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, 2008 AND 2007

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, 2008 and 2007

Audit Practice Division
Office of the State Auditor
State of Minnesota

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

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Introductory Section

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

ORGANIZATION
DECEMBER 31, 2008

	Term Expires
Directors	
John Arnold	June 30, 2009
Robert Beaudin	June 30, 2009
Robert Eaton	January 3, 2011
Mark Emmel	June 30, 2009
Gregory Fox	January 3, 2011
Jim Laumeyer	June 30, 2010
Darlene Marshall	June 30, 2010
David McMillan	January 3, 2011
Debra Messer	January 3, 2011
Marsha Signorelli	June 30, 2010
Yvonne Prettner Solon	June 30, 2011
Officers	
President	
Mark Emmel	June 30, 2009
Vice President	
Robert Eaton	January 3, 2011
Treasurer (Duluth City Treasurer)	
Brian Hansen	Indefinite
Executive Director	
Daniel J. Russell	Indefinite

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Duluth Entertainment and Convention Center
Authority Board

We have audited the accompanying basic 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, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information referred to in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2009, on our consideration of the Duluth Entertainment and Convention Center Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 27, 2009

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, 2008
(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, 2008. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- In 2008, total net assets increased $4.8 million, or 13.7 percent, over the course of the year's operations.

- Total operating revenue increased $0.7 million, or 10.1 percent, in 2008 compared to last year.

- Total operating expenses in 2008 increased by $0.5 million, or 6.0 percent, compared to 2007.

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 assets; statement of revenues, expenses, and changes in net assets; statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the Authority on a full accrual, historical cost basis. The statement of net assets provides information about the nature and amount of resources and obligations at year-end. The statement of revenues, expenses, and changes in net assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of 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 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 Assets
(000s)

	2008	Restated 2007	2006	Dollar Change Increase (Decrease) 2007 to 2008	2006 to 2007
Assets					
Current and other assets	$ 4,134	$ 1,459	$ 1,080	$ 2,675	$ 379
Capital assets	42,164	39,125	39,531	3,039	(406)
Total Assets	$ 46,298	$ 40,584	$ 40,611	$ 5,714	$ (27)
Liabilities					
Current liabilities	$ 3,996	$ 1,682	$ 1,743	$ 2,314	$ (61)
Long-term liabilities	2,479	3,888	3,563	(1,409)	325
Total Liabilities	$ 6,475	$ 5,570	$ 5,306	$ 905	$ 264
Net Assets					
Invested in capital assets	$ 39,275	$ 34,694	$ 35,242	$ 4,581	$ (548)
Restricted	86	88	83	(2)	5
Unrestricted	462	232	(20)	230	252
Total Net Assets	$ 39,823	$ 35,014	$ 35,305	$ 4,809	$ (291)

In 2008, net assets increased $4.8 million to $39.8 million, up from $35.0 million in 2007. The increase in net assets was due to capital contributions. In 2007, net assets decreased $0.3 million to $35.0 million, down from $35.3 million in 2006. The decrease in net assets was primarily due to an increase in accumulated depreciation but offset by capital contributions.

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

	2008	Restated 2007	2006	Dollar Change Increase (Decrease) 2007 to 2008	Dollar Change Increase (Decrease) 2006 to 2007
Operating revenues	$ 7,999	$ 7,265	$ 7,260	$ 734	$ 5
Nonoperating revenues	1,016	981	890	35	91
Total Revenues	$ 9,015	$ 8,246	$ 8,150	$ 769	$ 96
Operating expenses	$ 9,521	$ 8,978	$ 9,001	$ 543	$ (23)
Interest expense	303	303	320	-	(17)
Amortization of bond issue costs	3	4	4	(1)	-
Loss on sale of assets	-	19	-	(19)	19
Total Expenses	$ 9,827	$ 9,304	$ 9,325	$ 523	$ (21)
Excess of Revenues Over (Under) Expenses	$ (812)	$ (1,058)	$ (1,175)	$ 246	$ 117
Capital contributions	5,621	767	-	4,854	767
Change in Net Assets	$ 4,809	$ (291)	$ (1,175)	$ 5,100	$ 884
Net Assets - January 1	35,014	35,305	36,480	(291)	(1,175)
Net Assets - December 31	$ 39,823	$ 35,014	$ 35,305	$ 4,809	$ (291)

Comparison with Budget
(000s)

