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, 2010 AND 2009

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, 2010 and 2009

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)

TABLE OF CONTENTS

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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, 2010

	Term Expires
Directors	
John Arnold	June 30, 2012
Mark Emmel	June 30, 2012
Gregory Fox	January 3, 2011
Jim Laumeyer	June 30, 2013
Darlene Marshall	June 30, 2013
David McMillan	January 3, 2011
Debra Messer	January 3, 2011
Nick Patronas	June 30, 2012
David Ross	January 3, 2011
Marsha Signorelli	December 31, 2010
Yvonne Prettner Solon	June 30, 2011
Officers	
President	
Mark Emmel	June 30, 2012
Vice President	
Debra Messer	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, 2010 and 2009, 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, 2010 and 2009, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated May 12, 2011, 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 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 12, 2011

MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(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, 2010. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- In 2010, total net assets increased $35.4 million, or 49.9 percent, over the course of the year's operations.

- Total operating revenue increased $0.6 million, or 8.3 percent, in 2010 compared to last year.

- Total operating expenses in 2010 increased by $0.8 million, or 8.6 percent, compared to 2009.

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 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 Assets
(000s)

	2010	2009	2008	Dollar Change Increase (Decrease) 2009 to 2010	Dollar Change Increase (Decrease) 2008 to 2009
Assets					
Current and other assets	$ 7,848	$ 7,174	$ 4,134	$ 674	$ 3,040
Capital assets	106,126	72,918	42,164	33,208	30,754
Total Assets	$ 113,974	$ 80,092	$ 46,298	$ 33,882	$ 33,794
Liabilities					
Current liabilities	$ 6,500	$ 7,305	$ 3,996	$ (805)	$ 3,309
Long-term liabilities	1,188	1,865	2,479	(677)	(614)
Total Liabilities	$ 7,688	$ 9,170	$ 6,475	$ (1,482)	$ 2,695
Net Assets					
Invested in capital assets	$ 104,654	$ 70,759	$ 39,275	$ 33,895	$ 31,484
Restricted	87	87	86		1
Unrestricted	1,545	76	462	1,469	(386)
Total Net Assets	$ 106,286	$ 70,922	$ 39,823	$ 35,364	$ 31,099

In 2010, net assets increased $35.4 million to $106.3 million, up from $70.9 million in 2009. The increase in net assets was due to capital contributions. In 2009, net assets increased $31.1 million to $70.9 million, up from $39.8 million in 2008. The 2009 increase in net assets was also due to capital contributions.

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

	2010	2009	2008	Dollar Change Increase (Decrease) 2009 to 2010	Dollar Change Increase (Decrease) 2008 to 2009
Operating revenues	$ 7,242	$ 6,684	$ 7,999	$ 558	$ (1,315)
Nonoperating revenues	3,070	975	1,016	2,095	(41)
Total Revenues	$ 10,312	$ 7,659	$ 9,015	$ 2,653	$ (1,356)
Operating expenses	$ 9,847	$ 9,070	$ 9,521	$ 777	$ (451)
Interest expense	187	222	303	(35)	(81)
Amortization of bond issuance costs	2	2	3	-	(1)
Loss on sale of assets	-	1,697	-	(1,697)	1,697
Total Expenses	$ 10,036	$ 10,991	$ 9,827	$ (955)	$ 1,164
Excess of Revenues Over (Under) Expenses	$ 276	$ (3,332)	$ (812)	$ 3,608	$ (2,520)
Capital contributions	35,088	34,431	5,621	657	28,810
Change in Net Assets	$ 35,364	$ 31,099	$ 4,809	$ 4,265	$ 26,290
Net Assets - January 1	70,922	39,823	35,014	31,099	4,809
Net Assets - December 31	$ 106,286	$ 70,922	$ 39,823	$ 35,364	$ 31,099

Comparison with Budget
(000s)

