

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
(COMPONENT UNIT OF THE CITY OF DULUTH)
DULUTH, MINNESOTA

FOR THE YEARS ENDED APRIL 30, 2014 AND 2013

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
(COMPONENT UNIT OF THE CITY OF DULUTH)
DULUTH, MINNESOTA**

For the Years Ended April 30, 2014 and 2013



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

This page was left blank intentionally.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements		
Comparative Statement of Net Position	1	12
Comparative Statement of Revenues, Expenses, and Changes in Net Position	2	13
Comparative Statement of Cash Flows	3	14
Notes to the Financial Statements		15
Supplementary Information		
Comparative Statement of Operating Revenues	A-1	29
Comparative Statement of Operating Expenses	A-2	30
Statement of Capital Improvements	B-1	31
Management and Compliance Section		
Schedule of Findings and Recommendations		32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		33

This page was left blank intentionally.

This page was left blank intentionally.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

ORGANIZATION
APRIL 30, 2014

	<u>Term Ending</u>
Directors	
Jane Gilbert-Howard	June 30, 2015
David Kohlhaas	June 30, 2017
Greg Benson	June 30, 2015
Sean Flaherty	June 30, 2015
Elaine Hansen	June 30, 2017
Dan O’Neill	June 30, 2017
Neale Roth	June 30, 2015
Cory Salmela	June 30, 2017
Todd Torvinen	June 30, 2015
Executive Director	
Renee Mattson	
Officers	
Chair	
Jane Gilbert-Howard	
Vice Chair	
David Kohlhass	
Secretary	
Dan O’Neill	

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, as of and for the years ended April 30, 2014, and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spirit Mountain Recreation Area Authority as of April 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Spirit Mountain Recreation Area Authority's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to

the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014, on our consideration of Spirit Mountain Recreation Area Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spirit Mountain Recreation Area Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 18, 2014

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2014
(Unaudited)**

This section presents management's analysis of the Authority's financial condition and activities for the fiscal year ended April 30, 2014. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- In fiscal year 2013, a new high speed lift, the Spirit Express II and a new chalet and parking lot off the Grand Avenue entrance were constructed. This project was financed through general obligation bonds and will be paid for out of tourism taxes. The total project costs were \$7 million. The new lift opened at the start of the 2012/2013 season; the chalet opened on February 11, 2013. The chalet has a restaurant, the Riverside Bar & Grill, general booting area (banquet space in the non-ski season), seasonal café, and a ticket/rental area. During 2014, the Adventure Park generated revenues exceeding \$915,000.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, bond resolutions, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net position presents the financial position of the Authority on a full accrual historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

The statement of cash flows present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited, and adjusted if material, during the independent external audit process.

SUMMARY OF ORGANIZATION AND BUSINESS

On May 18, 1973, the Minnesota State Legislature enacted the Laws, 1973, Chapter 327 (the "Act") creating the Spirit Mountain Recreation Area Authority. The mission of the Authority as defined in section one of the Act is as follows: The purpose of this Act is to facilitate the development of a land area with the following objectives: (1) the development of wide-range recreational facilities available to both local residents and tourists; (2) the aiding of the economy of northeastern Minnesota by encouraging private enterprise efforts in conjunction with the recreational facilities; and (3) the preservation of the environment in the area by a timely and intelligent plan of development. The Authority was created to have the power and duty to manage the property made up of the Area. The State Legislature itself conferred upon the Authority the power and responsibility for the operation and management of the Area. The Mayor of Duluth appoints nine community members to serve on the Board of Directors that oversees the Authority.

The main form of recreation provided to both local residents and visitors is skiing, alpine, Nordic, snowboarding, and in fiscal year 2012, the year-round Timber Twister Alpine Coaster was joined by the new year-round Timber Flyer Zip Line, a 9-hole miniature golf course and a new snow tubing park, now branded as the Spirit Mountain Adventure Park. The Authority also hosts the world's largest on-snow Snocross race, the Duluth National, over Thanksgiving weekend. Summertime activities include special events, banquets, meetings, corporate events, mountain biking, and camping, with banquets becoming an ever larger business for the Authority, with wedding receptions and corporate/other events. In the summer of 2012, the Authority installed a new four-place detachable lift to replace a similar lift and added a new chalet with a bar and restaurant and a new parking lot at the Grand Avenue entrance. During 2014, two mountain bike trails were constructed, which added lift access mountain biking to the list of summer attractions and further established Spirit Mountain as a year-round recreational facility.

