

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)**

YEAR ENDED DECEMBER 31, 2015

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.

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

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

Year Ended December 31, 2015



**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, 2015**

	<u>Term Expires</u>
Directors	
Mary Finnegan-Ongaro	January 7, 2019
Gregory Fox	January 7, 2019
Carrie Heffernan	June 30, 2018
Debra Messer	January 7, 2019
Crystal Pelkey	June 30, 2016
Karen Pionk	June 30, 2016
Yvonne Prettner Solon	January 7, 2019
Roger Reinert	June 30, 2017
David Ross	June 30, 2016
Jay Seiler	June 30, 2018
Officers	
President	
David Ross	June 30, 2016
Vice President	
Jay Seiler	June 30, 2018
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

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

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

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, Minnesota

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Duluth Entertainment and Convention Center Authority, a component of the City of Duluth, Minnesota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Duluth Entertainment and Convention Center Authority as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (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*, and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2016, on our consideration of the Duluth Entertainment and Convention Center Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Duluth Entertainment and Convention Center Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 28, 2016

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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, 2015
(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, 2015. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- In 2015, total net position decreased \$3.0 million, or 3.2 percent, over the course of the year's operations.
- Total operating revenue increased \$0.6 million, or 6.8 percent, in 2015 compared to last year.
- Total operating expenses in 2015 increased by \$0.6 million, or 4.5 percent, compared to 2014.

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 1963 Minn. Laws, ch. 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 the 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)

	2015	2014	Dollar Change Increase (Decrease) 2014 to 2015
Assets			
Current and other assets	\$ 3,649	\$ 3,126	\$ 523
Capital assets	92,625	95,924	(3,299)
Total Assets	<u>\$ 96,274</u>	<u>\$ 99,050</u>	<u>\$ (2,776)</u>
Deferred Outflows of Resources			
Deferred pension outflows	\$ 432	-	\$ 432
Liabilities			
Current liabilities	\$ 1,704	\$ 1,638	\$ 66
Long-term liabilities	3,905	798	3,107
Total Liabilities	<u>\$ 5,609</u>	<u>\$ 2,436</u>	<u>\$ 3,173</u>
Deferred Inflows of Resources			
Deferred pension inflows	\$ 154	-	\$ 154
Net Position			
Net investment in capital assets	\$ 92,616	\$ 95,766	\$ (3,150)
Restricted	10	87	(77)
Unrestricted	(1,683)	761	(2,444)
Total Net Position, as reported	<u>\$ 90,943</u>	<u>\$ 96,614</u>	<u>\$ (5,671)</u>
Change in accounting principle*		<u>(2,633)</u>	
Total Net Position, as restated		<u>\$ 93,981</u>	

*This is the first year the Authority implemented the new pension accounting and financial reporting standards in Governmental Accounting Standards Board Statements 68, 71, and 82. The Authority had to make a prior year change in accounting principles to record the Authority's net pension liability and related deferred outflows of resources.

In 2015, net position decreased \$3.0 million compared to 2014. Total assets decreased \$2.8 million mainly due to depreciation of \$3.8 million in 2015. Total liabilities increased \$3.1 million due to an increase in customer deposits, net postemployment benefits, and net pension liability compared to 2014.

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

	2015	2014	Dollar Change Increase (Decrease) 2014 to 2015
Operating revenues	\$ 9,561	\$ 8,953	\$ 608
Nonoperating revenues	1,753	1,568	185
Total Revenues	\$ 11,314	\$ 10,521	\$ 793
Operating expenses	\$ 14,350	\$ 13,727	\$ 623
Interest expense	2	11	(9)
Total Expenses	\$ 14,352	\$ 13,738	\$ 614
Excess of Revenues Over (Under) Expenses	\$ (3,038)	\$ (3,217)	\$ 179
Capital Contributions	-	18	(18)
Change in Net Position	\$ (3,038)	\$ (3,199)	\$ 161
Net Position - January 1, as restated	*93,981	99,813	(5,832)
Net Position - December 31, as reported	\$ 90,943	\$ 96,614	\$ (5,671)

*Amount includes a change in accounting principles.

