

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, 2013 AND 2012

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 160 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 730 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, 2013 and 2012



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

**ORGANIZATION
DECEMBER 31, 2013**

	<u>Term Expires</u>
Directors	
Mary Finnegan-Ongaro	February 1, 2014
Gregory Fox	February 1, 2014
Carrie Heffernan	June 30, 2014
Debra Messer	February 1, 2014
Nick Patronas	June 30, 2015
Crystal Pelkey	June 30, 2016
Karen Pionk	June 30, 2016
Yvonne Prettner Solon	June 30, 2014
Roger Reinert	June 30, 2014
David Ross	June 30, 2016
Jay Seiler	June 30, 2014
Officers	
President	
Debra Messer	February 1, 2014
Vice President	
David Ross	June 30, 2016
Treasurer (Duluth City Treasurer)	
Brian Hansen	Indefinite
Executive Director	
Daniel J. Russell	Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Duluth Entertainment and Convention Center
Authority Board

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, 2013 and 2012, 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 respective financial position of the Duluth Entertainment and Convention Center Authority as of December 31, 2013 and 2012, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 21, 2014, 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

May 21, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(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, 2013. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- In 2013, total net position decreased \$3.1 million, or 3.0 percent, over the course of the year's operations.
- Total operating revenue increased \$0.3 million, or 3.6 percent, in 2013 compared to last year.
- Total operating expenses in 2013 increased by \$0.1 million, or 0.7 percent, compared to 2012.

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)					
	2013	2012	2011	Dollar Change	
				Increase (Decrease)	
				2012 to 2013	2011 to 2012
Assets					
Current and other assets	\$ 3,340	\$ 2,724	\$ 3,539	\$ 616	\$ (815)
Capital assets	99,335	102,736	106,426	(3,401)	(3,690)
Total Assets	\$ 102,675	\$ 105,460	\$ 109,965	\$ (2,785)	\$ (4,505)
Liabilities					
Current liabilities	\$ 1,974	\$ 1,563	\$ 2,574	\$ 411	\$ (1,011)
Long-term liabilities	888	988	1,108	(100)	(120)
Total Liabilities	\$ 2,862	\$ 2,551	\$ 3,682	\$ 311	\$ (1,131)
Net position					
Net investment in capital assets	\$ 99,034	\$ 102,286	\$ 105,361	\$ (3,252)	\$ (3,075)
Restricted	87	87	87	-	-
Unrestricted	692	536	835	156	(299)
Total Net Position	\$ 99,813	\$ 102,909	\$ 106,283	\$ (3,096)	\$ (3,374)

In 2013, net position decreased \$3.1 million compared to 2012. Total assets decreased \$2.8 million due to depreciation of \$3.8 million in 2013. Total liabilities increased \$0.3 million due to an increase in ticket office payables compared to 2012.

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

	2013	2012	2011	Dollar Change Increase (Decrease)	
				2012 to 2013	2011 to 2012
Operating revenues	\$ 8,422	\$ 8,128	\$ 7,672	\$ 294	\$ 456
Nonoperating revenues	1,472	1,411	1,361	61	50
Total Revenues	\$ 9,894	\$ 9,539	\$ 9,033	\$ 355	\$ 506
Operating expenses	\$ 12,971	\$ 12,888	\$ 12,144	\$ 83	\$ 744
Interest expense	19	25	142	(6)	(117)
Amortization of bond issuance costs	-	-	1	-	(1)
Total Expenses	\$ 12,990	\$ 12,913	\$ 12,287	\$ 77	\$ 626
Excess of Revenues Over (Under) Expenses	\$ (3,096)	\$ (3,374)	\$ (3,254)	\$ 278	\$ (120)
Capital contributions	-	-	3,251	-	(3,251)
Change in net position	\$ (3,096)	\$ (3,374)	\$ (3)	\$ 278	\$ (3,371)
Net position - January 1	102,909	106,283	106,286	(3,374)	(3)
Net position - December 31	<u>\$ 99,813</u>	<u>\$ 102,909</u>	<u>\$ 106,283</u>	<u>\$ (3,096)</u>	<u>\$ (3,374)</u>

Comparison with Budget
(000s)

