

# State of Minnesota



## Office of the State Auditor

Julie Blaha  
State Auditor

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### **Duluth Entertainment and Convention Center Authority (A Component Unit of the City of Duluth, Minnesota)**

Year Ended December 31, 2023

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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## **Introductory Section**

# Duluth Entertainment and Convention Center Authority Duluth, Minnesota

Organization  
December 31, 2023

	<u>Term Ending</u>
Directors	
Carli Amatuzio	June 30, 2026
Martha Bremer	July 2, 2025
Zack Filipovich	June 30, 2026
Mary Finnegan	January 2, 2026
Laura Mullen	June 30, 2026
Patrick Mullen	January 2, 2026
Bill Nelson	June 30, 2024
Shane Peterson	June 30, 2026
Tony Sertich	August 16, 2025
Peter Singler	June 30, 2026
Jason Vincent	June 30, 2024
Officers	
Chair	
Peter Singler	
Vice Chair	
Martha Bremer	
Auditor	
Josh Bailey	Indefinite
Executive Director	
Dan Hartman	Indefinite

## **Financial Section**



## Independent Auditor's Report

Mayor and City Council  
City of Duluth, Minnesota

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

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the financial statements of the Duluth Entertainment and Convention Center Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2023, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 1 to the financial statements, in 2023, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits, PERA retirement plan schedules, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2024, 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 solely 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 effectiveness of the Duluth Entertainment and Convention Center Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Duluth Entertainment and Convention Center Authority's internal control over financial reporting and compliance.

*/s/Julie Blaha*

Julie Blaha  
State Auditor

June 14, 2024

*/s/Chad Struss*

Chad Struss, CPA  
Deputy State Auditor



## **Basic Financial Statements**

**Duluth Entertainment and Convention Center Authority  
Duluth, Minnesota**

***Exhibit 1***

**Statement of Net Position  
December 31, 2023**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 1,922,319
Accounts receivable	1,175,233
Due from City of Duluth	1,247,154
Leases receivable	875,896
Inventory	188,887
Prepaid items	13,424

<b>Total current assets</b>	<b>\$ 5,422,913</b>
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**Restricted current assets**

Assets restricted for customers' deposits	
Cash and cash equivalents	\$ 1,993,276
Accounts receivable	214,377
Assets restricted for employee flexible benefits	
Cash and cash equivalents	16,916

<b>Total restricted current assets</b>	<b>\$ 2,224,569</b>
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<b>Total current assets</b>	<b>\$ 7,647,482</b>
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**Noncurrent assets**

Leases receivable	<b>\$ 8,109,441</b>
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**Capital and software subscription assets**

Not depreciable or amortizable	\$ 905,601
Depreciable and amortizable	152,321,044
Less: accumulated depreciation and amortization	(85,235,892)

<b>Total capital and subscription assets – net of accumulated depreciation and amortization</b>	<b>\$ 67,990,753</b>
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<b>Total noncurrent assets</b>	<b>\$ 76,100,194</b>
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<b>Total Assets</b>	<b>\$ 83,747,676</b>
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**Deferred Outflows of Resources**

Deferred pension outflows	\$ 2,598,190
Deferred other postemployment benefits outflows	425,406

<b>Total Deferred Outflows of Resources</b>	<b>\$ 3,023,596</b>
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**Duluth Entertainment and Convention Center Authority  
Duluth, Minnesota**

**Exhibit 1  
(Continued)**

**Statement of Net Position  
December 31, 2023**

**Liabilities**

**Current liabilities**

Accounts payable	\$ 677,303
Salaries payable	160,531
Contracts payable	51
Compensated absences payable – current	316,529
Due to other governments	43,083
Unearned revenue	1,198,572
Interest payable	1,082
Software subscription liability – current	48,278
Financed purchase payable – current	58,207

<b>Total current liabilities payable from unrestricted assets</b>	<b>\$ 2,503,636</b>
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**Current liabilities payable from restricted assets**

Customer deposits	\$ 1,818,085
Employee flexible benefits plan payable	660

<b>Total current liabilities payable from restricted assets</b>	<b>\$ 1,818,745</b>
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<b>Total current liabilities</b>	<b>\$ 4,322,381</b>
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**Noncurrent liabilities**

Software subscription liability – long-term	\$ 15,293
Financed purchase payable – long-term	576,723
Net pension liability	3,573,216
Other postemployment benefits liability	1,356,924

<b>Total noncurrent liabilities</b>	<b>\$ 5,522,156</b>
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<b>Total Liabilities</b>	<b>\$ 9,844,537</b>
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**Deferred Inflows of Resources**

Deferred leases inflows	\$ 8,469,446
Deferred pension inflows	1,457,732
Deferred other postemployment benefits inflows	493,391

<b>Total Deferred Inflows of Resources</b>	<b>\$ 10,420,569</b>
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**Net Position**

Net investment in capital assets	\$ 67,292,252
Unrestricted	(786,086)

<b>Total Net Position</b>	<b>\$ 66,506,166</b>
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**Duluth Entertainment and Convention Center Authority  
Duluth, Minnesota**

***Exhibit 2***

**Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended December 31, 2023**

<b>Operating Revenues</b>	
Sales	\$ 4,342,491
Charges for services	6,203,601
Lease revenue	1,103,654
Miscellaneous	651,032
	<hr/>
<b>Total Operating Revenues</b>	<b>\$ 12,300,778</b>
	<hr/>
<b>Operating Expenses</b>	
Personal services	\$ 7,729,524
Supplies and services	2,304,717
Utilities	1,644,176
Other services and charges	3,695,813
Depreciation and amortization	3,599,420
	<hr/>
<b>Total Operating Expenses</b>	<b>\$ 18,973,650</b>
	<hr/>
<b>Operating Income (Loss)</b>	<b>\$ (6,672,872)</b>
	<hr/>
<b>Nonoperating Revenues (Expenses)</b>	
Interest income	\$ 341,609
Hotel/motel tax revenue	2,376,551
Naming rights revenue	200,000
Interest expense	(37,754)
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 2,880,406</b>
	<hr/>
<b>Change in Net Position</b>	<b>\$ (3,792,466)</b>
	<hr/>
<b>Net Position – January 1</b>	<b>70,298,632</b>
	<hr/>
<b>Net Position – December 31</b>	<b>\$ 66,506,166</b>
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**Duluth Entertainment and Convention Center Authority  
Duluth, Minnesota**