	2010 Actual	2010 Budget	Variance with Budget	Percent Change (%)
Operating revenues	$ 7,242	$ 6,978	$ 264	3.8
Nonoperating revenues	3,070	921	2,149	233.3
Total Revenues	$ 10,312	$ 7,899	$ 2,413	30.6
Operating expenses	$ 9,847	$ 10,339	$ 492	(4.8)
Interest expense	187	187	-	-
Amortization of bond issuance costs	2	2	-	-
Total Expenses	$ 10,036	$ 10,528	$ 492	(4.7)
Excess of Revenues Over (Under) Expenses	$ 276	$ (2,629)	$ 2,905	110.5
Capital contributions	35,088	-	35,088	100.0
Change in Net Assets	$ 35,364	$ (2,629)	$ 37,993	144.5
Net Assets - January 1	70,922	70,922	-	-
Net Assets - December 31	$ 106,286	$ 68,293	$ 37,993	55.6

Revenues

The Authority's operating revenues increased $557,000 to $7.2 million in 2010 due to an increase in self-promoted concerts leading to an increase in ticket office revenue. In addition, liquor sales were up 28 percent over last year due to concerts and new arena grand opening events. Nonoperating revenues were up $2,096,000 compared to last year due to naming rights revenue for AMSOIL arena.

Expenses

The Authority's operating expenses increased $777,000 to $9.8 million in 2010 due to an increase in ticket office for self-promoted concert expenses as well as increased utilities and janitorial/catering supplies to prepare for the new arena opening.

Budgetary Highlights

Operating revenues were over budget by $264,000 in 2010 due mainly to self-promoted concert ticket sales. Operating expenses were $492,000 under budget in 2010 mainly due to depreciation expense being budgeted too high. This was offset by over budget ticket office expenses for self-promoted concerts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital Assets
(000s)

	2010	2009	Dollar Change	Percent Change (%)
Land	$ 906	$ 906	$ -	-
Land improvements	303	303	-	-
Buildings and structures	132,231	67,153	65,078	96.9
Equipment	9,498	8,289	1,209	14.6
Work in progress	23	31,252	(31,229)	(99.9)
Subtotal	$ 142,961	$ 107,903	$ 35,058	32.5
Less: accumulated depreciation	(36,835)	(34,985)	(1,850)	5.3
Net Capital Assets	$ 106,126	$ 72,918	$ 33,208	45.5

By the end of 2010, the Authority had invested $143.0 million in capital assets. The increase in buildings and structures is mainly due to completion of AMSOIL arena expansion which opened in December 2010. For more information, see Note 2.C. to the financial statements.

Debt Administration

Debt
(000s)

		2010		2009		Dollar Change	Percent Change (%)
Locker room lease	$	697	$	811	$	(114)	(14.1)
Omnimax bonds		775		1,515		(740)	(48.8)
Total Debt	$	1,472	$	2,326	$	(854)	(36.7)

As of December 31, 2010, the Authority's outstanding debt decreased $0.9 million, or 36.7 percent, compared to December 31, 2009. 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 2011. Convention business should be about the same in 2011 compared to 2010; however, the new arena should bring additional shows and expanded events. Overall, a slight increase in revenue is projected for 2011 compared to 2010 mainly due to an increase in new arena concessions and in parking due to a planned mid-year daily parking rate increase. Rent and building services prices for 2011 were established in 2007 and included a minimal increase for some goods and services. New catering prices will be in effect in January 2011, and some concessions prices were increased in October 2010. Operating expenses in 2011 are projected to increase due to the new arena and increased business. Cost increases are budgeted for payroll, utilities, food, and building services.

In the spring of 2011, the Duluth Omnimax Theatre is scheduled to close. The 2011 budget reflects no sales and minimal expenses (cleaning, insurance) after the estimated April close date.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2010 AND 2009

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 2,546,480	$ 733,123
Accounts receivable	113,103	214,134
Due from City of Duluth	119,492	100,977
Inventory	158,121	117,826
Prepaid items	18,706	27,955
Total current assets	**$ 2,955,902**	**$ 1,194,015**
Restricted current assets		
Assets restricted for customers' deposits		
Cash and cash equivalents	$ 609,039	$ 338,542
Accounts receivable	31,648	9,149
Assets restricted for employee flexible benefits		
Cash and cash equivalents	3,028	1,708
Assets restricted for construction		
Due from City of Duluth	2,118,408	2,821,221
Due from State of Minnesota	2,042,675	2,720,481
Total restricted current assets	**$ 4,804,798**	**$ 5,891,101**
Total current assets	**$ 7,760,700**	**$ 7,085,116**
Noncurrent assets		
Restricted debt service - assets held by trustee		
Lease financing escrow account	$ 86,681	$ 86,495
Bond issuance costs	725	2,256
Total noncurrent assets, other than capital assets	**$ 87,406**	**$ 88,751**
Capital assets		
Not depreciated	$ 928,945	$ 32,158,335
Depreciated	142,031,771	75,745,335
Less: allowance for depreciation	(36,835,070)	(34,985,303)
Total capital assets - net of accumulated depreciation	**$ 106,125,646**	**$ 72,918,367**
Total noncurrent assets	**$ 106,213,052**	**$ 73,007,118**
Total Assets	**$ 113,973,752**	**$ 80,092,234**