Comparison with Budget
(000s)

	2015 Actual	2015 Budget	Variance with Budget	Percent Change (%)
Operating revenues	\$ 9,561	\$ 8,874	\$ 687	7.7
Nonoperating revenues	1,753	1,541	212	13.8
Total Revenues	\$ 11,314	\$ 10,415	\$ 899	8.6
Operating expenses	\$ 14,350	\$ 12,834	\$ 1,516	11.8
Interest expense	2	7	(5)	(71.4)
Total Expenses	\$ 14,352	\$ 12,841	\$ 1,511	11.8
Excess of Revenues Over (Under) Expenses	\$ (3,038)	\$ (2,426)	\$ (612)	25.2
Net Position - January 1, as restated	*93,981	*93,981	-	-
Net Position - December 31	<u>\$ 90,943</u>	<u>\$ 91,555</u>	<u>\$ (612)</u>	(0.7)

*Amount includes a change in accounting principles.

Revenues

The Authority's operating revenues increased \$608,000 to \$9.6 million in 2015 due to an increase in catering food and beverage sales. Nonoperating revenues increased \$185,000 compared to last year mainly due to hotel/motel tax contributions.

Expenses

The Authority's operating expenses increased \$623,000 to \$14.3 million in 2015 mainly due to an increase in labor, food cost, and utilities compared to 2014.

Budgetary Highlights

Operating revenues were over budget by \$687,000 in 2015 due mainly to an increase in building rent and services and catering food and beverage sales. Nonoperating revenues were over budget by \$212,000 due to larger hotel/motel tax revenue than projected. Operating expenses were \$1,516,000 over budget in 2015 mainly due to labor, food and beverage costs, net other postemployment benefits liability, and net Public Employees Retirement Fund Association pension liability.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

	Capital Assets (000s)		Dollar Change	Percent Change (%)
	2015	2014		
Land	\$ 906	\$ 906	\$ -	-
Land improvements	303	303	-	-
Buildings and structures	136,252	136,097	155	0.1
Equipment	10,956	10,589	367	3.5
Work in progress	37	45	(8)	(17.8)
Total	\$ 148,454	\$ 147,940	\$ 514	0.3
Less: accumulated depreciation	(55,829)	(52,016)	(3,813)	7.3
Net Capital Assets	\$ 92,625	\$ 95,924	\$ (3,299)	(3.4)

By the end of 2015, the Authority had invested \$148.5 million in capital assets. The increase in buildings and structures is mainly due to a new building-wide signage package, elevator upgrade, retrofit lighting, and computer network/backup system. For more information, see Note 2.C. to the financial statements.

Debt Administration

	Debt (000s)		Dollar Change	Percent Change (%)
	2015	2014		
Locker room lease	\$ 10	\$ 159	\$ (149)	(93.7)

As of December 31, 2015, the Authority's outstanding debt decreased \$0.1 million, or 93.7 percent, compared to December 31, 2014. 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 2016. Convention business is projected to be down slightly in 2016 compared to 2015. Overall, a slight decrease in revenue is projected for 2016 compared to 2015 mainly due to a decrease in catering revenue. Rent and building services prices for 2015 were established in 2012 and included a minimal increase for some goods and services. New catering prices went into effect in April 2015, and most concessions prices are increased annually in October. Overall operating expenses in 2016 are projected to increase due to annual pay increases and a minimum wage increase.

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.

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BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Assets

Current assets

Cash and cash equivalents	\$ 2,286,287
Accounts receivable	254,621
Due from City of Duluth	553,336
Inventory	146,258
Prepaid items	18,221
	18,221

Total current assets **\$ 3,258,723**

Restricted current assets

Assets restricted for customer deposits	
Cash and cash equivalents	\$ 361,692
Accounts receivable	17,691
Assets restricted for employee flexible benefits plan	
Cash and cash equivalents	806
	806

Total restricted current assets **\$ 380,189**

Total current assets **\$ 3,638,912**

Noncurrent assets

Restricted debt service - assets held by trustee	
Lease financing escrow account	\$ 10,096

Capital assets

Not depreciated	942,989
Depreciated	147,511,246
Less: allowance for depreciation	(55,828,893)
	(55,828,893)

