flexible benefits plan account, and assets held by a trustee. 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. Assets held by the trustee consist of cash held pursuant to a reserve requirement of a lease agreement as described in Note 2.K.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, it is the Authority's policy to use restricted resources first.

1. Summary of Significant Accounting Policies (Continued)

J. 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.

K. 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.

L. 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.

M. 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 are debited to the appropriate expense accounts and credited to the appropriate revenue accounts.

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 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.

The following is a summary of the Authority's cash and investments at December 31, 2014 and 2013:

	2014	2013
Current assets		
City of Duluth pooled cash account	$ 486,654	$ 20,250
Checking account - ticket office	7,000	7,000
Checking account - employee flexible benefits plan	7,372	7,372
Savings account - operating reserve	1,500,000	1,500,000
Petty cash and change funds	56,000	35,000
Total current assets	$ 2,057,026	$ 1,569,622
Restricted current assets		
Ticket office customer deposits - checking	$ 28,969	$ 146,952
Ticket office customer deposits - savings	174,252	269,127
Ticket office change fund	22,200	17,200
Employee flexible benefits plan - checking	806	806
Total restricted current assets	$ 226,227	$ 434,085
Restricted noncurrent assets		
Lease reserve - savings escrow	$ 87,143	$ 87,056
Total	$ 2,370,396	$ 2,090,763

2. Detailed Notes (Continued)

B. Due From City of Duluth

Amounts due from the City of Duluth at December 31, 2014 and 2013, are as follows:

	2014	2013
Current		
Hotel/motel tax	$ 380,710	$ 300,191

C. Capital Assets

A summary of the changes in the capital asset accounts for the years ended December 31, 2014 and 2013, follows:

	Balance January 1, 2014	Increase	Decrease	Balance December 31, 2014
Capital assets not depreciated				
Land	$ 905,601	$ -	$ -	$ 905,601
Construction in progress	-	45,791	-	45,791
Total capital assets not depreciated	$ 905,601	$ 45,791	$ -	$ 951,392
Capital assets depreciated				
Land improvements	$ 302,957	$ -	$ -	$ 302,957
Buildings	136,012,371	84,536	-	136,096,907
Equipment	10,302,089	287,626	-	10,589,715
Total capital assets depreciated	$ 146,617,417	$ 372,162	$ -	$ 146,989,579
Less: accumulated depreciation for				
Land improvements	$ 302,957	$ -	$ -	$ 302,957
Buildings	40,734,846	3,474,354	-	44,209,200
Equipment	7,150,199	354,099	-	7,504,298
Total accumulated depreciation	$ 48,188,002	$ 3,828,453	$ -	$ 52,016,455
Total capital assets depreciated, net	$ 98,429,415	$ (3,456,291)	$ -	$ 94,973,124
Total Capital Assets, Net	$ 99,335,016	$ (3,410,500)	$ -	$ 95,924,516

2. Detailed Notes

C. Capital Assets (Continued)

	Balance January 1, 2013	Increase	Decrease	Balance December 31, 2013
Capital assets not depreciated				
Land	$ 905,601	$ -	$ -	$ 905,601
Capital assets depreciated				
Land improvements	$ 302,957	$ -	$ -	$ 302,957
Buildings	135,883,158	129,213	-	136,012,371
Equipment	10,013,492	288,597	-	10,302,089
Total capital assets depreciated	$ 146,199,607	$ 417,810	$ -	$ 146,617,417
Less: accumulated depreciation for				
Land improvements	$ 302,957	$ -	$ -	$ 302,957
Buildings	37,262,876	3,471,970	-	40,734,846
Equipment	6,802,897	347,302	-	7,150,199
Total accumulated depreciation	$ 44,368,730	$ 3,819,272	$ -	$ 48,188,002
Total capital assets depreciated, net	$ 101,830,877	$ (3,401,462)	$ -	$ 98,429,415
Total Capital Assets, Net	$ 102,736,478	$ (3,401,462)	$ -	$ 99,335,016

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. Pension Plans

1. Plan Description

All full-time and certain part-time employees of the Duluth Entertainment and Convention Center Authority are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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.

General 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 and benefits vest after five years of credited service. No Authority employees belong to the Basic Plan.

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

Two methods are used to compute benefits for Coordinated 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 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 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

2. Detailed Notes

E. Pension Plans

1. Plan Description (Continued)

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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at www.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.

2. Funding Policy

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. The Duluth Entertainment and Convention Center Authority makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Coordinated Plan members are required to contribute 6.25 percent of their annual covered salary.