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

EXHIBIT 1
(Continued)

COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2010 AND 2009

		2010		2009
Liabilities				
Current liabilities				
Accounts payable	$	471,995	$	186,736
Salaries payable		120,716		70,370
Compensated absences payable - current		115,611		110,047
Due to City of Duluth		-		25,000
Accrued interest payable		14,906		19,444
Deferred revenue		298,491		184,503
General obligation revenue bonds payable - current		775,000		740,000
Less: unamortized discount		(759)		-
Less: deferred amount on refunding		(78,557)		-
Capital leases payable - current		119,972		113,914
Total current liabilities	**$**	**1,837,375**	**$**	**1,450,014**
Current liabilities payable from restricted assets				
Customer deposits	$	640,687	$	347,691
Employee flexible benefits plan payable		3,028		1,708
Contracts payable		4,019,166		5,505,699
Total current liabilities payable from restricted assets	**$**	**4,662,881**	**$**	**5,855,098**
Total current liabilities	**$**	**6,500,256**	**$**	**7,305,112**
Noncurrent liabilities				
Compensated absences payable - long-term	$	77,194	$	74,944
General obligation revenue bonds payable - long-term		-		775,000
Less: unamortized discount		-		(2,302)
Less: deferred amount on refunding		-		(164,309)
Capital leases payable - long-term		576,823		696,795
Net other postemployment benefits liability		533,889		485,112
Total noncurrent liabilities	**$**	**1,187,906**	**$**	**1,865,240**
Total Liabilities	**$**	**7,688,162**	**$**	**9,170,352**
Net Assets				
Invested in capital assets - net of related debt	$	104,653,851	$	70,759,269
Restricted for debt service		86,681		86,495
Unrestricted		1,545,058		76,118
Total Net Assets	**$**	**106,285,590**	**$**	**70,921,882**

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

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

EXHIBIT 2

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating Revenues		
Sales	$ 2,878,822	$ 2,688,511
Charges for services	4,121,987	3,757,377
Miscellaneous	240,960	238,567
Total Operating Revenues	**$ 7,241,769**	**$ 6,684,455**
Operating Expenses		
Personal services	$ 4,170,630	$ 4,106,878
Supplies and services	1,358,576	1,284,098
Utilities	896,855	807,640
Other services and charges	1,477,342	1,001,737
Depreciation	1,943,917	1,869,031
Total Operating Expenses	**$ 9,847,320**	**$ 9,069,384**
Operating Income (Loss)	**$ (2,605,551)**	**$ (2,384,929)**
Nonoperating Revenues (Expenses)		
Interest income	$ 20,063	$ 11,199
Hotel/motel tax revenue	1,050,022	963,617
Naming rights revenue	2,000,000	-
Interest expense	(186,919)	(222,108)
Amortization of bond issuance costs	(1,531)	(2,278)
Loss on sale of capital assets	-	(1,697,162)
Total Nonoperating Revenues (Expenses)	**$ 2,881,635**	**$ (946,732)**
Income (Loss) Before Contributions	**$ 276,084**	**$ (3,331,661)**
Capital Contributions		
Capital contributions from City of Duluth	$ 17,863,184	$ 17,527,245
Capital contributions from State of Minnesota	17,224,440	16,903,610
Total Capital Contributions	**$ 35,087,624**	**$ 34,430,855**
Change in Net Assets	$ **35,363,708**	$ **31,099,194**
Net Assets - January 1	**70,921,882**	**39,822,688**
Net Assets - December 31	**$ 106,285,590**	**$ 70,921,882**