***Exhibit 3***

**Statement of Cash Flows  
For the Year Ended December 31, 2023**

<b>Cash Flows from Operating Activities</b>	
Cash received from customers	\$ 11,301,560
Payments to suppliers	(7,711,063)
Payments to employees	(7,590,893)
Other operating revenues	<u>651,032</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ (3,349,364)</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>	
City of Duluth hotel/motel taxes	<b><u>\$ 2,252,019</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Payment received for naming rights	\$ 200,000
Proceeds from software subscription purchase	112,920
Principal paid on finance purchases	(65,070)
Interest paid on finance purchases	(34,930)
Principal paid on software subscriptions	(49,349)
Interest paid on software subscriptions	(1,742)
Acquisition or construction of capital assets	(442,054)
Lease payments received (including \$289,988 of interest)	<u>1,179,413</u>
<b>Net cash provided by (used in) capital and related financing activities</b>	<b><u>\$ 899,188</u></b>
<b>Cash Flows from Investing Activities</b>	
Interest on investments	<b><u>\$ 51,621</u></b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (146,536)</b>
<b>Cash and Cash Equivalents – January 1</b>	<b><u>4,079,047</u></b>
<b>Cash and Cash Equivalents – December 31</b>	<b><u><u>\$ 3,932,511</u></u></b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>	
Cash and cash equivalents – current assets	\$ 1,922,319
Cash and cash equivalents – restricted assets for customers' deposits	1,993,276
Cash and cash equivalents – restricted assets for employee flexible benefits	<u>16,916</u>
<b>Total Cash and Cash Equivalents</b>	<b><u><u>\$ 3,932,511</u></u></b>

**Duluth Entertainment and Convention Center Authority  
Duluth, Minnesota**

**Exhibit 3**  
**(Continued)**

**Statement of Cash Flows  
For the Year Ended December 31, 2023**

**Reconciliation of Operating Income (Loss) to Net Cash Provided by**

**(Used in) Operating Activities**

<b>Operating income (loss)</b>	<b>\$</b>	<b>(6,672,872)</b>
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**Adjustments to reconcile operating income (loss) to net cash  
provided by (used in) operating activities**

Lease revenue	(1,103,654)	
Depreciation and amortization	3,599,420	
(Increase) decrease in accounts receivable	(220,385)	
(Increase) decrease in inventory	(2,786)	
(Increase) decrease in prepaid items	6,660	
(Increase) decrease in deferred pension liability outflows	(191,784)	
(Increase) decrease in deferred other postemployment benefits outflows	(61,964)	
Increase (decrease) in accounts payable	(70,231)	
Increase (decrease) in due to other governments	(11,269)	
Increase (decrease) in salaries payable	(30,164)	
Increase (decrease) in unearned revenue	17,481	
Increase (decrease) in customer deposits	958,372	
Increase (decrease) in other postemployment benefits liability	132,261	
Increase (decrease) in compensated absences	4,526	
Increase (decrease) in deferred other postemployment benefits inflows	(21,251)	
Increase (decrease) in deferred pension liability inflows	332,835	
Increase (decrease) in net pension liability	(14,559)	

<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$</b>	<b><u>(3,349,364)</u></b>
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# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

### **Notes to the Financial Statements**

#### **As of and for the Year Ended December 31, 2023**

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#### **Note 1 – Summary of Significant Accounting Policies**

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

The accounting policies of the Authority conform with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

#### **Financial Reporting Entity**

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

As required by accounting principles generally accepted in the United States of America, 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.

#### **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.

#### **Basis of Accounting**

Accounting records are maintained using the economic resources measurement focus and the full accrual basis of accounting, under which revenues are recorded when earned and expenses are recorded when liabilities are incurred.

# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

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### **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.

### **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.

### **Accounts Receivable**

Amounts due from individuals and organizations are recorded as receivables at year-end. No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

### **Inventory of Merchandise for Resale and Prepaid Items**

Inventories are priced at the lower of cost or market value on a first-in, first-out basis and are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

### **Restricted Assets**

Restricted assets consist of promoter-escrowed funds and the employee flexible benefits plan account. 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.

### **Capital Assets**

All capital assets are valued at historical or estimated historical cost. Donated capital assets are recorded at acquisition value on 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.

The Authority's policy is to capitalize assets with a useful life of at least three years and a minimum cost of \$500.

### **Depreciation**

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



# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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subscription assets are amortized over the term of the subscription arrangement.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until that time. The Authority reports deferred outflows of resources associated with pension plans and other postemployment benefits (OPEB) in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows of resources associated with leases, pension plans, and OPEB.

### **Unearned Revenue**

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

### **Pension Plan**

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

### **Classification of Net Position**

Net position is classified in the following categories:

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

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

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

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted resources as needed.

# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

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### **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.

### **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 is debited to the appropriate expense accounts and credited to the appropriate revenue accounts.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows or resources; 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.

### **Change in Accounting Principles**

During the year ended December 31, 2023, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which establishes criteria for accounting and financial reporting for subscription-based information technology arrangements. The implementation of this statement resulted in changing the presentation of the notes to the financial statements by increasing the beginning balances of the software subscription asset and software subscription liability by \$67,185.

## **Note 2 – Detailed Notes**

### **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 Authority invests funds in the City of Duluth's investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The Authority invests in this pool for the purpose of joint investment with the City in order to enhance investment earnings. There are no redemption limitations. 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

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

on an entity-wide basis in the City of Duluth's Annual Comprehensive Financial Report. The Authority is a component unit of the City of Duluth.