	2013 Actual	2013 Budget	Variance with Budget	Percent Change (%)
Operating revenues	\$ 8,422	\$ 7,843	\$ 579	7.4
Nonoperating revenues	1,472	1,373	99	7.2
Total Revenues	\$ 9,894	\$ 9,216	\$ 678	7.4
Operating expenses	\$ 12,971	\$ 12,655	\$ 316	2.5
Interest expense	19	18	1	5.6
Total Expenses	\$ 12,990	\$ 12,673	\$ 317	2.5
Excess of Revenues Over (Under) Expenses	\$ (3,096)	\$ (3,457)	\$ 361	10.4
Net position - January 1	102,909	102,909	-	-
Net position - December 31	<u>\$ 99,813</u>	<u>\$ 99,452</u>	<u>\$ 361</u>	<u>0.4</u>

Revenues

The Authority's operating revenues increased \$294,000 to \$8.4 million in 2013 due to an increase in food sales, liquor sales, and parking revenues. In addition, lease revenue was up 35.0 percent over last year. Nonoperating revenues increased \$61,000 compared to last year mainly due to an increase in hotel/motel tax contributions.

Expenses

The Authority's operating expenses increased \$83,000 to \$13.0 million in 2013 mainly due to an increase in food cost, utilities, snow removal, and health insurance compared to 2012.

Budgetary Highlights

Operating revenues were over budget by \$579,000 in 2013 due mainly to an increase in lease and building rent, monthly parkers, and Bayfront event parking. Nonoperating revenues were over budget by \$99,000 due to larger hotel/motel tax revenue than projected. Operating expenses were \$316,000 over budget in 2013 mainly due to food costs and snow removal.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	Capital Assets (000s)			Percent Change (%)
	2013	2012	Dollar Change	
Land	\$ 906	\$ 906	\$ -	-
Land improvements	303	303	-	-
Buildings and structures	136,012	135,883	129	-
Equipment	10,302	10,013	289	2.9
Subtotal	\$ 147,523	\$ 147,105	\$ 418	0.3
Less: accumulated depreciation	(48,188)	(44,369)	(3,819)	8.6
Net Capital Assets	\$ 99,335	\$ 102,736	\$ (3,401)	(3.3)

By the end of 2013, the Authority had invested \$147.5 million in capital assets. The increase in buildings and structures is mainly due to Symphony Hall stage repair. For more information, see Note 2.C. to the financial statements.

Debt Administration

	Debt (000s)		Dollar Change	Percent Change (%)
	2013	2012		
Locker room lease	\$ 301	\$ 436	\$ (135)	(31.0)

As of December 31, 2013, the Authority’s outstanding debt decreased \$0.1 million, or 31.0 percent, compared to December 31, 2012. 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 2014. Convention business is projected to be comparable in 2014 compared to 2013. Overall, a slight decrease in revenue is projected for 2014 compared to 2013 mainly due to a decrease in parking, attractions, and lease revenue. Rent and building services prices for 2014 were established in 2010 and included a minimal increase for some goods and services. New catering prices will be in effect in January 2014, and most concessions prices are increased annually in October. Overall operating expenses in 2013 are projected to increase slightly due to annual wage and supply increases.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2013 AND 2012**

	2013	2012
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 1,569,622	\$ 1,890,250
Accounts receivable	809,455	206,972
Due from City of Duluth	300,191	252,075
Inventory	117,982	114,700
Prepaid items	8,355	11,687
	\$ 2,805,605	\$ 2,475,684
Restricted current assets		
Assets restricted for customers' deposits		
Cash and cash equivalents	\$ 433,279	\$ 149,955
Accounts receivable	13,641	10,842
Assets restricted for employee flexible benefits		
Cash and cash equivalents	806	348
	\$ 447,726	\$ 161,145
	\$ 3,253,331	\$ 2,636,829
Noncurrent assets		
Restricted debt service - assets held by trustee		
Lease financing escrow account	\$ 87,056	\$ 86,948
Capital assets		
Not depreciated	905,601	905,601
Depreciated	146,617,417	146,199,607
Less: allowance for depreciation	(48,188,002)	(44,368,730)
	\$ 99,335,016	\$ 102,736,478
	\$ 99,422,072	\$ 102,823,426
	\$ 102,675,403	\$ 105,460,255