	2008 Actual	2008 Budget	Variance with Budget	Percent Change (%)
Operating revenues	$ 7,999	$ 7,733	$ 266	3.4
Nonoperating revenues	1,016	977	39	4.0
Total Revenues	$ 9,015	$ 8,710	$ 305	3.5
Operating expenses	$ 9,521	$ 9,371	$ 150	1.6
Interest expense	303	296	7	2.4
Amortization of bond issue costs	3	3	-	-
Total Expenses	$ 9,827	$ 9,670	$ 157	1.6
Excess of Revenues Over (Under) Expenses	$ (812)	$ (960)	$ 148	15.4
Capital contributions	5,621	-	5,621	100.0
Net Assets - January 1	35,014	35,014	-	-
Net Assets - December 31	$ 39,823	$ 34,054	$ 5,769	16.9

Revenues

The Authority's operating revenues increased $734,000 to $8.0 million in 2008 due to an increase in space rental, food sales, equipment rental, and parking. Nonoperating revenues were up $35,000 compared to last year due to an increase in hotel/motel tax revenue.

Expenses

The Authority's operating expenses increased $543,000 to $9.5 million in 2008 due to other postemployment benefits reporting per Governmental Accounting Standards Board Statement 45 and an increase in building supplies, utilities, and food costs.

Budgetary Highlights

Operating revenues were higher than budget by $266,000 in 2008 due to higher building rental and food sales than forecasted. Operating expenses were $150,000 over budget in 2008, missing water/sewer, building repairs, and food cost budgets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets
(000s)

	2008	Restated 2007	Dollar Change	Percent Change (%)
Land	$ 906	$ 906	$ -	-
Land improvements	303	303	-	-
Buildings and structures	62,065	62,065	-	-
Equipment	8,032	7,960	72	0.9
Work in progress	4,873	62	4,811	7,759.7
Subtotal	$ 76,179	$ 71,296	$ 4,883	6.8
Less: accumulated depreciation	(34,015)	(32,171)	(1,844)	5.7
Net Capital Assets	$ 42,164	$ 39,125	$ 3,039	7.8

By the end of 2008, the Authority had invested $76.2 million in capital assets. The $4.8 million work in progress increase during the past year was due to ramp expansion design and construction ($2.0M) and new arena design and engineering ($2.8M). For more information, see Note 2.C. to the financial statements.

Debt Administration

Debt
(000s)

	2008	2007	Dollar Change	Percent Change (%)
Ice floor lease	$ -	$ 843	$ (843)	(100.0)
Locker room lease	919	1,022	(103)	(10.1)
Omnimax bonds	2,225	2,910	(685)	(23.5)
Total Debt	$ 3,144	$ 4,775	$ (1,631)	(34.2)

As of December 31, 2008, the Authority's outstanding debt decreased $1.6 million, or 34.2 percent, compared to December 31, 2007. The $843K ice floor lease was paid off in 2008 with no additional debt incurred during the year. For additional information, see Notes 2.J. and 2.K. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Many factors were considered when completing the budget for 2009. Convention business in 2009 will be about the same as 2008. A slight decrease in revenue is projected for 2009 compared to the 2008 budget mainly due to loss of parking during arena construction. Rent and building services prices for 2009 were established in 2005 and included a minimal increase for some goods and services. New catering prices will be in effect in January 2009, and some concessions prices were increased in October 2008. Operating expenses in 2009 are projected to increase modestly compared to the 2008 budget. Cost increases are budgeted for payroll and parking shuttle services.

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 A

COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2008 AND 2007

	2008	Restated 2007
Assets		
Current assets		
Cash and cash equivalents	$ 745,275	$ 469,291
Accounts receivable	464,310	378,318
Due from City of Duluth	110,950	109,343
Inventory	136,887	156,324
Prepaid items	19,119	21,463
Total current assets	**$ 1,476,541**	**$ 1,134,739**
Restricted current assets		
Assets restricted for customers' deposits		
Cash and cash equivalents	$ 224,569	$ 206,192
Accounts receivable	6,041	20,693
Assets restricted for employee flexible benefits		
Cash and cash equivalents	1,655	1,074
Assets restricted for construction		
Due from other governments	2,334,561	-
Total restricted current assets	**$ 2,566,826**	**$ 227,959**
Total current assets	**$ 4,043,367**	**$ 1,362,698**
Noncurrent assets		
Restricted debt service - assets held by trustee		
Lease financing escrow account	$ 86,245	$ 88,385
Bond issuance costs	4,534	7,534
Total noncurrent assets, other than capital assets	**$ 90,779**	**$ 95,919**
Capital assets		
Not depreciated	$ 5,778,276	$ 967,801
Depreciated	70,400,403	70,328,028
Less: allowance for depreciation	(34,015,167)	(32,171,338)
Total capital assets - net of accumulated depreciation	**$ 42,163,512**	**$ 39,124,491**
Total noncurrent assets	**$ 42,254,291**	**$ 39,220,410**
Total Assets	**$ 46,297,658**	**$ 40,583,108**