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

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

EXHIBIT 3

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities		
Cash received from customers	$ 7,486,325	$ 6,825,579
Payments to suppliers	(3,503,561)	(3,118,461)
Payments to employees	(4,062,373)	(3,947,443)
Other operating revenues	240,960	238,567
Net cash provided by (used in) operating activities	**$ 161,351**	**$ (1,758)**
Cash Flows from Noncapital Financing Activities		
City of Duluth hotel/motel taxes	**$ 1,031,507**	**$ 973,590**
Cash Flows from Capital and Related Financing Activities		
Proceeds from the sale of capital assets	$ -	$ 105,120
Cash received from City of Duluth for capital improvements	18,565,997	12,911,108
Cash received from State of Minnesota for capital improvements	17,902,246	16,517,690
Payment received for naming rights	2,000,000	-
Principal paid on lease purchases	(113,914)	(108,161)
Interest paid on lease purchases	(41,086)	(46,839)
Principal paid on bonds payable	(740,000)	(710,000)
Interest paid on bonds payable	(63,075)	(91,475)
Acquisition or construction of capital assets	(36,637,729)	(29,458,350)
Net cash provided by (used in) capital and related financing activities	**$ 872,439**	**$ (880,907)**
Cash Flows from Investing Activities		
Interest on investments	**$ 19,877**	**$ 10,949**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 2,085,174**	**$ 101,874**
Cash and Cash Equivalents - January 1	**1,073,373**	**971,499**
Cash and Cash Equivalents - December 31	**$ 3,158,547**	**$ 1,073,373**

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

EXHIBIT 3
(Continued)

COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	**$ (2,605,551)**	**$ (2,384,929)**
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,943,917	1,869,031
(Increase) decrease in accounts receivable	78,532	247,068
(Increase) decrease in inventories	(40,295)	19,061
(Increase) decrease in prepaid items	9,249	(8,836)
Increase (decrease) in payables	367,195	124,171
Increase (decrease) in deferred revenue	113,988	15,542
Increase (decrease) in employee flexible benefits plan deposits	1,320	53
Increase (decrease) in customer deposits	292,996	117,081
Net Cash Provided by (Used in) Operating Activities	**$ 161,351**	**$ (1,758)**
Noncash Investing, Capital, and Financing Activities		
Interest earned on the debt service reserve account	$ 186	$ 250
Capital assets acquired which had not been paid for at year-end. The unpaid amount is shown as contracts payable.	4,019,166	5,505,699

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 value at the date of donation.

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

Net interest costs on funds borrowed to finance construction of capital assets in proprietary funds are capitalized during the construction period and amortized over the life of the related asset.

H. Depreciation

Depreciation of capital assets is determined using the straight-line method. The estimated useful lives of the assets are 40 years for buildings and structures, 20 years for improvements, and 3 to 20 years for equipment.

I. Restricted Assets

Restricted assets consist of promoter-escrowed funds, the employee flexible benefits plan account, construction funds, and assets held by a trustee. Promoter-escrowed funds consist of cash and receivables escrowed on behalf of various promoters related to advance ticket sales for upcoming events. The employee flexible spending plan account consists of amounts withheld from employees pursuant to Internal Revenue Service regulations designated for reimbursement to employees for specific plan expenses. Restricted construction funds consist of receivables from the State of Minnesota and the City of Duluth for construction of the new arena. Assets held by the trustee consist of cash held pursuant to a reserve requirement of a lease agreement as described in Note 2.K.

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

1. Summary of Significant Accounting Policies (Continued)

J. Deferred Revenue

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

K. Operating Revenues

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

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Trade-Offs

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

2. Detailed Notes

A. Deposits and Investments

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

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

Additional disclosures required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* are disclosed on an entity-wide basis in the City of Duluth's Comprehensive Annual Financial Report. The Authority is a component unit of the City of Duluth.