The following is a summary of the Authority's cash as of December 31, 2023:

### Summary of Cash and Investments of the Duluth Entertainment and Convention Center Authority at December 31, 2023

Current cash and cash equivalents	
City of Duluth pooled cash account	\$ 360,479
Savings account – operating reserve	1,469,840
Petty cash and change funds	92,000
	<hr/>
Total current cash and cash equivalents	\$ 1,922,319
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Restricted current cash and cash equivalents	
Ticket office customer deposits – checking	\$ 1,979,276
Ticket office change fund	14,000
Employee flexible benefits plan – checking	16,916
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Total restricted current cash and cash equivalents	\$ 2,010,192
	<hr/>
Total	\$ 3,932,511
	<hr/>

## Leases Receivable

### Leases Receivable as of December 31, 2023

	Receivable	Amounts Not Scheduled for Collection During the Subsequent Year
	<hr/>	<hr/>
Leases receivable	\$ 8,985,337	\$ 8,109,441
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On January 1, 2012, the Authority entered into a lease agreement with Vista Cruises, Inc., for ten years, with two five-year options to renew. This agreement is for the lease of space and facilities. Rent is adjusted by three percent annually. As of December 31, 2023, the Authority reported leases receivable and deferred inflows of resources totaling \$683,147 and \$645,280, respectively. The lease receivable will be reduced as repayments are received. Principal and interest totaling \$53,648 and \$21,378, respectively, were received during the year ended December 31, 2023. Inflows of resources recognized during the current year consisted of lease revenue of \$71,698 and interest revenue of \$21,378.

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 two through ten and three percent each year in years 11 through 20. In May 2007, Marcus Theatre Corporation purchased the Duluth 10 theater from CEC and is now responsible for the lease. On January 1, 2012, an amended lease agreement was signed with B & G Realty, LLC, to include the OMNIMAX Theatre space in the leased premises for an additional \$36,000 per year, with an annual Consumer Price Index increase beginning January 1, 2015. In addition, the Authority agreed to reimburse B & G Realty, through lease payment deductions, \$25,000 for

## **Duluth Entertainment and Convention Center Authority**

### **Duluth, Minnesota**

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expenses related to the conversion and remodeling of said space. On April 18 and August 1, 2012, the reimbursable amount to B & G Realty was increased \$10,000 and \$11,417, respectively, for a total of \$46,417 for conversion and remodeling. As of December 31, 2023, the Authority reported leases receivable and deferred inflows of resources totaling \$269,685 and \$235,940, respectively. The lease receivable will be reduced as repayments are received. Principal and interest totaling \$305,066 and \$13,071, respectively, were received during the year ended December 31, 2023. Inflows of resources recognized during the current year consisted of lease revenue of \$314,604 and interest revenue of \$13,071.

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 may be used to repay the City of Duluth bonds, which were issued for the purpose of construction of the new arena. As of December 31, 2023, the Authority reported leases receivable and deferred inflows of resources totaling \$6,683,974 and \$6,300,285, respectively. The lease receivable will be reduced as repayments are received. Principal and interest totaling \$454,251 and \$214,147, respectively, were received during the year ended December 31, 2023. Inflows of resources recognized during the current year consisted of lease revenue of \$630,029 and interest revenue of \$214,147.

On October 1, 2015, the Authority entered into a 22-year lease agreement with the Duluth Curling Club, Inc., to occupy a portion of the Pioneer Hall Clubrooms for year-round rental at an annual rate of \$43,358, and the Pioneer Hall Annex Ice Arena for a rental rate of \$43,358, for pre-defined curling season dates. In October 2017, the rental rate increases annually by two percent for five years and then by three percent annually until the end of the lease term. As of December 31, 2023, the Authority reported leases receivable and deferred inflows of resources totaling \$1,348,531 and \$1,287,941. The lease receivable will be reduced as repayments are received. Principal and interest totaling \$56,995 and \$41,393, respectively, were received during the year ended December 31, 2023. Inflows of resources recognized during the current year consisted of lease revenue of \$87,324 and interest revenue of \$41,393.

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

### Capital Assets

A summary of the changes in the capital asset accounts for the year ended December 31, 2023, follows:

#### Changes in Capital Assets for the Year Ended December 31, 2023

	Balance January 1, 2023, as Restated	Increase	Decrease	Balance December 31, 2023
Capital assets not depreciated				
Land	\$ 905,601	\$ -	\$ -	\$ 905,601
Construction in progress	798,873	145,286	944,159	-
Total capital assets not depreciated	\$ 1,704,474	\$ 145,286	\$ 944,159	\$ 905,601
Capital assets depreciated and amortized				
Land improvements	\$ 302,957	\$ -	\$ -	\$ 302,957
Buildings	138,141,404	928,266	-	139,069,670
Equipment	12,635,756	199,741	-	12,835,497
Software subscriptions	67,185	45,735	-	112,920
Total capital assets depreciated and amortized	\$ 151,147,302	\$ 1,173,742	\$ -	\$ 152,321,044
Less: accumulated depreciation and amortization for				
Land improvements	\$ 302,957	\$ -	\$ -	\$ 302,957
Buildings	70,476,788	3,298,690	-	73,775,478
Equipment	10,856,727	251,893	-	11,108,620
Software subscriptions	-	48,837	-	48,837
Total accumulated depreciation and amortization	\$ 81,636,472	\$ 3,599,420	\$ -	\$ 85,235,892
Total capital assets depreciated and amortized, net	\$ 69,510,830	\$ (2,425,678)	\$ -	\$ 67,085,152
Capital Assets, Net	\$ 71,215,304	\$ (2,280,392)	\$ 944,159	\$ 67,990,753

### Compensated Absences

Full-time employees are granted from ten 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.

To comply with the City of Duluth's earned sick and safe mandate, effective January 1, 2019, part-time employees accrue PTO at the start of their employment. The rate of accrual is based on longevity and ranges from 0.02 hours to 0.05 hours of earned PTO for every hour worked. Unused vacation and personal leave earned as of December 31, 2023, is estimated to be \$316,529 and is recognized as a liability in the financial statements.