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

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

EXHIBIT A
(Continued)

COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2008 AND 2007

	2008	Restated 2007
Liabilities		
Current liabilities		
Accounts payable	$ 222,646	$ 250,797
Salaries payable	66,324	77,211
Compensated absences payable - current	106,661	91,439
Due to City of Duluth	24,300	17,700
Accrued interest payable	23,703	41,103
Deferred revenue	168,961	188,231
General obligation revenue bonds payable - current	710,000	685,000
Capital leases payable - current	108,161	102,699
Total current liabilities	**$ 1,430,756**	**$ 1,454,180**
Current liabilities payable from restricted assets		
Customer deposits	$ 230,610	$ 226,886
Employee flexible benefits plan payable	1,655	1,074
Contracts payable	537,882	-
Due to City of Duluth	1,794,916	-
Total current liabilities payable from restricted assets	**$ 2,565,063**	**$ 227,960**
Total current liabilities	**$ 3,995,819**	**$ 1,682,140**
Noncurrent liabilities		
Compensated absences payable - long-term	$ 70,655	$ 67,286
General obligation revenue bonds payable - long-term	1,515,000	2,225,000
Less: unamortized discount	(4,603)	(7,627)
Less: deferred amount on refunding	(250,061)	(335,813)
Capital leases payable - long-term	810,709	1,761,870
Net other postemployment benefits liability	337,451	176,825
Total noncurrent liabilities	**$ 2,479,151**	**$ 3,887,541**
Total Liabilities	**$ 6,474,970**	**$ 5,569,681**
Net Assets		
Invested in capital assets - net of related debt	$ 39,274,306	$ 34,693,362
Restricted for debt service	86,245	88,385
Unrestricted	462,137	231,680
Total Net Assets	**$ 39,822,688**	**$ 35,013,427**

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

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

EXHIBIT B

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	Restated 2007
Operating Revenues		
Sales	$ 3,403,772	$ 3,039,450
Charges for services	4,326,909	3,949,380
Miscellaneous	268,152	275,688
Total Operating Revenues	**$ 7,998,833**	**$ 7,264,518**
Operating Expenses		
Personal services	$ 4,170,461	$ 3,901,923
Supplies and services	1,582,611	1,267,932
Utilities	844,452	795,384
Other services and charges	1,079,457	1,141,840
Depreciation	1,843,829	1,870,655
Total Operating Expenses	**$ 9,520,810**	**$ 8,977,734**
Operating Income (Loss)	**$ (1,521,977)**	**$ (1,713,216)**
Nonoperating Revenues (Expenses)		
Interest income	$ 13,612	$ 7,298
Hotel/motel tax revenue	1,002,415	973,207
Interest expense	(302,575)	(302,707)
Amortization of bond issue costs	(3,000)	(3,687)
Loss on sale of capital assets	-	(19,311)
Total Nonoperating Revenues (Expenses)	**$ 710,452**	**$ 654,800**
Income (Loss) Before Contributions	**$ (811,525)**	$ **(1,058,416)**
Capital Contributions		
Capital contributions from City of Duluth	$ 3,286,225	$ -
Capital contributions from State of Minnesota	2,334,561	-
Other capital contributions	-	766,964
Total Capital Contributions	**$ 5,620,786**	**$ 766,964**
Change in Net Assets	$ **4,809,261**	$ **(291,452)**
Net Assets - January 1, as restated (Note 1.N.)	**35,013,427**	**35,304,879**
Net Assets - December 31	**$ 39,822,688**	**$ 35,013,427**