Total capital assets - net of accumulated depreciation **\$ 92,625,342**

Total noncurrent assets **\$ 92,635,438**

Total Assets **\$ 96,274,350**

Deferred Outflows of Resources

Deferred pension outflows	\$ 432,116
	432,116

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

**EXHIBIT 1
(Continued)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Liabilities

Current liabilities

Accounts payable	\$	376,519
Salaries payable		43,926
Compensated absences payable - current		127,436
Accrued interest payable		157
Unearned revenue		763,134
Capital leases payable		9,939
		9,939

Total current liabilities

\$ 1,321,111

Current liabilities payable from restricted assets

Customer deposits	\$	382,937
Employee flexible benefits plan payable		660
		660

Total current liabilities payable from restricted assets

\$ 383,597

Total current liabilities

\$ 1,704,708

Noncurrent liabilities

Compensated absences payable - long-term	\$	81,505
Net pension liability		3,057,686
Net other postemployment benefits liability		765,659
		765,659

Total noncurrent liabilities

\$ 3,904,850

Total Liabilities

\$ 5,609,558

Deferred Inflows of Resources

Deferred pension inflows	\$	154,159
		154,159

Net Position

Net investment in capital assets	\$	92,615,403
Restricted for debt service		10,096
Unrestricted		(1,682,750)
		(1,682,750)

Total Net Position

\$ 90,942,749

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

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

Operating Revenues	
Sales	\$ 3,921,704
Charges for services	5,056,739
Miscellaneous	582,121
	<hr/>
Total Operating Revenues	\$ 9,560,564
Operating Expenses	
Personal services	\$ 5,214,296
Supplies and services	1,864,039
Utilities	1,356,471
Other services and charges	2,102,524
Depreciation	3,812,438
	<hr/>
Total Operating Expenses	\$ 14,349,768
Operating Income (Loss)	\$ (4,789,204)
Nonoperating Revenues (Expenses)	
Interest income	\$ 11,493
Hotel/motel tax revenue	1,541,974
Naming rights revenue	200,000
Interest expense	(2,331)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ 1,751,136
Change in Net Position	\$ (3,038,068)
Net Position - January 1, as restated (Note 1)	93,980,817
	<hr/>
Net Position - December 31	\$ 90,942,749
	<hr/> <hr/>

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

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Cash Flows from Operating Activities	
Cash received from customers	\$ 9,037,826
Payments to suppliers	(5,142,051)
Payments to employees	(5,101,987)
Other operating revenues	<u>582,121</u>
Net cash provided by (used in) operating activities	<u>\$ (624,091)</u>
Cash Flows from Noncapital Financing Activities	
City of Duluth hotel/motel taxes	<u>\$ 1,369,348</u>
Cash Flows from Capital and Related Financing Activities	
Payment received for naming rights	\$ 200,000
Cash from lease escrow account	77,047
Principal paid on lease purchases	(149,008)
Interest paid on lease purchases	(5,993)
Acquisition or construction of capital assets	<u>(513,264)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (391,218)</u>
Cash Flows from Investing Activities	
Interest on investments	<u>\$ 11,493</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 365,532
Cash and Cash Equivalents - January 1	<u>2,283,253</u>
Cash and Cash Equivalents - December 31	<u><u>\$ 2,648,785</u></u>

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

**EXHIBIT 3
(Continued)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Reconciliation of Operating Income (Loss) to Net Cash	
Provided by (Used in) Operating Activities	
Operating income (loss)	\$ (4,789,204)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation	3,812,438
(Increase) decrease in accounts receivable	(45,134)
(Increase) decrease in inventory	(10,014)
(Increase) decrease in prepaid items	(7,045)
(Increase) decrease in deferred pension obligation outflows	(312,735)
Increase (decrease) in accounts payable	198,042
Increase (decrease) in salaries payable	(95,946)
Increase (decrease) in unearned revenue	(43,358)
Increase (decrease) in customer deposits	147,875
Increase (decrease) in employee flexible benefits plan payable	(146)
Increase (decrease) in compensated absences payable	3,601
Increase (decrease) in net other postemployment benefits liability	58,424
Increase (decrease) in deferred pension obligation inflows	154,159
Increase (decrease) in pension liability	304,952
	<hr/>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (624,091)</u>

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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 YEAR ENDED DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

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

The accounting policies of the Authority conform with generally accepted accounting principles.