Sick leave is earned at the rate of 1.50 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, 2023, was estimated to be \$460,552 and is not recognized as a liability in the financial statements.

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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### Long-Term Liabilities

#### Software Subscriptions Liability

The Authority has entered into several subscription-based information technology arrangements for financing the acquisition of a safety alert system, cloud-based licensing for users, a parking management system, and a multi-factor authentication platform. These arrangements are for three years each. These arrangements have been recorded at the present value of their future minimum software subscription payments as of the inception date.

The future minimum software subscription obligations and the present value of these minimum payments as of December 31, 2023, were as follows:

#### **Minimum Future Payments Software Subscription Obligations as of December 31, 2023**

Year Ending December 31	Principal	Interest
2024	\$ 48,278	\$ 2,595
2025	15,293	763
Total	<u>\$ 63,571</u>	<u>\$ 3,358</u>

#### Financed Purchase

In August 2022, the Duluth Entertainment and Convention Center Authority entered into a financed purchase agreement to finance the purchase and installation of ice making equipment for the Authority's curling facilities. The agreement runs for ten years with an interest rate of 4.99 percent and annual payments of \$89,054. At December 31, 2023, the value of the ice making equipment was \$715,897.

#### **Financed Purchase Requirements as of December 31, 2023**

Year Ended December 31	Principal	Interest
2024	\$ 58,207	\$ 31,683
2025	61,178	28,778
2026	63,328	25,726
2027	66,488	22,566
2028	69,806	19,248
2029-2032	<u>315,923</u>	<u>40,376</u>
Total	<u>\$ 634,930</u>	<u>\$ 168,377</u>

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

The following is a schedule of long-term liability activity of the Duluth Entertainment and Convention Center Authority for the year ended December 31, 2023:

### Long-Term Liabilities for the Year Ended December 31, 2023

	Balance January 1, 2023, as Restated	Additions	Reductions	Balance December 31, 2023	Due Within One Year
Software subscription liability	\$ 67,185	\$ 45,735	\$ 49,349	\$ 63,571	\$ 48,278
Financed purchase	700,000	-	65,070	634,930	58,207
Compensated absences payable	312,003	248,152	243,626	316,529	316,529
Total Long-Term Liabilities	\$ 1,079,188	\$ 293,887	\$ 358,045	\$ 1,015,030	\$ 423,014

## Defined Benefit Pension Plan

### 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 Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, while the Basic Plan and Minneapolis Employees Retirement Fund members are not covered. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members in 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after three years of credited service. No Duluth Entertainment and Convention Center Authority employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

### Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost-of-living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and a maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase.

# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

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

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. In the General Employees Plan, two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

### Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2023. The employer was required to contribute 7.50 percent of annual covered salary in 2023. Rates did not change from 2022.

The Authority's contributions for the General Employees Plan for the year ended December 31, 2023, were \$395,092. The contributions are equal to the statutorily required contributions as set by state statute.

### Pension Costs

At December 31, 2023, the Authority reported a liability of \$3,573,216 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2022, through June 30, 2023, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2023, the Authority's proportion was 0.0639 percent. It was 0.0453 percent measured as of June 30, 2022. The Authority recognized pension expense of \$452,289 for its proportionate share of the General Employees Plan's pension expense.



# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031. The Authority recognized an additional \$443 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

### Employer's Share of the Net Pension Liability and the State's Related Liability As of December 31, 2023

The Authority's proportionate share of the net pension liability	\$ 3,573,216
State of Minnesota's proportionate share of the net pension liability associated with the Authority	<u>98,559</u>
Total	<u><u>\$ 3,671,775</u></u>

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

### Deferred Outflows of Resources and Deferred Inflows of Resources As of December 31, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 109,142	\$ 6,202
Changes in actuarial assumptions	156,285	979,388
Difference between projected and actual investment earnings	407,456	-
Changes in proportion	1,728,331	472,142
Contributions paid to PERA subsequent to the measurement date	<u>196,976</u>	<u>-</u>
Total	<u><u>\$ 2,598,190</u></u>	<u><u>\$ 1,457,732</u></u>

The \$196,976 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

### Schedule of Amortization of Deferred Outflows and Inflows of Resources As of December 31, 2023

Year Ended December 31	Pension Expense Amount
2024	\$ 216,525
2025	485,986
2026	318,486
2027	(77,515)

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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### Actuarial Assumptions

The total pension liability in the June 30, 2023, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

#### **Actuarial Assumptions for the Year Ended June 30, 2023**

Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	6.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table for the General Employees Plan, with slight adjustments. Cost-of-living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan.

Actuarial assumptions used in the June 30, 2023, valuations were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. A review of inflation and investment assumptions dated June 29, 2023, was utilized.

The long-term expected rate of return on pension plan investments is 7.00 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

#### **Pension Plan Investment Target Allocation and Best Estimates of Geometric Real Rates of Return for Each Major Asset Class**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	33.50%	5.10%
International equities	16.50%	5.30%
Fixed income	25.00%	0.75%
Private markets	25.00%	5.90%

### Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent in 2023. This was an increase from the 6.50 percent used in 2022. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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### Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2023:

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.
- A one-time direct state aid contribution of \$170.1 million occurred on October 1, 2023.
- The vesting period for those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- For Basic Plan members, a one-time, non-compounding benefit increase of 4.00 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- For Coordinated Plan members, a one-time, non-compounding benefit increase of 2.50 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.

### Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate.

#### **Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate As of December 31, 2023**

	Proportionate Share of the General Employees Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.00%	\$ 6,321,307
Current	7.00%	3,573,216
1% Increase	8.00%	1,312,808

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at [www.mnpera.org](http://www.mnpera.org).

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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### Other Postemployment Benefits (OPEB)

#### Plan Description

The Duluth Entertainment and Convention Center Authority provides postemployment health insurance benefits for certain retired employees under a single-employer defined benefit health care 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.

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.

The Authority's employment contract with the Executive Director provides for continuing family health insurance coverage for a period of 18 months following the termination of their employment contract. The Authority will provide this benefit.