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

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

EXHIBIT C

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	Restated 2007
Cash Flows from Operating Activities		
Cash received from customers	$ 7,643,795	$ 6,858,376
Payments to suppliers	(3,506,290)	(3,200,922)
Payments to employees	(4,001,550)	(3,729,811)
Other operating revenues	268,152	275,688
Net cash provided by (used in) operating activities	**$ 404,107**	**$ 203,331**
Cash Flows from Noncapital Financing Activities		
City of Duluth hotel/motel taxes	**$ 1,000,808**	**$ 961,450**
Cash Flows from Capital and Related Financing Activities		
Proceeds from the sale of capital assets	$ -	$ 183,261
Cash received from City of Duluth for capital improvements	5,081,141	-
Payment received from lease escrow account	3,148	-
Principal paid on lease purchases	(945,699)	(135,521)
Interest paid on lease purchases	(112,324)	(59,316)
Payment to lease escrow account	-	(3,149)
Principal paid on bonds payable	(685,000)	(655,000)
Interest paid on bonds payable	(118,875)	(145,075)
Acquisition or construction of capital assets	(4,344,968)	(56,709)
Net cash provided by (used in) capital and related financing activities	**$ (1,122,577)**	**$ (871,509)**
Cash Flows from Investing Activities		
Interest on investments	**$ 12,604**	**$ 5,247**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 294,942**	**$ 298,519**
Cash and Cash Equivalents - January 1	**676,557**	**378,038**
Cash and Cash Equivalents - December 31	**$ 971,499**	**$ 676,557**

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

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

EXHIBIT C
(Continued)

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	Restated 2007
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$ (1,521,977)**	**$ (1,713,216)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,843,829	1,870,655
(Increase) decrease in accounts receivable	(71,340)	(72,272)
(Increase) decrease in inventories	19,437	6,097
(Increase) decrease in prepaid items	2,344	(956)
Increase (decrease) in payables	146,779	173,450
Increase (decrease) in deferred revenue	(19,270)	(26,689)
Increase (decrease) in employee flexible benefits plan deposits	581	(2,245)
Increase (decrease) in customer deposits	3,724	(31,493)
Net Cash Provided by (Used in) Operating Activities	**$ 404,107**	**$ 203,331**
Noncash Investing, Capital, and Financing Activities		
Interest earned on the debt service reserve account	$ 1,008	$ 2,051
Capital assets acquired under lease purchase agreements	-	842,654
Capital assets acquired by donation	-	766,964

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

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1. Summary of Significant Accounting Policies

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

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

A. Financial Reporting Entity

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

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

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

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

C. Basis of Accounting

Accounting records are maintained on the accrual basis, under which revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Pursuant to GASB Statement 20, the Authority has elected not to apply accounting standards issued by the Financial Accounting Standards Board after November 30, 1989.

D. Budget and Budgetary Accounting

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

E. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments held by the Treasurer of the City of Duluth. Investments are stated at fair value, and investment revenue is recorded as it is earned. For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents. The lease financing escrow account is not considered to be a cash equivalent because the Authority cannot withdraw from this account at any time without penalty.

F. Inventories of Merchandise for Resale

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

1. Summary of Significant Accounting Policies (Continued)

G. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend 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 benefit 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 a receivable from the State of Minnesota for the ramp construction. Assets held by the trustee consist of cash held pursuant to a reserve requirement of a lease agreement as described in Note 2.J.

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

J. Deferred Revenue

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

1. Summary of Significant Accounting Policies (Continued)

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.

N. Prior Period Restatement

In 2008, it was determined that certain capital assets had been depreciated beyond their original cost, which resulted in accumulated depreciation being overstated in the prior year.

The overdepreciation of capital assets resulted in the following adjustment to net assets:

Net Assets - December 31, 2007, as previously reported	$ 34,837,513
Prior period adjustment	175,914
Net Assets - December 31, 2007, as restated	$ 35,013,427

1. Summary of Significant Accounting Policies

N. Prior Period Restatement (Continued)

Accumulated depreciation; depreciation expense; invested in capital assets, net of related debt; and unrestricted net asset accounts were restated to arrive at the net asset adjustment, and this should be considered when comparing these financial statements to previously issued financial statements.

2. Detailed Notes

A. Deposits and Investments

Minn. Laws 1963, ch. 305, designates the City of Duluth Treasurer as the Treasurer of the Authority. Minn. Stat. §§ 118A.02 and 118A.04 authorize the City Treasurer 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.

Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investment securities available to the City of Duluth Treasurer.