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

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

**EXHIBIT 1
(Continued)**

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2013 AND 2012**

	2013	2012
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 269,583	\$ 194,060
Salaries payable	123,612	104,203
Compensated absences payable - current	105,768	122,659
Accrued interest payable	6,113	7,102
Unearned revenue	879,429	838,598
Capital leases payable - current	141,925	135,177
Total current liabilities	\$ 1,526,430	\$ 1,401,799
Current liabilities payable from restricted assets		
Customer deposits	\$ 446,920	\$ 160,797
Employee flexible benefits plan payable	807	348
Total current liabilities payable from restricted assets	\$ 447,727	\$ 161,145
Total current liabilities	\$ 1,974,157	\$ 1,562,944
Noncurrent liabilities		
Compensated absences payable - long-term	\$ 78,364	\$ 81,897
Capital leases payable - long-term	158,947	300,872
Net other postemployment benefits liability	650,546	605,146
Total noncurrent liabilities	\$ 887,857	\$ 987,915
Total Liabilities	\$ 2,862,014	\$ 2,550,859
<u>Net Position</u>		
Net investment in capital assets	\$ 99,034,144	\$ 102,286,009
Restricted for debt service	87,056	86,948
Unrestricted	692,189	536,439
Total Net Position	\$ 99,813,389	\$ 102,909,396

**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, 2013 AND 2012**

	2013	2012
Operating Revenues		
Sales	\$ 3,284,022	\$ 3,162,799
Charges for services	4,705,332	4,486,926
Miscellaneous	432,653	478,702
Total Operating Revenues	\$ 8,422,007	\$ 8,128,427
Operating Expenses		
Personal services	\$ 4,376,275	\$ 4,384,046
Supplies and services	1,712,267	1,520,204
Utilities	1,108,958	1,111,171
Other services and charges	1,954,592	2,055,140
Depreciation	3,819,272	3,817,133
Total Operating Expenses	\$ 12,971,364	\$ 12,887,694
Operating Income (Loss)	\$ (4,549,357)	\$ (4,759,267)
Nonoperating Revenues (Expenses)		
Interest income	\$ 13,642	\$ 11,907
Hotel/motel tax revenue	1,258,541	1,195,939
Naming rights revenue	200,000	200,000
Interest expense	(18,833)	(25,654)
Other revenue	-	3,575
Total Nonoperating Revenues (Expenses)	\$ 1,453,350	\$ 1,385,767
Change in Net Position	\$ (3,096,007)	\$ (3,373,500)
Net Position - January 1	102,909,396	106,282,896
Net Position - December 31	\$ 99,813,389	\$ 102,909,396

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, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	\$ 7,711,026	\$ 7,975,425
Payments to suppliers	(4,700,244)	(5,116,818)
Payments to employees	(4,331,431)	(4,330,645)
Other operating revenues	432,653	478,702
	\$ (887,996)	\$ (993,336)
Cash Flows from Noncapital Financing Activities		
City of Duluth hotel/motel taxes	\$ 1,210,425	\$ 1,071,290
Cash Flows from Capital and Related Financing Activities		
Payment received for naming rights	\$ 200,000	\$ 200,000
Principal paid on lease purchases	(135,177)	(140,774)
Interest paid on lease purchases	(19,822)	(28,646)
Other revenue received	-	3,575
Acquisition or construction of capital assets	(417,810)	(615,452)
	\$ (372,809)	\$ (581,297)
Cash Flows from Investing Activities		
Interest on investments	\$ 13,534	\$ 11,794
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (36,846)	\$ (491,549)
Cash and Cash Equivalents - January 1	2,040,553	2,532,102
Cash and Cash Equivalents - December 31	\$ 2,003,707	\$ 2,040,553
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (4,549,357)	\$ (4,759,267)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	3,819,272	3,817,133
(Increase) decrease in accounts receivable	(605,282)	442,338
(Increase) decrease in inventories	(3,282)	6,068
(Increase) decrease in prepaid items	3,332	(259)
Increase (decrease) in payables	119,908	(381,300)
Increase (decrease) in unearned revenue	40,831	100,026
Increase (decrease) in employee flexible benefits plan deposits	459	(1,411)
Increase (decrease) in customer deposits	286,123	(216,664)
	\$ (887,996)	\$ (993,336)
Noncash Investing, Capital, and Financing Activities		
Interest earned on the debt service reserve account	\$ 108	\$ 113

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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. In 2013, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principle. The more significant accounting policies established by GAAP and used by the Authority are discussed below.

A. Financial Reporting Entity

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

As required by 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.

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

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.

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

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, construction funds, 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. Restricted construction funds consist of receivables from the State of Minnesota and the City of Duluth for construction of the new arena. 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.