The Authority participates in the City of Duluth's Joint Powers Enterprise Trust and pays the required premiums to provide health care benefits for eligible retirees and claimed dependents. Premiums paid for eligible retirees and claimed dependents for health care insurance totaled \$99,505 in 2023.

No assets have been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75. The OPEB plan does not issue a stand-alone financial report.

#### **Employees Covered by the OPEB Benefit Terms As of the January 1, 2023, Actuarial Valuation**

Inactive employees or beneficiaries currently receiving benefit payments	26
Active plan participants	43
Total	69

#### Total OPEB Liability

The Authority's total OPEB liability of \$1,356,924 was measured as of December 31, 2023, and was determined by an actuarial valuation as of January 1, 2023.

The total OPEB liability, as measured as of December 31, 2023, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

#### **OPEB Actuarial Assumptions and Other Inputs**

Inflation	2.20 percent
Salary increases	3.50 percent, average wage inflation plus merit/productivity increases
Health care cost trend	8.00 percent, decreasing 0.50 percent per year to an ultimate rate of 5.00 percent

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

The current year discount rate is 4.00 percent, which is a change from the prior year rate of 4.31 percent. For the current valuation, the discount rate was based from the S&P Municipal Bond 20-Year High Grade Rate Index.

Mortality rates are based on the Pub-2010 Headcount-Weighted table rates projected with Scale MP-2021.

### Changes in the Total OPEB Liability

#### Changes in the Total OPEB Liability For the Year Ended December 31, 2023

Balance at December 31, 2022	\$ 1,224,663
Changes for the year	
Service cost	\$ 6,093
Interest	54,840
Differences between expected and actual experience	82,346
Changes in assumptions	88,487
Benefit payments	(99,505)
Net change	\$ 132,261
Balance at December 31, 2023	\$ 1,356,924

### OPEB Liability Sensitivity

The following presents the total OPEB liability of the Authority, calculated using the discount rate previously disclosed, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

#### Sensitivity of the Total OPEB Liability to Changes in the Discount Rate as of December 31, 2023

	Discount Rate	Total OPEB Liability
1% Decrease	3.00%	\$ 1,504,376
Current	4.00%	1,356,924
1% Increase	5.00%	1,232,657

The following presents the total OPEB liability of the Authority, calculated using the health care cost trend previously disclosed, as well as what the Authority's total OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rate:

#### Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates as of December 31, 2023

	Health Care Trend Rate	Total OPEB Liability
1% Decrease	7.00% Decreasing to 4.00%	\$ 1,220,655
Current	8.00% Decreasing to 5.00%	1,356,924
1% Increase	9.00% Decreasing to 6.00%	1,518,472

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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### OPEB Expense

For the year ended December 31, 2023, the Authority recognized OPEB expense of \$49,046. The Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

#### Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB as of December 31, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 189,443	\$ 33,909
Changes in actuarial assumptions	235,963	459,482
Total	\$ 425,406	\$ 493,391

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

#### Schedule of Amortization of Deferred Outflows and Inflows of Resources Related to OPEB As of December 31, 2023

Year Ended December 31	OPEB Expense Amount
2023	\$ (34,134)
2024	(34,134)
2025	(23,356)
2026	(11,564)
2027	(36,788)
Thereafter	71,991

### Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred for the 2023 interim valuation:

- The discount rate was decreased from 4.31 percent to 4.00 percent.
- Per-capita costs were updated to reflect experience since the previous valuation as well as the change in third-party administrators.
- The participation percentage for future retirees that pay 100 percent of the premium rates was increased from 25 percent to 40 percent.
- Retirement rates were updated based on the results of the 2023 actuarial experience study.
- Terminations were updated based on the results of the 2023 actuarial experience study.

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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### Naming Rights Agreement

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

Minimum future rents on this agreement are:

Minimum Future Rents as of December 31, 2023	
Year	Amount
2024	\$ 200,000
2025	200,000
2026	200,000
2027	200,000
2028	200,000
After 2028	400,000
Total	<u>\$ 1,400,000</u>

### Pledge Agreement with City of Duluth

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

In March 2016, the City of Duluth issued \$33,440,000 in General Obligation Duluth Entertainment and Convention Center Authority Improvement Refunding Bonds, Series 2016A, to refund the City of Duluth's Series 2008A Duluth Entertainment and Convention Center Authority Improvement Bonds of \$40,285,000. The transaction resulted in a net present value savings of \$5,414,950.

The Authority entered into a pledge agreement with the City of Duluth dated August 7, 2008, that requires the Authority to pledge \$461,000 per year of Authority revenues beginning in 2012 through the life of the bonds ending in 2034. The pledged revenues will be used in combination with the City of Duluth's 0.75 percent food and beverage taxes and University of Minnesota Duluth lease revenues to repay the principal and interest on the bonds.

### Risk Management

The Authority is exposed to various risks of loss related to torts; injuries to employees; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from the previous year. The Authority retains the risk of loss for the first \$10,000 per occurrence.

Permanent employees are eligible to participate in the City of Duluth Joint Powers Enterprise Trust for the benefit of governmental units of the City. The Authority pays an annual premium for health and dental insurance coverage.

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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### Budget to Actual for 2023

The Duluth Entertainment and Convention Center Authority adopts a budget to be approved by the Duluth City Council. A summary of the operating budget compared to actual for the year ended December 31, 2023, follows.