The Duluth Entertainment and Convention Center Authority is required to contribute the following percentage of annual covered payroll in 2014:

General Employees Retirement Fund Coordinated Plan members	7.25%

The Authority's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

2014	2013	2012
$ 221,536	$ 204,169	$ 208,483

2. Detailed Notes

E. Pension Plans

2. Funding Policy (Continued)

These contributions are equal to the contractually required contribution rate for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

F. Postemployment Benefits

1. Plan Description and Funding Policy

The Authority provides health insurance benefits for certain retired employees under a single-employer self-insured 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. The benefits are provided through the City of Duluth's Joint Powers Enterprise Trust. A separate report is not issued for the plan. The authority to provide this benefit is established in Minn. Stat. § 471.61, subd. 2a.

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. As of December 31, 2014, 15 retirees were receiving health benefits from the Authority's health plan.

The Authority's employment contract with the Executive Director provides for continuing family health insurance coverage for a period of 24 months following the termination of his employment contract. The Authority will provide this benefit.

2. Detailed Notes

F. Postemployment Benefits

1. Plan Description and Funding Policy (Continued)

The cost of other postemployment benefits is funded on a "pay-as-you-go" method.

2. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$ 142,765
Interest on net OPEB obligation	29,275
Adjustment to ARC	(38,219)
Annual OPEB cost	$ 133,821
Contributions during the year	(77,132)
Increase in net OPEB obligation	$ 56,689
Net OPEB, Beginning of Year	650,546
Net OPEB, End of Year	$ 707,235

2. Detailed Notes

F. Postemployment Benefits

2. Annual OPEB Cost and Net OPEB Obligation (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of and for the years ended December 31, 2014, 2013, and 2012, were as follows:

	2014	2013	2012
Percentage of annual OPEB cost contributed	57.64%	66.23%	81.72%
Annual OPEB cost	$ 133,821	$ 134,446	$ 150,188
Employer contributions	(77,132)	(89,046)	(122,741)
Net Increase in Net OPEB Obligation	$ 56,689	$ 45,400	$ 27,447
Net OPEB Obligation, Beginning of Year	650,546	605,146	577,699
Net OPEB Obligation, End of Year	$ 707,235	$ 650,546	$ 605,146

3. Funded Status and Funding Progress

The actuarial accrued liability for benefits at January 1, 2013, the most recent actuarial valuation date, is $1,853,643. The Authority currently has no assets that have been irrevocably deposited in a trust for future health benefits; thus, the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) is $1,603,586. The ratio of the unfunded actuarially accrued liabilities to covered payroll is 115.59 percent.

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

2. Detailed Notes

F. Postemployment Benefits

3. Funded Status and Funding Progress (Continued)

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

In the January 1, 2013, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent discount rate, which is based on the estimated long-term investment yield on the general assets of the Authority. The annual health care cost trend rate is 10.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years.

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 (8 hours) for each 100 hours worked in excess of 1,000 hours. Unused vacation and personal leave earned as of December 31, 2014 and 2013, is estimated to be $124,626 and $105,768, respectively, 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 $80,714 and $78,364 as of December 31, 2014 and 2013, respectively. 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.

2. Detailed Notes

G. Compensated Absences (Continued)

The contingent liability for sick leave at December 31, 2014 and 2013, was estimated to be $631,692 and $572,458, respectively, and is not recognized as a liability in the financial statements.

H. Unearned Revenue

Unearned revenue consists of the following:

	2014	2013
Advance deposits for future events	$ 135,661	$ 139,490
Gift certificates	15,653	13,553
Unearned lease revenue	655,178	726,386
Total	$ 806,492	$ 879,429

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 2014, rent was $58,350.

On April 13, 2004, the Authority entered into a lease agreement with Cinema Entertainment Corporation (CEC) for 20 years with two 5-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 2 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.

2. Detailed Notes

I. Minimum Future Rents Receivable (Continued)

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 15, 2011, the Authority entered into a five-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 $39,074, and the Pioneer Hall Annex Ice Arena for a rental rate of $38,701 for pre-defined curling season dates. The rental rate increases annually by 2.25 percent.

Minimum future rents on non-cancellable leases are:

Year	
2015	$ 925,849
2016	920,450
2017	893,283
2018	920,082
2019	947,684
After 2019	12,102,419
Total	$ 16,709,767

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 - 2031.

2. Detailed Notes

J. Naming Rights Agreement (Continued)

Minimum future rents on this agreement are:

Year	
2015	$ 200,000
2016	200,000
2017	200,000
2018	200,000
2019	200,000
After 2019	2,200,000
Total	$ 3,200,000

K. Leases Payable

In May 2001, the Authority entered into a lease agreement to finance improvements to the locker rooms used by University of Minnesota Duluth hockey teams in the DECC arena. In February 2012, the lease agreement was restructured for the remaining four years, with interest at 4.93 percent and semi-annual payments of $77,500. At lease expiration, the locker room improvements will become the Authority's property and, as such, they have been recorded as capital assets. At December 31, 2014, the locker room improvements are valued at $1,534,313, with accumulated depreciation of $997,303.