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, 2008 and 2007:

	2008	2007
Current assets		
City of Duluth pooled cash account	$ 193,298	$ 270,888
Checking account - ticket office	7,000	7,000
Checking account - employee flexible benefits plan	7,372	7,399
Savings account - operating reserve	500,000	151,399
Petty cash and change funds	37,605	32,605
Total current assets	$ 745,275	$ 469,291

2. Detailed Notes

A. Deposits and Investments (Continued)

		2008		2007
Restricted current assets				
Ticket office customer deposits - checking	$	206,347	$	184,007
Ticket office customer deposits - savings		13,022		12,985
Ticket office change fund		5,200		9,200
Employee flexible benefits plan - checking		1,655		1,074
Total restricted current assets	$	226,224	$	207,266
Restricted noncurrent assets				
Lease reserve - savings escrow	$	86,245	$	88,385
Total	$	1,057,744	$	764,942

B. Due From City of Duluth

Amounts due from the City of Duluth at December 31, 2008 and 2007, are as follows:

		2008		2007
Hotel/motel tax	$	110,950	$	109,343

C. Capital Assets

A summary of the changes in the capital asset accounts for the years ended December 31, 2008 and 2007, follows:

		Balance January 1, 2008, Restated		Increase		Decrease		Balance December 31, 2008
Capital assets not depreciated								
Land	$	905,601	$	-	$	-	$	905,601
Construction in progress		62,200		4,810,475		-		4,872,675
Total capital assets not depreciated	$	967,801	$	4,810,475	$	-	$	5,778,276
Capital assets depreciated								
Land improvements	$	302,957	$	-	$	-	$	302,957
Buildings		62,065,457		-		-		62,065,457
Equipment		7,959,614		72,375		-		8,031,989
Total capital assets depreciated	$	70,328,028	$	72,375	$	-	$	70,400,403

2. Detailed Notes

C. Capital Assets (Continued)

	Balance January 1, 2008, Restated	Increase	Decrease	Balance December 31, 2008
Less: accumulated depreciation for				
Land improvements	$ 302,957	$ -	$ -	$ 302,957
Buildings	26,211,922	1,630,188	-	27,842,110
Equipment	5,656,459	213,641	-	5,870,100
Total accumulated depreciation	$ 32,171,338	$ 1,843,829	$ -	$ 34,015,167
Total capital assets depreciated, net	$ 38,156,690	$ (1,771,454)	$ -	$ 36,385,236
Capital Assets, Net	$ 39,124,491	$ 3,039,021	$ -	$ 42,163,512

	Balance January 1, 2007	Increase	Decrease	Balance December 31, 2007 Restated
Capital assets not depreciated				
Land	$ 905,601	$ -	$ -	$ 905,601
Construction in progress	25,000	37,200	-	62,200
Total capital assets not depreciated	$ 930,601	$ 37,200	$ -	$ 967,801
Capital assets depreciated				
Land improvements	$ 302,957	$ -	$ -	$ 302,957
Buildings	61,800,844	842,654	578,041	62,065,457
Equipment	7,173,141	786,473	-	7,959,614
Total capital assets depreciated	$ 69,276,942	$ 1,629,127	$ 578,041	$ 70,328,028
Less: accumulated depreciation for				
Land improvements	$ 302,957	$ -	$ -	$ 302,957
Buildings	24,881,375	1,706,016	375,469	26,211,922
Equipment	5,491,820	164,639	-	5,656,459
Total accumulated depreciation	$ 30,676,152	$ 1,870,655	$ 375,469	$ 32,171,338
Total capital assets depreciated, net	$ 38,600,790	$ (241,528)	$ 202,572	$ 38,156,690
Capital Assets, Net	$ 39,531,391	$ (204,328)	$ 202,572	$ 39,124,491

2. Detailed Notes (Continued)

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 Group Health Internal Service Fund operated by the City of Duluth for the benefit of governmental units of the City. The Authority pays an annual premium for health and dental insurance coverage.

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 Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. 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 and vest after three years of credited service. The defined retirement 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.

2. Detailed Notes

E. Pension Plans

1. Plan Description (Continued)

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 of service 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 Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for members hired prior to July 1, 1989, and is the age for unreduced social security benefits capped at age 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the 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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Coordinated Plan members were required to contribute 6.00 percent of their annual covered salary in 2008.