#### **Budget-to-Actual Comparison for the Year Ending December 31, 2023**

	Budget	Actual	Variance
Operating Revenues	\$ 10,773,813	\$ 12,300,778	\$ 1,526,965
Operative Expenses	11,775,257	18,973,650	(7,198,393)
Operating Income (Loss)	\$ (1,001,444)	\$ (6,672,872)	\$ (5,671,428)
Nonoperating Revenues (Expenses)	1,042,609	2,880,406	1,837,797
Change in Net Position	\$ 41,165	\$ (3,792,466)	\$ (3,833,631)



## **Required Supplementary Information**

**Duluth Entertainment and Convention Center Authority**  
**Duluth, Minnesota**

**Schedule of Changes in Total OPEB Liability and Related Ratios**  
**Other Postemployment Benefits**  
**December 31, 2023**

	<u>2023</u>	<u>2022</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 6,093	\$ 1,171
Interest	54,840	34,764
Differences between expected and actual experience	82,346	(24,826)
Changes of assumption or other inputs	88,487	(282,600)
Benefit payments	(99,505)	(96,673)
Other changes	-	-
	<hr/>	<hr/>
<b>Net change in total OPEB liability</b>	<b>\$ 132,261</b>	<b>\$ (368,164)</b>
	<hr/>	<hr/>
<b>Total OPEB Liability – Beginning</b>	<b>1,224,663</b>	<b>1,592,827</b>
	<hr/>	<hr/>
<b>Total OPEB Liability – Ending</b>	<b><u>\$ 1,356,924</u></b>	<b><u>\$ 1,224,663</u></b>
	<hr/>	<hr/>
Covered-employee payroll	\$ 2,577,985	\$ 808,846
Total OPEB liability (asset) as a percentage of covered-employee payroll	52.64%	151.41%

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

**Exhibit A-1**

<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
\$ 1,237	\$ 10,685	\$ 10,323	\$ 20,995
31,656	54,652	56,444	54,083
282,784	-	(23,193)	-
(340,082)	303,370	(12,701)	(85,938)
(177,866)	(115,449)	(116,784)	(100,717)
-	(12,010)	-	-
<b>\$ (202,271)</b>	<b>\$ 241,248</b>	<b>\$ (85,911)</b>	<b>\$ (111,577)</b>
<b>1,795,098</b>	<b>1,553,850</b>	<b>1,639,761</b>	<b>1,751,338</b>
<b>\$ 1,592,827</b>	<b>\$ 1,795,098</b>	<b>\$ 1,553,850</b>	<b>\$ 1,639,761</b>
\$ 781,494	\$ 2,229,474	\$ 1,846,454	\$ 1,783,617
203.82%	80.52%	84.15%	91.93%

**Duluth Entertainment and Convention Center Authority  
Duluth, Minnesota**

**Exhibit A-2**

**Schedule of Proportionate Share of Net Pension Liability  
PERA General Employees Retirement Plan  
December 31, 2023**

Measurement Date	Employer's Proportion of the Net Pension Liability/Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Duluth Entertainment and Convention Center Authority	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	0.0639 %	\$ 3,573,216	\$ 98,559	\$ 3,671,775	\$ 5,082,787	70.30 %	83.10 %
2022	0.0453	3,587,775	105,120	3,692,895	3,392,720	105.75	76.67
2021	0.0161	687,542	21,007	708,549	1,161,133	59.21	87.00
2020	0.0476	2,853,838	88,060	2,941,898	3,397,573	84.00	79.06
2019	0.0584	3,228,805	100,329	3,329,134	4,123,080	78.31	80.23
2018	0.0594	3,295,268	108,005	3,403,273	3,986,093	82.67	79.53
2017	0.0623	3,977,191	50,003	4,027,194	3,635,889	109.39	75.90
2016	0.0591	4,798,627	62,701	4,861,328	3,620,162	132.55	68.91
2015	0.0590	3,057,686	N/A	3,057,686	3,463,401	88.29	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The measurement date for each year is June 30.

N/A – Not Applicable

**Duluth Entertainment and Convention Center Authority  
Duluth, Minnesota**

**Exhibit A-3**

**Schedule of Contributions  
PERA General Employees Retirement Plan  
December 31, 2023**

<b>Year Ending</b>	<b>Statutorily Required Contributions (a)</b>	<b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b>	<b>Contribution (Deficiency) Excess (b - a)</b>	<b>Covered Payroll (c)</b>	<b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b>
2023	\$ 395,092	\$ 395,092	\$ -	\$ 5,267,893	7.50 %
2022	333,132	333,132	-	4,441,760	7.50
2021	147,718	147,718	-	1,969,573	7.50
2020	143,804	143,804	-	1,917,387	7.50
2019	317,245	317,245	-	4,229,933	7.50
2018	296,680	296,680	-	3,955,733	7.50
2017	300,466	300,466	-	4,006,219	7.50
2016	267,844	267,844	-	3,715,149	7.21
2015	277,570	264,824	(12,746)	3,700,932	7.16

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

# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

### Notes to the Required Supplementary Information For the Year Ended December 31, 2023

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#### **Note 1 – Other Postemployment Benefits Funded Status**

In 2018, the Duluth Entertainment and Convention Center Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. See Note 2 in the notes to the financial statements for additional information regarding the Authority's other postemployment benefits.

#### **Note 2 – Other Postemployment Benefits – Changes in Significant Actuarial Methods and Assumptions**

Assets have not been accumulated in a trust that meets the criteria in paragraph four of GASB Statement 75 to pay related benefits.

The following changes in actuarial assumptions occurred for the valuation:

##### 2023

- The discount rate was decreased from 4.31 percent to 4.00 percent.
- Per-capita costs were updated to reflect experience since the previous valuation as well as the change in third-party administrators.
- The participation percentage for future retirees that pay 100 percent of the premium rates was increased from 25 percent to 40 percent.
- Retirement rates were updated based on the results of the 2023 actuarial experience study.
- Terminations were updated based on the results of the 2023 actuarial experience study.

##### 2022

- The discount rate was increased from 2.25 percent to 4.31 percent.
- The pre-65 medical trend was shifted to maintain the same rate of 8.00 percent.
- The post-65 immediate medical trend was increased to 4.25 percent to reflect current industry trends and inflationary environment.

##### 2021

- The discount rate was increased from 1.93 percent to 2.25 percent.
- Per-capita costs were updated to reflect experience since the previous valuation as well as the change in third-party administrators from HealthPartners to Medica.

# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

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- Base mortality rates were updated from the RPH-2014 Total Dataset Headcount-Weighted tables to the new Pub-2010 Headcount-Weighted tables. “Safety” tables were used for police and fire participants and “General” tables for all others.
- The mortality improvement scale was updated from MP-2018 to MP-2020 as of the valuation date, and again to MP-2021 as of measurement date December 31, 2021.