The lease agreement for the locker room improvements required the Authority to deposit $77,500 into a reserve account to secure the lease purchase payments.

The present value of future minimum lease payments is shown below:

Year	Interest	Principal
2015	$ 6,107	$ 149,008
2016	256	9,939
Total	$ 6,363	$ 158,947

2. Detailed Notes (Continued)

L. Long-Term Liabilities

The following is a schedule of long-term liability activity of the Duluth Entertainment and Convention Center Authority for the years ended December 31, 2014 and 2013.

	Balance January 1, 2014	Additions	Reductions	Balance December 31, 2014	Due Within One Year
Capital leases payable	$ 300,872	$ -	$ 141,925	$ 158,947	$ 149,008
Compensated absences payable	184,132	141,251	120,043	205,340	124,626
Total	$ 485,004	$ 141,251	$ 261,968	$ 364,287	$ 273,634

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Due Within One Year
Capital leases payable	$ 436,049	$ -	$ 135,177	$ 300,872	$ 141,925
Compensated absences payable	204,556	122,099	142,523	184,132	105,768
Total	$ 640,605	$ 122,099	$ 277,700	$ 485,004	$ 247,693

M. Pledge Agreement with City of Duluth

In 2010, the Authority completed construction on a new arena and parking ramp. The total project 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.

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.

2. Detailed Notes (Continued)

N. Budget to Actual for 2014 and 2013

The Duluth Entertainment and Convention Center Authority adopts a budget to be approved by the Duluth City Council. A summary of the operating budgets for the years ended December 31, 2014 and 2013, follows.

	2014		
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues	$ 8,165,290	$ 8,952,986	$ 787,696
Operating Expenses	12,916,705	13,727,617	(810,912)
Operating Income (Loss)	$ (4,751,415)	$ (4,774,631)	$ (23,216)
Nonoperating Revenues (Expenses)	1,483,350	1,557,412	74,062
Income (Loss) before contributions	$ (3,268,065)	$ (3,217,219)	$ 50,846
Capital contributions	-	18,000	18,000
Change in Net Position	$ (3,268,065)	$ (3,199,219)	$ 68,846

	2013		
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues	$ 7,842,552	$ 8,422,007	$ 579,455
Operating Expenses	12,654,847	12,971,364	(316,517)
Operating Income (Loss)	$ (4,812,295)	$ (4,549,357)	$ 262,938
Nonoperating Revenues (Expenses)	1,355,281	1,453,350	98,069
Change in Net Position	$ (3,457,014)	$ (3,096,007)	$ 361,007

O. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria.

2. Detailed Notes

O. Future Change in Accounting Standards (Continued)

GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the Duluth Entertainment and Convention Center Authority's calendar year 2015. The Authority has not yet determined the financial statement impact of adopting this new standard.

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REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN
DECEMBER 31, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
June 1, 2007	$ -	$ 3,709,014	$ 3,709,014	0.00%	$ 1,456,880	254.58%
June 1, 2010	-	2,298,091	2,298,091	0.00	1,584,550	145.03
January 1, 2013	-	1,853,643	1,853,643	0.00	1,603,586	115.59

Notes to Schedule of Funding Progress - Other Postemployment Benefits Plan

The Duluth Entertainment and Convention Center Authority currently has no assets that have been irrevocably deposited in a trust for future health benefits. Therefore, the actuarial value of assets is zero.

The Authority implemented Governmental Accounting Standards Board Statement 45 in the fiscal year ended December 31, 2007. Information for prior years is not available.

The June 1, 2010, actuarial valuation, reflected changes in benefit provisions which resulted in a lower actuarial accrued liability. The primary change in benefit provisions was the transition of all retirees to Medical Plan 3 and Rx Plan 1, effective January 1, 2010. These are the same plans provided to active employees.

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Management and Compliance Section

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014

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

None.

II. ITEM FOR CONSIDERATION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the Authority's statement of net position. The employer's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that, if material, will be reported in the Duluth Entertainment and Convention Center Authority’s financial statements is an accounting estimate of the proportionate share of PERA’s unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by the employers to report the net pension liability and deferred outflows/inflows of resources.

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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, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 22, 2015.

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. 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. However, material weaknesses may exist that have not been identified.

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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six 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, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions of contracting and bidding because no new contracts were entered into in 2014, and public indebtedness because the Authority did not issue new debt in 2014 and leases payable are the Authority's only form of debt. The provisions for deposits and investments were tested in conjunction with our audit of the City of Duluth who holds the Authority's cash and investments.

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 Political Subdivisions*. 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.

Other Matters

Included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Authority and are reporting it for that purpose.

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 Political Subdivisions* 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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 22, 2015