2. Detailed Notes

E. Pension Plans

2. Funding Policy (Continued)

The Authority is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

	2008	2009
Public Employees Retirement Fund Coordinated Plan members	6.50%	6.75%

The Authority's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

2008	2007	2006
$ 165,886	$ 146,996	$ 147,709

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

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 self-insurance plan. 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

2. Detailed Notes

F. Postemployment Benefits

1. Plan Description and Funding Policy (Continued)

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 June 1, 2007, 13 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 benefit (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 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 2008, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

Annual required contribution (ARC)	$ 279,354
Interest on net OPEB obligation	7,958
Adjustment to ARC	(10,780)
Annual OPEB cost	$ 276,532
Contributions during the year	(115,906)
Increase in net OPEB obligation	$ 160,626
Net OPEB, beginning of year	176,825
Net OPEB, end of year	$ 337,451

2. Detailed Notes

F. Postemployment Benefits

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

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007 and 2008 were as follows:

	2008	2007
Percentage of Annual OPEB Cost Contributed	41.91%	37.82%
Annual OPEB cost	$ 276,532	$ 284,355
Employer contributions	115,906	107,530
Net Increase in Net OPEB Obligation	$ 160,626	$ 176,825

3. Funding Status and Funding Progress

The actuarial accrued liability for benefits at June 1, 2007, the most recent actuarial valuation date, is $3,709,014. 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 $1,456,880. The ratio of the unfunded actuarially accrued liabilities (UAAL) to covered payroll is 254.58 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 healthcare 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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

2. Detailed Notes

F. Postemployment Benefits (Continued)

4. Actuarial Methods and Assumptions

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 June 1, 2007, 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 healthcare cost trend rate is 10.0 percent initially, reduced incrementally to an ultimate rate of 5.0 percent after ten years. The unfunded actuarial accrued liability is being amortized as a level dollar amount over 30 years.

G. Compensated Absences

Full-time employees are granted from 10 to 25 days of vacation time per year depending on their years of service. Vacation earned during one year must be taken within the following year. The Executive Director is allowed to carry forward up to 50 days of vacation. Upon termination of employment, employees are compensated for the full value of all unused vacation pay. Part-time employees who work more than 1,000 hours in a calendar year will receive a personal day off (8 hours) for each 100 hours worked in excess of 1,000 hours. Unused vacation and personal leave earned as of December 31, 2008 and 2007, is estimated to be $106,661 and $91,439, 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 $70,655 and $67,286 as of December 31, 2008 and 2007, 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 over at the end of any year. Employees are not compensated for unused sick leave upon termination of employment.

2. Detailed Notes

G. Compensated Absences (Continued)

The contingent liability for sick leave at December 31, 2008 and 2007, was estimated to be $581,002 and $558,865, respectively, and is not recognized as a liability in the financial statements.

H. Deferred Revenue

Deferred revenue consists of the following:

	2008	2007
Advance deposits for future events	$ 99,459	$ 122,995
Gift certificates	55,184	51,430
Deferred lease revenue	14,318	13,806
Total	$ 168,961	$ 188,231

I. Minimum Future Rents Receivable

On October 1, 1981, the Authority entered into a 30-year lease agreement with the Duluth Curling Club, Inc., to occupy a portion of the Pioneer Hall Clubrooms for a rental rate of $1.14 per square foot per year, and the Pioneer Hall Annex Ice Arena for a rental rate of $1.12 per square foot per six-month period. The rental rate increases or decreases annually by 65 percent of the change in the Consumer Price Index from July 1 to June 30 each year.

On August 15, 2002, the Authority entered into a nine-year lease with the Duluth Curling Club, Inc., to occupy additional locker room space, formerly occupied by the Duluth Chamber of Commerce, for $7.80 per square foot annually. The rental rate increases or decreases annually by the percent change in the Consumer Price Index, not to exceed five percent in any one year.

On January 9, 2001, the Authority entered into an amended lease agreement with Duluth Superior Excursions for six years with two five-year options to renew. This agreement is for the lease of space and facilities. Rent is adjusted annually based on the percentage increase in the Consumer Price Index. In 2008, rent was $52,623.

2. Detailed Notes

I. Minimum Future Rents Receivable (Continued)

On March 20, 2001, the Authority entered into a lease agreement with the University of Minnesota for nine years to rent space and facilities for the men's and women's hockey programs. The annual rent ranges from $224,646 in year one of the agreement to $290,146 in year nine.