Change in Accounting Principles

During the year ended December 31, 2015, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

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

1. Summary of Significant Accounting Policies

Change in Accounting Principles (Continued)

GASB Statements 68 and 71 require the Authority to report its proportionate share of the Public Employees Retirement Association (PERA) total employers' unfunded pension liability. As a result, beginning net position has been restated to record the Authority's net pension liability and related deferred outflows of resources.

Net Position, January 1, 2015, as previously reported	\$ 96,614,170
Change in accounting principles	<u>(2,633,353)</u>
Net Position, January 1, 2015, as restated	<u>\$ 93,980,817</u>

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.

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.

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

1. Summary of Significant Accounting Policies (Continued)

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.

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.

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

1. Summary of Significant Accounting Policies (Continued)

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Currently, the Authority has one item, deferred pension outflows, that qualifies for reporting in this category. The pension obligation amounts are deferred and the length of the expense recognition period is equal to the average of the expected remaining service lives of all employees who are provided with pensions through the pension plan, determined as of the beginning of the measurement period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, deferred pension inflows, that qualifies for reporting in this category. The differences between projected and actual economic experience are recognized over a four-year period.

J. 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.

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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1. Summary of Significant Accounting Policies

J. Restricted Assets (Continued)

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.

K. Unearned Revenue

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

L. Classification of Net Position

Net position is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt, if any, attributed to the acquisition, construction or improvement of the assets.

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

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

M. Operating Revenues

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

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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1. Summary of Significant Accounting Policies (Continued)

N. 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.

O. Trade-Offs

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

P. Pension Plan

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

2. Detailed Notes

A. Deposits and Investments

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

The types of investment securities available to the City of Duluth Treasurer are authorized by Minn. Stat. §§ 118A.04 and 118A.05.

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

A. Deposits and Investments (Continued)

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, 2015:

Current assets	
City of Duluth pooled cash account	\$ 705,915
Checking account - ticket office	7,000
Checking account - employee flexible benefits plan	7,372
Savings account - operating reserve	1,500,000
Petty cash and change funds	<u>66,000</u>
Total current assets	<u>\$ 2,286,287</u>
Restricted current assets	
Ticket office customer deposits - checking	\$ 344,492
Ticket office change fund	17,200
Employee flexible benefits plan - checking	<u>806</u>
Total restricted current assets	<u>\$ 362,498</u>
Restricted noncurrent assets	
Lease reserve - savings escrow	<u>\$ 10,096</u>
Total	<u><u>\$ 2,658,881</u></u>

B. Due From City of Duluth

Amounts due from the City of Duluth at December 31, 2015, are as follows:

Current	
Hotel/motel tax	<u>\$ 553,336</u>

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in the capital asset accounts for the year ended December 31, 2015, follows:

	Balance January 1, 2015	Increase	Decrease	Balance December 31, 2015
Capital assets not depreciated				
Land	\$ 905,601	\$ -	\$ -	\$ 905,601
Construction in progress	45,791	35,466	43,869	37,388
Total capital assets not depreciated	\$ 951,392	\$ 35,466	\$ 43,869	\$ 942,989
Capital assets depreciated				
Land improvements	\$ 302,957	\$ -	\$ -	\$ 302,957
Buildings	136,096,907	154,982	-	136,251,889
Equipment	10,589,715	366,685	-	10,956,400
Total capital assets depreciated	\$ 146,989,579	\$ 521,667	\$ -	\$ 147,511,246
Less: accumulated depreciation for				
Land improvements	\$ 302,957	\$ -	\$ -	\$ 302,957
Buildings	44,209,200	3,439,871	-	47,649,071
Equipment	7,504,298	372,567	-	7,876,865
Total accumulated depreciation	\$ 52,016,455	\$ 3,812,438	\$ -	\$ 55,828,893
Total capital assets depreciated, net	\$ 94,973,124	\$ (3,290,771)	\$ -	\$ 91,682,353
Total Capital Assets, Net	\$ 95,924,516	\$ (3,255,305)	\$ 43,869	\$ 92,625,342

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
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2. Detailed Notes (Continued)

E. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the Duluth Entertainment and Convention Center Authority are covered by defined benefit pension plans administered by 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. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Authority employees belong to the Basic Plan.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

**DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

E. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund 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 for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under 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, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in 2015.