The following is a summary of the Authority's cash and investments at December 31, 2010 and 2009:

	2010	2009
Current assets		
City of Duluth pooled cash account	$ 191,608	$ 281,146
Checking account - ticket office	7,000	7,000
Checking account - employee flexible benefits plan	7,372	7,372
Savings account - operating reserve	2,300,000	400,000
Petty cash and change funds	40,500	37,605
Total current assets	$ 2,546,480	$ 733,123
Restricted current assets		
Ticket office customer deposits - checking	$ 532,041	$ 316,610
Ticket office customer deposits - savings	63,098	13,032
Ticket office change fund	13,900	8,900
Employee flexible benefits plan - checking	3,028	1,708
Total restricted current assets	$ 612,067	$ 340,250
Restricted noncurrent assets		
Lease reserve - savings escrow	$ 86,681	$ 86,495
Total	$ 3,245,228	$ 1,159,868

2. Detailed Notes (Continued)

B. Due From City of Duluth

Amounts due from the City of Duluth at December 31, 2010 and 2009, are as follows:

	2010	2009
Current		
Hotel/motel tax	$ 119,492	$ 100,977
Restricted current		
Construction	$ 2,118,408	$ 2,821,221

C. Capital Assets

A summary of the changes in the capital asset accounts for the years ended December 31, 2010 and 2009, follows:

	Balance January 1, 2010	Increase	Decrease	Reclassification	Balance December 31, 2010
Capital assets not depreciated					
Land	$ 905,601	$ -	$ -	$ -	$ 905,601
Construction in progress	31,252,734	35,025,009	-	(66,254,399)	23,344
Total capital assets not depreciated	$ 32,158,335	$ 35,025,009	$ -	$ (66,254,399)	$ 928,945
Capital assets depreciated					
Land improvements	$ 302,957	$ -	$ -	$ -	$ 302,957
Buildings	67,152,861	75,541	-	65,002,637	132,231,039
Equipment	8,289,517	50,646	94,150	1,251,762	9,497,775
Total capital assets depreciated	$ 75,745,335	$ 126,187	$ 94,150	$ 66,254,399	$ 142,031,771
Less: accumulated depreciation for					
Land improvements	$ 302,957	$ -	$ -	$ -	$ 302,957
Buildings	28,713,961	1,689,298	-	-	30,403,259
Equipment	5,968,385	254,619	94,150	-	6,128,854
Total accumulated depreciation	$ 34,985,303	$ 1,943,917	$ 94,150	$ -	$ 36,835,070
Total capital assets depreciated, net	$ 40,760,032	$ (1,817,730)	$ -	$ 66,254,399	$ 105,196,701
Capital Assets, Net	$ 72,918,367	$ 33,207,279	$ -	$ -	$ 106,125,646

2. Detailed Notes

C. Capital Assets (Continued)

	Balance January 1, 2009	Increase	Decrease	Reclassification	Balance December 31, 2009
Capital assets not depreciated					
Land	$ 905,601	$ -	$ -	$ -	$ 905,601
Construction in progress	4,872,675	33,681,226	-	(7,301,167)	31,252,734
Total capital assets not depreciated	$ 5,778,276	$ 33,681,226	$ -	$ (7,301,167)	$ 32,158,335
Capital assets depreciated					
Land improvements	$ 302,957	$ -	$ -	$ -	$ 302,957
Buildings	62,065,457	424,716	2,536,373	7,199,061	67,152,861
Equipment	8,031,989	320,225	164,803	102,106	8,289,517
Total capital assets depreciated	$ 70,400,403	$ 744,941	$ 2,701,176	$ 7,301,167	$ 75,745,335
Less: accumulated depreciation for					
Land improvements	$ 302,957	$ -	$ -	$ -	$ 302,957
Buildings	27,842,110	1,632,638	760,787	-	28,713,961
Equipment	5,870,100	236,393	138,108	-	5,968,385
Total accumulated depreciation	$ 34,015,167	$ 1,869,031	$ 898,895	$ -	$ 34,985,303
Total capital assets depreciated, net	$ 36,385,236	$ (1,124,090)	$ 1,802,281	$ 7,301,167	$ 40,760,032
Capital Assets, Net	$ 42,163,512	$ 32,557,136	$ 1,802,281	$ -	$ 72,918,367

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.

2. Detailed Notes (Continued)

E. Pension Plans

1. Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan. 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 (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years 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 General 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 members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

2. Detailed Notes

E. Pension Plans

1. Plan Description (Continued)

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

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

2. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Duluth Entertainment and Convention Center Authority makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Coordinated Plan members are required to contribute 6.0 percent of their annual covered salary.