On April 13, 2004, the Authority entered into a lease agreement with Cinema Entertainment Corporation (CEC) for 20 years with two five-year options to renew. This agreement is for the lease of property on which CEC constructed a theater. The annual rent of $175,000 will be increased by 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.

Minimum future rents on non-cancelable leases are:

2009	$ 457,004
2010	318,170
2011	324,533
2012	255,833
2013	201,020
After 2013	2,631,793
Total	$ 4,188,353

J. 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. The lease agreement runs for 15 years, with interest at 5.25 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, 2008, the locker room improvements are valued at $1,534,313, with accumulated depreciation of $537,009.

2. Detailed Notes

J. Leases Payable (Continued)

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

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

Year	Interest	Principal
2009	$ 46,839	$ 108,161
2010	41,086	113,914
2011	35,028	119,972
2012	28,646	126,354
2013	21,926	133,074
2014 - 2016	23,018	317,395
Total	$ 196,543	$ 918,870

K. Long-Term Debt

Outstanding bonds consist of $6,970,000 General Obligation Refunding Revenue Bonds issued April 1, 2001, interest rates at 3.5 percent to 4.2 percent, interest payable June 1 and December 1.

The annual debt service requirements to maturity of the General Obligation Refunding Revenue Bonds as of December 31, 2008, are:

Year	Interest	Principal	Total
2009	$ 91,475	$ 710,000	$ 801,475
2010	63,075	740,000	803,075
2011	32,550	775,000	807,550
Total	$ 187,100	$ 2,225,000	$ 2,412,100

2. Detailed Notes

K. Long-Term Debt (Continued)

The following is a schedule of long-term liability activity of the Duluth Entertainment and Convention Center Authority for the years ended December 31, 2008 and 2007.

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008	Due Within One Year
General obligation refunding revenue bonds	$ 2,910,000	$ -	$ 685,000	$ 2,225,000	$ 710,000
Capital leases payable	1,864,569	-	945,699	918,870	108,161
Compensated absences payable	158,725	131,786	113,195	177,316	106,661
Total	$ 4,933,294	$ 131,786	$ 1,743,894	$ 3,321,186	$ 924,822

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007	Due Within One Year
General obligation refunding revenue bonds	$ 3,565,000	$ -	$ 655,000	$ 2,910,000	$ 685,000
Capital leases payable	1,157,090	843,000	135,521	1,864,569	102,699
Compensated absences payable	171,809	120,152	133,236	158,725	91,439
Total	$ 4,893,899	$ 963,152	$ 923,757	$ 4,933,294	$ 879,138

L. Contract Commitments

In 2008, the Authority began design and construction work on a new arena and parking ramp project. As of December 31, 2008, the Authority had the following contract commitments with respect to this project:

Arena - design	$ 2,162,280
Ramp - design	69,651
Ramp - materials testing	36,255
Ramp - construction	5,075,539
Construction management	191,411
Total Contract Commitments	$ 7,535,136

2. Detailed Notes (Continued)

M. Pledge Agreement with City of Duluth

The Authority is in the process of building a new arena and parking ramp. The total project is expected to cost $78,285,000 and will be 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, which 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 2008 and 2007

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 fiscal years ended December 31, 2008 and 2007, follows:

	2008		
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues	$ 7,733,375	$ 7,998,833	$ 265,458
Operating Expenses	9,371,306	9,520,810	(149,504)
Operating Income (Loss)	$ (1,637,931)	$ (1,521,977)	$ 115,954
Nonoperating Revenues (Expenses)	678,555	710,452	31,897
Income (Loss) Before Contributions	$ (959,376)	$ (811,525)	$ 147,851
Capital contributions	-	5,620,786	5,620,786
Change in Net Assets	$ (959,376)	$ 4,809,261	$ 5,768,637

2. Detailed Notes

N. Budget to Actual for 2008 and 2007 (Continued)

	2007		
	Budget	Restated Actual	Favorable (Unfavorable)
Operating Revenues	$ 7,528,645	$ 7,264,518	$ (264,127)
Operating Expenses	9,160,449	8,977,734	182,715
Operating Income (Loss)	$ (1,631,804)	$ (1,713,216)	$ (81,412)
Nonoperating Revenues (Expenses)	593,885	654,800	60,915
Income (Loss) Before Contributions	$ (1,037,919)	$ (1,058,416)	$ (20,497)
Capital contributions	-	766,964	766,964
Change in Net Assets	$ (1,037,919)	$ (291,452)	$ 746,467

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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)

SCHEDULE OF FUNDING PROGRESS
OTHER POSTEMPLOYMENT BENEFIT PLAN
DECEMBER 31, 2008

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%

<u>Notes to Schedule of Funding Progress</u>

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.