In 2015, the Authority was required to contribute the following percentage of annual covered salary:

General Employees Retirement Fund Coordinated Plan members	7.50%
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The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

**DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

E. Defined Benefit Pension Plan

3. Contributions (Continued)

The Authority's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$264,824. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2015, the Authority reported a liability of \$3,057,686 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Authority's proportion was 0.0590 percent. It was 0.0586 percent measured as of June 30, 2014. The Authority recognized pension expense of \$411,200 for its proportionate share of the General Employees Retirement Fund's pension expense.

The Authority reported its proportionate share of the General Employees Retirement Fund's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ -	\$ 154,159
Difference between projected and actual investment earnings	289,457	-
Changes in proportion	14,092	-
Contributions paid to PERA subsequent to the measurement date	<u>128,567</u>	<u>-</u>
Total	<u>\$ 432,116</u>	<u>\$ 154,159</u>

**DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

E. Defined Benefit Pension Plan

4. Pension Costs (Continued)

A total of \$128,567 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2016	\$ 25,675
2017	25,675
2018	25,675
2019	72,365

5. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. For the General Employees Retirement Fund, cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

E. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

E. Defined Benefit Pension Plan (Continued)

7. Pension Liability Sensitivity

The following presents the Authority’s proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability	\$ 4,807,770	\$ 3,057,686	\$ 1,612,386

8. Pension Plan Fiduciary Net Position

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

F. 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.

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

F. Postemployment Benefits

1. Plan Description and Funding Policy (Continued)

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.

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:

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(A COMPONENT UNIT OF THE CITY OF DULUTH)**

2. Detailed Notes

F. Postemployment Benefits

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

ARC	\$	142,765
Interest on net OPEB obligation		31,826
Adjustment to ARC		(41,549)

Annual OPEB cost	\$	133,042
Contributions during the year		(74,618)

Increase in net OPEB obligation	\$	58,424
Net OPEB, Beginning of Year		707,235

Net OPEB, End of Year	\$	765,659

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, 2015, 2014, and 2013, were as follows:

	2015	2014	2013
Percentage of annual OPEB cost contributed	56.09%	57.64%	66.23%
Annual OPEB cost	\$ 133,042	\$ 133,821	\$ 134,446
Employer contributions	(74,618)	(77,132)	(89,046)
	_____	_____	_____
Net Increase in Net OPEB Obligation	\$ 58,424	\$ 56,689	\$ 45,400
Net OPEB Obligation, Beginning of Year	707,235	650,546	605,146
	_____	_____	_____
Net OPEB Obligation, End of Year	\$ 765,659	\$ 707,235	\$ 650,546

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.

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

2. Detailed Notes

F. Postemployment Benefits

3. Funded Status and Funding Progress (Continued)

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.

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

DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

G. Compensated Absences (Continued)

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, 2015, is estimated to be \$127,436 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 \$81,505 as of December 31, 2015. 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, 2015, was estimated to be \$666,161 and is not recognized as a liability in the financial statements.

H. Unearned Revenue

Unearned revenue as of December 31, 2015, consists of the following:

Advance deposits for future events	\$ 92,517
Gift certificates	15,403
Unearned lease revenue	<u>655,214</u>
Total	<u>\$ 763,134</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 3.0 percent annually. In 2015, rent was \$60,100.