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

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.

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

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, 2013 and 2012:

	2013	2012
Current assets		
City of Duluth pooled cash account	\$ 20,250	\$ 540,878
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	1,300,000
Petty cash and change funds	35,000	35,000
Total current assets	\$ 1,569,622	\$ 1,890,250
Restricted current assets		
Ticket office customer deposits - checking	\$ 146,952	\$ 85,816
Ticket office customer deposits - savings	269,127	48,939
Ticket office change fund	17,200	15,200
Employee flexible benefits plan - checking	806	348
Total restricted current assets	\$ 434,085	\$ 150,303
Restricted noncurrent assets		
Lease reserve - savings escrow	\$ 87,056	\$ 86,948
Total	\$ 2,090,763	\$ 2,127,501

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

2. Detailed Notes (Continued)

B. Due From City of Duluth

Amounts due from the City of Duluth at December 31, 2013 and 2012, are as follows:

	2013	2012
Current		
Hotel/motel tax	\$ 300,191	\$ 252,075

C. Capital Assets

A summary of the changes in the capital asset accounts for the years ended December 31, 2013 and 2012, follows:

	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
Capital Assets, Net	\$ 102,736,478	\$ (3,401,462)	\$ -	\$ 99,335,016

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

2. Detailed Notes

C. Capital Assets (Continued)

	Balance January 1, 2012	Increase	Decrease	Balance December 31, 2012
Capital assets not depreciated				
Land	\$ 905,601	\$ -	\$ -	\$ 905,601
Capital assets depreciated				
Land improvements	\$ 302,957	\$ -	\$ -	\$ 302,957
Buildings	135,852,476	30,682	-	135,883,158
Equipment	9,916,935	96,557	-	10,013,492
Total capital assets depreciated	\$ 146,072,368	\$ 127,239	\$ -	\$ 146,199,607
Less: accumulated depreciation for				
Land improvements	\$ 302,957	\$ -	\$ -	\$ 302,957
Buildings	33,782,200	3,480,676	-	37,262,876
Equipment	6,466,440	336,457	-	6,802,897
Total accumulated depreciation	\$ 40,551,597	\$ 3,817,133	\$ -	\$ 44,368,730
Total capital assets depreciated, net	\$ 105,520,771	\$ (3,689,894)	\$ -	\$ 101,830,877
Capital Assets, Net	\$ 106,426,372	\$ (3,689,894)	\$ -	\$ 102,736,478

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.

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

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 three years of credited service (five years for those first eligible for membership after June 30, 2010). 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.

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

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 2013:

General Employees Retirement Fund Coordinated Plan members	7.25%
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The Authority's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund were:

<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 204,169	\$ 208,483	\$ 208,874

These contributions are equal to the contractually required contribution rate for each year as set by state statute.

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

2. Detailed Notes (Continued)

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, 2013, 16 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.

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

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

2. Detailed Notes

F. Postemployment Benefits (Continued)

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		27,232
Adjustment to ARC		<u>(35,551)</u>
Annual OPEB cost		\$ 134,446
Contributions during the year		<u>(89,046)</u>
Increase in net OPEB obligation		\$ 45,400
Net OPEB, Beginning of Year		<u>605,146</u>
Net OPEB, End of Year		<u>\$ 650,546</u>

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, 2013, 2012, and 2011, were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Percentage of annual OPEB cost contributed	66.23%	81.72%	70.95%
Annual OPEB cost	\$ 134,446	\$ 150,188	\$ 150,790
Employer contributions	<u>(89,046)</u>	<u>(122,741)</u>	<u>(106,980)</u>
Net Increase in Net OPEB Obligation	\$ 45,400	\$ 27,447	\$ 43,810
Net OPEB obligation, Beginning of Year	<u>605,146</u>	<u>577,699</u>	<u>533,889</u>
Net OPEB obligation, End of Year	<u>\$ 650,546</u>	<u>\$ 605,146</u>	<u>\$ 577,699</u>

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

2. Detailed Notes

F. Postemployment Benefits (Continued)

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.

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.