The Duluth Entertainment and Convention Center Authority is required to contribute the following percentages of annual covered payroll in 2010:

General Employees Retirement Fund Coordinated Plan members	7.00%

The Authority's contributions for the years ending December 31, 2010, 2009, and 2008, for the General Employees Retirement Fund were:

2010	2009	2008
$ 190,626	$ 174,749	$ 165,886

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

2. Detailed Notes (Continued)

F. Postemployment Benefits

1. Plan Description and Funding Policy

The Authority provides health insurance benefits for certain retired employees under a single-employer self-insured plan. Employees who retired between January 1, 1983, and January 1, 1995, and employees who were full-time employees prior to January 1, 1995, and retire from the Authority at or after age 62 with at least ten years of full-time service, are eligible to receive hospital/medical benefits to the same extent as active employees for the life of the retiree or surviving spouse. The Authority will pay 80 percent of the premium for these qualifying retirees. The benefits are provided through the City of Duluth's 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 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, 2010, 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. Detailed Notes

F. Postemployment Benefits (Continued)

2. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$ 158,130
Interest on net OPEB obligation	21,830
Adjustment to ARC	(28,499)
Annual OPEB cost	$ 151,461
Contributions during the year	(102,684)
Increase in net OPEB obligation	$ 48,777
Net OPEB, Beginning of Year	485,112
Net OPEB, End of Year	$ 533,889

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 year ended December 31, 2010, 2009, and 2008, were as follows:

	2010	2009	2008
Percentage of annual OPEB cost contributed	67.80%	45.49%	41.91%
Annual OPEB cost	$ 151,461	$ 270,893	$ 276,532
Employer contributions	(102,684)	(123,232)	(115,906)
Net Increase in Net OPEB Obligation	$ 48,777	$ 147,661	$ 160,626
Net OPEB obligation, Beginning of Year	485,112	337,451	176,825
Net OPEB obligation, End of Year	$ 533,889	$ 485,112	$ 337,451

2. Detailed Notes

F. Postemployment Benefits (Continued)

3. Funded Status and Funding Progress

The actuarial accrued liability for benefits at June 1, 2010, the most recent actuarial valuation date, is $2,298,091. 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 $1,584,550. The ratio of the unfunded actuarially accrued liabilities to covered payroll is 145.03 percent.

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

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

In the June 1, 2010, 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.

2. Detailed Notes (Continued)

G. Compensated Absences

Full-time employees are granted from 10 to 25 days of vacation time per year depending on their years of service. Vacation earned during one year must be taken within the following year. The Executive Director is allowed to carry forward up to 50 days of vacation. Upon termination of employment, employees are compensated for the full value of all unused vacation pay. Part-time employees who work more than 1,000 hours in a calendar year will receive a personal day off (8 hours) for each 100 hours worked in excess of 1,000 hours. Unused vacation and personal leave earned as of December 31, 2010 and 2009, is estimated to be $115,611 and $110,047, 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 $77,194 and $74,944 as of December 31, 2010 and 2009, respectively. Sick leave is earned at the rate of 1.5 days per month for full-time personnel. No more than 150 days may be carried at any time. Employees are not compensated for unused sick leave upon termination of employment.

The contingent liability for sick leave at December 31, 2010 and 2009, was estimated to be $591,146 and $614,792, respectively, and is not recognized as a liability in the financial statements.

H. Deferred Revenue

Deferred revenue consists of the following:

	2010	2009
Advance deposits for future events	$ 130,874	$ 122,204
Gift certificates	63,867	56,547
Deferred lease revenue	103,750	5,752
Total	$ 298,491	$ 184,503

2. Detailed Notes (Continued)

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 2010, rent was $54,339.

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.

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.

2. Detailed Notes

I. Minimum Future Rents Receivable (Continued)

Minimum future rents on non-cancelable leases are:

Year	
2011	$ 789,286
2012	897,652
2013	816,176
2014	721,412
2015	743,055
After 2015	14,932,237
Total	$ 18,899,818

J. Naming Rights Agreement

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

Minimum future rents on this agreement are:

Year	
2011	$ 200,000
2012	200,000
2013	200,000
2014	200,000
2015	200,000
After 2015	3,000,000
Total	$ 4,000,000

2. Detailed Notes (Continued)

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. 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, 2010, the locker room improvements are valued at $1,534,313, with accumulated depreciation of $690,441.