### 2020

- The discount rate was decreased from 3.64 percent to 1.93 percent based on changes in the municipal bond market.
- The additional one percent load applied to Plan liabilities to estimate the impact of potential future excise taxes on high-cost (“Cadillac”) plan benefits was removed due to the excise taxes being repealed via the SECURE Act.

### 2019

- The discount rate was decreased from 3.70 percent to 3.64 percent based on changes in the municipal bond market.
- The per-capita costs were updated to reflect experience since the previous valuation.
- An additional one percent load was applied to Plan liabilities to estimate the impact of potential future excise taxes on high-cost (“Cadillac”) plan benefits.
- The mortality improvement scale was updated from MP-2016 to MP-2018.

### 2018

- The per-capita costs were updated to reflect experience.
- The health care trend was shifted to maintain the same immediate rate.
- The mortality was updated to reflect more current rates based on the 2014 SOA study.
- The actuarial cost method was changed to Entry Age Normal as a level percentage of payroll, per GASB 75 standards.
- The discount rate increased from 3.25 percent to 3.70 percent to reflect the current municipal bond market.

# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

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### **Note 3 – Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions**

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

#### **General Employees Retirement Plan**

##### **2023**

- The investment return assumption and single discount rate were changed from 6.50 percent to 7.00 percent.
- A one-time direct state aid contribution of \$170.1 million occurred on October 1, 2023.
- The vesting period for those hired after June 30, 2010, was changed from five years of allowable service to three years of allowable service.
- The benefit increase delay for early retirements on or after January 1, 2024, was eliminated.
- For Basic Plan members, a one-time, non-compounding benefit increase of 4.00 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.
- For Coordinated Plan members, a one-time, non-compounding benefit increase of 2.50 percent, minus the actual 2024 adjustment, will be payable in a lump sum for calendar year 2024 by March 31, 2024.

##### **2022**

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

##### **2021**

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

##### **2020**

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and



# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

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slightly higher thereafter.

- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

### 2019

- The mortality projection scale was changed from Scale MP-2017 to Scale MP-2018.

### 2018

- The mortality projection scale was changed from Scale MP-2015 to Scale MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost-of-living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.

## **Duluth Entertainment and Convention Center Authority**

### **Duluth, Minnesota**

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- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

#### 2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

#### 2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

## **Management and Compliance Section**



**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Independent Auditor's Report

Mayor and City Council  
City of Duluth, Minnesota

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Duluth Entertainment and Convention Center Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 14, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Duluth Entertainment and Convention Center Authority's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our 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 a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Duluth Entertainment and Convention Center Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

In connection with our audit, we noted that the Duluth Entertainment and Convention Center Authority failed to comply with the provisions of the miscellaneous provisions section of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters, as described in the Schedule of Findings and Recommendations as item 2023-001. Also, in connection with our audit, nothing came to our attention that caused us to believe that the Duluth Entertainment and Convention Center Authority failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, public indebtedness, and claims and disbursements sections of the *Minnesota Legal Compliance Audit Guide for Cities*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

### Duluth Entertainment and Convention Center Authority's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Duluth Entertainment and Convention Center Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Recommendations and Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Cities* and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Julie Blaha

Julie Blaha  
State Auditor

June 14, 2024

/s/Chad Struss

Chad Struss, CPA  
Deputy State Auditor

# **Duluth Entertainment and Convention Center Authority**

## **Duluth, Minnesota**

### **Schedule of Findings and Recommendations**

#### **For the Year Ended December 31, 2023**

#### **Section I – Financial Statement Findings**

No matters were reported.

#### **Section II – Other Findings and Recommendations**

##### **2023-001      Use of Public Funds**

**Prior Year Finding Number:** 2022-004

**Year of Finding Origination:** 2022

**Type of Finding:** Minnesota Legal Compliance

**Criteria:** In general, a public entity must have express or implied statutory (or charter) authority to make an expenditure. In addition, the expenditure must be made for a public purpose. See Minn. Const., art. X, § 1 (“Taxes shall be levied and collected for public purposes.”); *Visina v. Freeman*, 89 N.W.2d 635 (1958) (courts generally construe “public purpose” to mean “such an activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of government”); *Tousley v. Leach*, 180 Minn. 293, 230 N.W. 788 (1930) (public funds may be used by a public entity if the purpose is a public one for which tax money may be used, there is authority to make the expenditure, and the use is genuine).

Minnesota Statutes, section 471.38, requires that claims for payment must generally be itemized. It states: “[I]f an account, claim, or demand against a local government for any property or services can be itemized in the ordinary course of business, the board or officer authorized by law to audit and allow claims shall not audit or allow the claim until the person claiming payment, or the person's agent, provides to the board or officer an itemized list in writing or in an electronic transaction record. By making the claim for payment, the person making the claim is declaring that the account, claim, or demand is just and correct and that no part of it has been paid.”

Unless specific authority provides otherwise, employee social functions should not be paid for with public funds. See Ops. Att’y Gen. 59A-22 (Jan. 8, 1957) (municipal corporation may not imply authority to appropriate public revenue for celebrations, entertainments, etc., quoting 15 McQuillin, *Municipal Corporations*, 3rd ed., Sec. 39.22); 59a-22 (Nov. 23, 1966).

**Condition:** The following public purpose issues are noted in a sample of ten expenses:

- the Authority paid for promoter gifts in one disbursement,
- the Authority paid for a gift to a client,
- the Authority paid for a holiday party for present and past Board members,
- the Authority purchased 20 tickets for Board members and staff to use with a suite to a sporting event, and
- in two instances, the Authority reimbursed its employees for their expenses without requiring itemized receipts.

In addition, employee discounts are provided by the Authority at the William A. Irvin gift shop.

# Duluth Entertainment and Convention Center Authority

## Duluth, Minnesota

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**Context:** The expenses above totaled \$3,110.