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

2. Detailed Notes (Continued)

G. Compensated Absences

Full-time employees are granted from 10 to 25 days of vacation time per year depending on their years of service. Vacation earned during one year must be taken within the following year. The Executive Director is allowed to carry forward up to 50 days of vacation. Upon termination of employment, employees are compensated for the full value of all unused vacation pay. Part-time employees who work more than 1,000 hours in a calendar year will receive a personal day off (8 hours) for each 100 hours worked in excess of 1,000 hours. Unused vacation and personal leave earned as of December 31, 2013 and 2012, is estimated to be \$105,768 and \$122,659, 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 \$78,364 and \$81,897 as of December 31, 2013 and 2012, 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.

The contingent liability for sick leave at December 31, 2013 and 2012, was estimated to be \$572,458 and \$637,753, respectively, and is not recognized as a liability in the financial statements.

H. Unearned Revenue

Unearned revenue consists of the following:

	<u>2013</u>	<u>2012</u>
Advance deposits for future events	\$ 139,490	\$ 115,005
Gift certificates	13,553	12,193
Unearned lease revenue	<u>726,386</u>	<u>711,400</u>
Total	<u>\$ 879,429</u>	<u>\$ 838,598</u>

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 three percent annually. In 2013, rent was \$56,500.

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

2. Detailed Notes

I. Minimum Future Rents Receivable (Continued)

On April 13, 2004, the Authority entered into a lease agreement with Cinema Entertainment Corporation (CEC) for 20 years with two 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 two percent each year in years 2 through 10 and three percent each year in years 11 through 20. In May 2007, Marcus Theatre Corporation purchased the Duluth 10 theater from CEC and is now responsible for the lease. On January 1, 2012, an amended lease agreement was signed with B & G Realty, LLC, to include the OMNIMAX Theatre space in the leased premises for an additional \$36,000 per year, with an annual Consumer Price Index increase beginning January 1, 2015. In addition, the Authority agreed to reimburse B & G Realty, through lease payment deductions, \$25,000 for expenses related to the conversion and remodeling of said space. On April 18 and August 1, 2012, the reimbursable amount to B & G Realty was increased \$10,000 and \$11,417, respectively, for a total of \$46,417 for conversion and remodeling.

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

On October 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-cancelable leases are:

Year		
2014	\$	899,479
2015		925,849
2016		920,450
2017		893,283
2018		920,082
After 2018		13,050,103
Total	\$	17,609,246

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

2. Detailed Notes (Continued)

J. Naming Rights Agreement

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

Minimum future rents on this agreement are:

<u>Year</u>	
2014	\$ 200,000
2015	200,000
2016	200,000
2017	200,000
2018	200,000
After 2018	<u>2,400,000</u>
Total	<u>\$ 3,400,000</u>

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, 2013, the locker room improvements are valued at \$1,534,313, with accumulated depreciation of \$920,588.

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.

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

2. Detailed Notes

K. Leases Payable (Continued)

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

Year	Interest	Principal
2014	\$ 13,279	\$ 141,925
2015	6,107	148,893
2016	256	10,054
Total	\$ 19,642	\$ 300,872

L. Long-Term Debt

The following is a schedule of long-term liability activity of the Duluth Entertainment and Convention Center Authority for the years ended December 31, 2013 and 2012.

	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

	Balance January 1, 2012	Additions	Reductions	Balance December 31, 2012	Due Within One Year
Capital leases payable	\$ 576,823	\$ -	\$ 140,774	\$ 436,049	\$ 135,177
Compensated absences payable	189,832	142,808	128,084	204,556	122,659
Total	\$ 766,655	\$ 142,808	\$ 268,858	\$ 640,605	\$ 257,836

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

2. Detailed Notes (Continued)

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 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.

N. Budget to Actual for 2013 and 2012

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, 2013 and 2012, follows.

	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	<u>\$ (3,457,014)</u>	<u>\$ (3,096,007)</u>	<u>\$ 361,007</u>
	2012		
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues	\$ 7,434,110	\$ 8,128,427	\$ 694,317
Operating Expenses	12,317,215	12,887,694	(570,479)
Operating Income (Loss)	\$ (4,883,105)	\$ (4,759,267)	\$ 123,838
Nonoperating Revenues (Expenses)	1,301,970	1,385,767	83,797
Change in Net Position	<u>\$ (3,581,135)</u>	<u>\$ (3,373,500)</u>	<u>\$ 207,635</u>

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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, 2013**

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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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

Duluth Entertainment and Convention Center
Authority Board

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 21, 2014.

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 Duluth Entertainment and Convention Center 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.

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.

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

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 21, 2014