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

**DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY
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2. Detailed Notes

I. Minimum Future Rents Receivable (Continued)

lease. On January 1, 2012, an amended lease agreement was signed with B & G Realty, LLC, to include the OMNIMAX Theatre space in the leased premises for an additional \$36,000 per year, with an annual Consumer Price Index increase beginning January 1, 2015. In addition, the Authority agreed to reimburse B & G Realty, through lease payment deductions, \$25,000 for expenses related to the conversion and remodeling of said space. On April 18 and August 1, 2012, the reimbursable amount to B & G Realty was increased \$10,000 and \$11,417, respectively, for a total of \$46,417 for conversion and remodeling.

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

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

Minimum future rents on non-cancellable leases are:

Year		
2016	\$	952,969
2017		980,648
2018		1,009,195
2019		1,038,580
2020		1,068,827
After 2020		13,100,934
Total	\$	18,151,153

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 through 2031.

Minimum future rents on this agreement are:

<u>Year</u>	
2016	\$ 200,000
2017	200,000
2018	200,000
2019	200,000
2020	200,000
After 2020	<u>2,000,000</u>
Total	<u>\$ 3,000,000</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, 2015, the locker room improvements are valued at \$1,534,313, with accumulated depreciation of \$1,074,019.

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
2016	\$ 257	\$ 9,939

L. Long-Term Liabilities

The following is a schedule of long-term liability activity of the Duluth Entertainment and Convention Center Authority for the year ended December 31, 2015.

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015	Due Within One Year
Capital leases payable	\$ 158,947	\$ -	\$ 149,008	\$ 9,939	\$ 9,939
Compensated absences payable	205,340	169,185	165,584	208,941	127,436
Total	\$ 364,287	\$ 169,185	\$ 314,592	\$ 218,880	\$ 137,375

M. Pledge Agreement with City of Duluth

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

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.

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

2. Detailed Notes (Continued)

N. Budget to Actual for 2015

The Duluth Entertainment and Convention Center Authority adopts a budget to be approved by the Duluth City Council. A summary of the operating budget compared to actual for the year ended December 31, 2015, follows.

	Budget	Actual	Favorable (Unfavorable)
Operating Revenues	\$ 8,873,880	\$ 9,560,564	\$ 686,684
Operating Expenses	12,834,300	14,349,768	(1,515,468)
Operating Income (Loss)	\$ (3,960,420)	\$ (4,789,204)	\$ (828,784)
Nonoperating Revenues (Expenses)	1,534,795	1,751,136	216,341
Change in Net Position	\$ (2,425,625)	\$ (3,038,068)	\$ (612,443)

3. Subsequent Event

In March 2016, the City of Duluth issued \$33,440,000 in General Obligation Duluth Entertainment and Convention Center Authority Improvement Refunding Bonds, Series 2016A, to be paid from the 0.75 percent food and beverage tax, the Authority's portion of the lodging tax, and other revenues of the Authority. The transaction resulted in a net present value savings of \$5,414,950. The proceeds from this issue were used to current refund the City of Duluth's Series 2008A Duluth Entertainment and Convention Center Authority Improvement Bonds. (See Note 2.M.)

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, 2015**

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.

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

EXHIBIT A-2

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

<u>Measurement Date</u>	<u>Employer's Proportion of the Net Pension Liability (Asset)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</u>	<u>Covered Payroll (b)</u>	<u>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
2015	0.0590%	\$ 3,057,686	\$ 3,463,401	88.29%	78.19%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The measurement date for each year is June 30.

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

EXHIBIT A-3

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT FUND
DECEMBER 31, 2015**

<u>Year Ending</u>	<u>Statutorily Required Contributions (a)</u>	<u>Actual Contributions in Relation to Statutorily Required Contributions (b)</u>	<u>Contribution (Deficiency) Excess (b-a)</u>	<u>Covered Payroll (c)</u>	<u>Actual Contributions as a Percentage of Covered Payroll (b/c)</u>
2015	\$ 277,570	\$ 264,824	\$ (12,746)	\$ 3,700,932	7.16%

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

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Duluth Entertainment and Convention Center Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2015, 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 28, 2016.

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 Other 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, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because no new contracts were entered into in 2015, and tax increment financing because the Authority did not administer any tax increment financing districts. The provisions for deposits and investments were tested in conjunction with our audit of the City of Duluth, Minnesota, 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 Other 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 Other 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

April 28, 2016