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Management and Compliance Section

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

A. INTERNAL CONTROL

ITEM ARISING THIS YEAR

08-1 Audit Adjustments

A control deficiency 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 misstatements of the financial statements on a timely basis. Statement on Auditing Standards No. 112 states that one control deficiency that shall be regarded as at least a significant deficiency is identification by the auditor of a material misstatement in the financial statements that was not initially identified by the entity's internal controls, even if management subsequently corrects the misstatement.

During our audit, we identified two adjustments that were material to the Duluth Entertainment and Convention Center Authority's financial statements. An audit adjustment was made to record a construction contract payable at year-end, and a prior period adjustment was made to correct the accumulated depreciation accounts for errors detected in the Authority's capital asset depreciation schedules.

We recommend that Authority Finance Department staff review the depreciation schedules to determine that capital assets are not depreciated beyond their initial cost. Also, construction contract invoices should be reviewed at year-end to determine that all contracts payable and the related retainages payable have been properly accrued.

Client's Response:

The Finance Director has reviewed the formulas in the depreciation schedules to prevent assets from being over-depreciated in the future. The Finance Director will review all year-end construction invoices to ensure they are accrued to the proper year.

PREVIOUSLY REPORTED ITEM RESOLVED

Journal Entries (07-1)

The journal entries made on the general ledger system by the Finance Director were not reviewed and approved by anyone else.

Resolution

The Authority established a procedure which requires the Executive Director to review and approve the journal entries made by the Finance Director. The Finance Director reviews and approves journal entries made by the General Ledger Accountant. This approval is documented by signature on a copy of the journal entry made. Supporting documentation and explanations as to the purpose of the journal entry are attached.

B. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

Meals (99-1)

In prior audits, we noted instances where the Authority paid for meals for meetings between staff members only with no outside parties present. This was contrary to Minnesota Attorney General Opinion 63a-2, May 6, 1965, which held that there exists no public purpose for a public unit to pay lunch expenses when its employees meet over a lunch hour. In prior audits, we also noted instances where liquor was reimbursed as part of the meal and instances where the meal charges were not properly itemized, so we were unable to determine the nature of the charges.

Resolution

On January 29, 2008, the Authority Board of Directors adopted a DECC Employee Meal Policy which prohibits reimbursement of meals when only employees are present. At the October 30, 2007, Board meeting, a motion was passed stating the liquor expenses will not be reimbursed by the Authority. During our current year audit, we did not note any staff on staff meals or liquor reimbursements after the date of those actions. Also, all meal charges we reviewed were properly itemized.

Prompt Payment of Invoices (07-2)

During our prior audit, 6 of 40 vouchers we tested were not paid within the 35-day time period required by Minn. Stat. § 471.425.

Resolution

All of the vouchers we tested in our current audit were paid according to the requirements of Minn. Stat. § 471.425.

Withholding Affidavit for Contractors - IC134 (07-3)

Minn. Stat. § 270C.66 requires the Authority to obtain certification by the Commissioner of Revenue that each contractor or subcontractor has withheld Minnesota taxes pursuant to law (either a certified Form IC134, "Withholding Affidavit for Contractors;" or a confirmation page from the Department of Revenue, if the contractor withholding affidavit is submitted electronically). Last year, the Authority did not obtain a certificate from Commercial Refrigeration before making final settlement on the contract for the ice floor replacement.

Resolution

There were no contracts during the current audit which required the Authority to obtain a Withholding Affidavit for Contractors form.

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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*

Mayor and City Council
City of Duluth

Duluth Entertainment and Convention Center
Authority Board

We have audited the basic 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, 2008, and have issued our report thereon dated May 27, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Duluth Entertainment and Convention Center Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, the Duluth Entertainment and Convention Center Authority complied with the material terms and conditions of applicable legal provisions.

The Duluth Entertainment and Convention Center Authority's written response to the significant deficiency identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Authority's response and accordingly, we express no opinion on it.

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

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

May 27, 2009