The Authority has a Travel and Expense Policy in place, but the policy does not require submission of itemized receipts for per diem reimbursement when travel is over 45 miles away.

Additionally, the Authority does not have a written policy to address promotional expenses that establishes the purpose of such expenses and the requirement for review and approval by the Board.

**Effect:** Authority funds were used for expenditures that either do not meet a public purpose or a purpose for which the Authority does not have statutory authority.

**Cause:** The Authority's policies, procedures, and training of staff were not sufficient to ensure expenditures met a public purpose.

**Recommendation:** We recommend that the Authority discontinue the practice of spending public funds for unauthorized items that do not meet a public purpose. Additionally, we recommend that the Authority reevaluate its Travel and Expense Policy to ensure that itemized receipts are obtained. We also recommend that the Authority develop a promotional expense policy that clearly identifies permissible promotional expenses, that would exclude gifts to promoters, and provides for periodic evaluation of their effectiveness. Both policies should be in writing and approved by the Authority's Board.

**View of Responsible Official:** Concur



## Duluth Entertainment Convention Center

### REPRESENTATION OF DULUTH ENTERTAINMENT AND CONVENTION CENTER AUTHORITY DULUTH, MINNESOTA

#### CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2023

**Finding Number: 2023-001**

**Finding Title: Use of Public Funds**

Name of Contact Person Responsible for Corrective Action: Daniel Hartman, Executive Director

Corrective Action Planned:

1. Review the DECC Travel and Expense Reimbursement policy and update applicable procedures for per diem reimbursement. The updated policy will be distributed to employees and employees will be trained on the updated procedures.
2. Create a board-reviewed policy that addresses the purpose and parameters for allowable promotional expenses. Training will be provided to applicable employees related to allowable promotional expenses.
3. Update the employee handbook to remove discounts for the William A. Irvin and discontinue offering discounts for the William A. Irvin. An updated copy of the handbook will be made available to employees after the update is complete.

Anticipated Completion Date: December 31, 2024





## Duluth Entertainment Convention Center

### Representation of the Duluth Entertainment and Convention Center Authority Duluth, Minnesota

Summary Schedule of Prior Audit Findings  
For the Year Ended December 31, 2023

**Finding Number: 2022-001**

**Year of Finding Origination: 2022**

**Finding Title: Journal Entry Approval**

**Summary of Condition:** Twenty of the 25 journal entries tested were not reviewed and approved by the proper individual.

**Summary of Corrective Action Previously Reported:**

1. Review current Journal Entry Policy and approval process.
2. Amend internal procedures as necessary to ensure journal entry policy is followed.
3. Provide Training to employees.
4. Review journal entries to ensure journal entry approval policy is followed.

**Status:** Fully Corrected. Corrective action was taken.

**Finding Number: 2022-002**

**Year of Finding Origination: 2022**

**Finding Title: Access to Computer Systems/Network**

**Summary of Condition:** The Authority was unable to provide documentation showing network access or point-of-sale access was removed in a timely manner for three terminated employees tested.

**Summary of Corrective Action Previously Reported:**

1. Research best practices and regulation surrounding system access termination procedures.
2. Utilize research to inform the creation of a policy and procedure for system access terminations.
3. Create a tracking sheet to detail system access terminations for auditing purposes.
4. Provide education to supervisory staff and system administrator staff regarding the system access termination process and tracking sheet.

**Status:** Fully Corrected. Corrective action was taken.

**Finding Number: 2022-003**

**Year of Finding Origination: 2022**

**Finding Title: Credit Card Procedures for Approval of Payment**

**Summary of Condition:** Seven of 20 credit card statements tested were not properly approved by the Finance Director in accordance with the Authority's credit card policy.

**Summary of Corrective Action Previously Reported:**

1. Review current Credit Card Policy that outlines the procedure for approval of credit card statements for payment.
2. Amend internal procedures as necessary to ensure all credit card statements are reviewed and approved in accordance with the Credit Card Policy.
3. Provide training to employees.
4. Review credit card statements to ensure approval policy is followed and ensure approval documentation is retained.

**Status:** Fully Corrected. Corrective action was taken.

**Finding Number: 2022-004**

**Year of Finding Origination: 2022**

**Finding Title: Use of Public Funds**

**Summary of Condition:** The following authority, public purpose, compliance and documentation issues were noted during a review of the 2022 Authority expenditures.

- Two instances where the Authority paid for new employee welcome gifts.
- One instance where the Authority paid for an employee appreciation party and raffle prizes for party attendees.
- One instance where the Authority paid for retirement gifts for employees.
- One instance where the Authority paid for a social gathering for the board members and a guest.
- One instance where the Authority paid for a paddleboarding event for all employees to attend.
- Three instances where the Authority paid for meals that did not have the meeting attendees listed or business purpose documented on the expenditure for payment. Additionally, one of the three meals did not retain the proper signature for approval.
- Employee discounts are provided by the Authority at the Irvin and Vista Fleet Gift shops.
- A volunteer program was started by the Authority during 2022 that allows volunteers to be reimbursed for their services through a donation by the Authority to a charity of the volunteer's choice.

**Summary of Corrective Action Previously Reported:**

1. Review regulatory references to Public Purpose provided by the Auditor.
2. Research best practices and regulations related to entities classified as Political Sub-Divisions regarding Public Purpose and expenditure of funds.
3. Utilize research to develop an updated and Board-approved employee recognition and wellness program (policy). Ensure the policy addresses the following:
  - a. Identify how employees will be recognized for years of service
  - b. Identify the amounts to be expended to achieve objectives of the policy
  - c. Identify and clearly articulate how the DECC will encourage wellness activities for employees
  - d. Identify the amounts to be spent on wellness activities
4. Review and, if necessary, update our business meal policy.
5. Provide education to staff regarding the employee recognition and wellness program.
6. Provide education to management staff regarding the DECC's business meal policy.

**Status:** Partially Corrected.

The DECC completed all action plan items as outlined above, including the creation of a Board Approved Employee Wellness and Recognition policy. However, the DECC is in need of additional policy language regarding purchasing in relation to public purpose.