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
2011	$ 35,028	$ 119,972
2012	28,646	126,354
2013	21,926	133,074
2014	14,848	140,152
2015	7,393	147,607
2016	777	29,636
Total	$ 108,618	$ 696,795

L. 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 debt service requirements to maturity of the General Obligation Refunding Revenue Bonds as of December 31, 2010, will be paid in 2011:

Interest	$ 32,550
Principal	775,000
Total	$ 807,550

2. Detailed Notes

L. 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, 2010 and 2009.

	Balance January 1, 2010	Additions	Reductions	Balance December 31, 2010	Due Within One Year
General obligation refunding revenue bonds	$ 1,515,000	$ -	$ 740,000	$ 775,000	$ 775,000
Capital leases payable	810,709	-	113,914	696,795	119,972
Compensated absences payable	184,991	142,486	134,672	192,805	115,611
Total	$ 2,510,700	$ 142,486	$ 988,586	$ 1,664,600	$ 1,010,583

	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009	Due Within One Year
General obligation refunding revenue bonds	$ 2,225,000	$ -	$ 710,000	$ 1,515,000	$ 740,000
Capital leases payable	918,870	-	108,161	810,709	113,914
Compensated absences payable	177,316	135,628	127,953	184,991	110,047
Total	$ 3,321,186	$ 135,628	$ 946,114	$ 2,510,700	$ 963,961

M. Contract Commitments

The Authority has completed construction of a new arena and is continuing construction on other building improvements. As of December 31, 2010, the Authority had the following contract commitments with respect to these projects:

Arena - Construction	$ 2,609,662
City Side Convention Center Ballroom remodel - Construction	149,378
Business Office Upgrades - Design	22,640
Total Contract Commitments	$ 2,781,680

2. Detailed Notes (Continued)

N. Pledge Agreement with City of Duluth

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

The Authority entered into a pledge agreement with the City of Duluth dated August 7, 2008, 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.

O. Budget to Actual for 2010 and 2009

The Duluth Entertainment and Convention Center Authority adopts a budget to be approved by the Duluth City Council. A summary of the operating budgets for the years ended December 31, 2010 and 2009, follows.

	2010		
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues	$ 6,978,370	$ 7,241,769	$ 263,399
Operating Expenses	10,339,485	9,847,320	492,165
Operating Income (Loss)	$ (3,361,115)	$ (2,605,551)	$ 755,564
Nonoperating Revenues (Expenses)	731,839	2,881,635	2,149,796
Income (Loss) Before Contributions	$ (2,629,276)	$ 276,084	$ 2,905,360
Capital contributions	-	35,087,624	35,087,624
Change in Net Assets	$ (2,629,276)	$ 35,363,708	$ 37,992,984

2. Detailed Notes

O. Budget to Actual for 2010 and 2009 (Continued)

	2009		
	Budget	Actual	Favorable (Unfavorable)
Operating Revenues	$ 7,493,368	$ 6,684,455	$ (808,913)
Operating Expenses	9,669,010	9,069,384	599,626
Operating Income (Loss)	$ (2,175,642)	$ (2,384,929)	$ (209,287)
Nonoperating Revenues (Expenses)	794,213	(946,732)	(1,740,945)
Income (Loss) Before Contributions	$ (1,381,429)	$ (3,331,661)	$ (1,950,232)
Capital contributions	-	34,430,855	34,430,855
Change in Net Assets	$ (1,381,429)	$ 31,099,194	$ 32,480,623

P. Subsequent Event-OmniMax Theatre

In April 2011, the Duluth Omnimax Theatre operated by the Authority is scheduled to close. The Omnimax Theatre operating revenues and expenses represent approximately seven percent of the Authority's total operating revenues and expenses. A future use for the theatre has not yet been determined.

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REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT A-1

SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFITS PLAN
DECEMBER 31, 2010

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%

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

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (08-1)

During our prior 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 contracts and retainages payable, and an audit adjustment was made to record additional receivables related to the construction contracts and retainages payable.

Resolution

During the current audit, we did not identify any audit adjustments material to the Authority's financial statements.

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REBECCA OTTO
STATE AUDITOR

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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, 2010, and have issued our report thereon dated May 12, 2011. 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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 Political Subdivisions,* 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 Political Subdivisions* 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.

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 12, 2011