The Authority does not have taxing power. Operations are funded from customer revenues. Customer revenues, together with city tourism taxes, fund the acquisition and construction of capital assets.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring, and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

Condensed Statements of Net Position

	FY 2014	FY 2013	Change from 2013 to 2014		FY 2012
			Dollar	Percent (%)	
Current and other assets	\$ 598,349	\$ 854,958	\$ (256,609)	(30)	\$ 629,473
Capital assets	13,674,738	14,022,820	(348,082)	(2)	8,888,493
Total Assets	\$ 14,273,087	\$ 14,877,778	\$ (604,691)	(4)	\$ 9,517,966
Current liabilities	\$ 1,828,870	\$ 1,642,115	\$ 186,755	11	\$ 1,402,971
Long-term liabilities	1,999,607	2,328,074	(328,467)	(14)	2,430,306
Total Liabilities	\$ 3,828,477	\$ 3,970,189	\$ (141,712)	(4)	\$ 3,833,277
Net Position					
Net investment in capital assets	\$ 11,346,750	\$ 11,404,450	\$ (57,700)	(1)	\$ 5,815,115
Unrestricted	(902,140)	(496,861)	(405,279)	(82)	(130,426)
Total Net Position	\$ 10,444,610	\$ 10,907,589	\$ (462,979)	(4)	\$ 5,684,689

**Condensed Statements of Revenues, Expenses, and Changes in Net Position
(Comparative Amounts)**

	FY 2014	FY 2013	Change from 2013 to 2014		FY 2012
			Dollar	Percent (%)	
Operating revenues	\$ 4,621,902	\$ 4,387,088	\$ 234,814	5	\$ 4,430,892
Nonoperating revenues	247,119	418,636	(171,517)	(41)	402,558
Contributions from City of Duluth	223,323	5,437,650	(5,214,327)	(96)	1,321,735
Total Revenues	\$ 5,092,344	\$ 10,243,374	\$ (5,151,030)	(50)	\$ 6,155,185
Operating expenses	\$ 4,603,344	\$ 4,167,932	\$ 435,412	10	\$ 3,992,771
Nonoperating expenses	116,082	127,989	(11,907)	(9)	126,269
Depreciation/amortization	835,897	724,553	111,344	15	640,753
Total Expenses	\$ 5,555,323	\$ 5,020,474	\$ 534,849	11	\$ 4,759,793
Changes in Net Position	\$ (462,979)	\$ 5,222,900	\$ (5,685,879)	(109)	\$ 1,395,392
Beginning Net Position	10,907,589	5,684,689	5,222,900	92	4,289,297
Ending Net Position	<u>\$ 10,444,610</u>	<u>\$ 10,907,589</u>	<u>\$ (462,979)</u>	<u>(4)</u>	<u>\$ 5,684,689</u>

**Condensed Statement of Revenues, Expenses, and Change in Net Position
(2014 Budget and Actual)**

	Actual	Budget	Budget to Actual Variance	Budget % Variance
Operating revenues	\$ 4,621,902	\$ 5,058,931	\$ (437,029)	(9)
Nonoperating revenues	247,119	60,000	187,119	312
Contributions from City of Duluth	223,323	-	223,323	100
Total Revenues	\$ 5,092,344	\$ 5,118,931	\$ (26,587)	(1)
Operating expenses	\$ 4,603,344	\$ 4,487,867	\$ 115,477	3
Nonoperating expenses	116,082	90,527	25,555	28
Depreciation/amortization	835,897	707,703	128,194	18
Total Expenses	\$ 5,555,323	\$ 5,286,097	\$ 269,226	5
Change in Net Position	\$ (462,979)	\$ (167,166)	\$ (295,813)	(177)
Beginning Net Position	10,907,589	10,907,589	-	-
Ending Net Position	<u>\$ 10,444,610</u>	<u>\$ 10,740,423</u>	<u>\$ (295,813)</u>	<u>(3)</u>

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenue increased \$234,814, or 5 percent in 2014 compared to 2013. Nonoperating revenues and contributions decreased by \$5,385,844 or 92 percent, in 2014 compared to 2013 due to bond proceeds received by the City of Duluth during 2013 that were not received during 2014.

Expenses

The Authority's operating expenses increased \$435,412 or 10 percent from 2013 due mainly to the Grand Avenue Chalet being open the entire fiscal year. Workers' compensation expense more than doubled between 2012 and 2014 as a result of being taken off the City of Duluth's self-insurance plan.

Budgetary Highlights

The Authority creates an annual operating budget, which includes proposed expenses and means of financing them. Once management and the Board of Directors approve the budget, it is presented to the Duluth City Council for final approval. The Authority's operating budget remains in effect the entire year and is not revised. Management and the Board of Directors are presented detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

Operating revenues were \$437,029, or 9 percent below budget due mainly to season passes, daily lift tickets, and Grand Avenue Chalet sales being lower than anticipated. However, banquets, the campground, and the Adventure Park all had revenue higher than budgeted.

CAPITAL ASSETS

	FY 2014	FY 2013	Change	
			Dollar	Percent (%)
Land and land improvements	\$ 2,544,192	\$ 2,466,253	\$ 77,939	3
Equipment	11,179,712	11,144,316	35,396	-
Plant equipment	863,026	863,026	-	-
Buildings and structures	7,952,404	7,731,178	221,226	3
Furniture and fixtures	256,675	256,675	-	-
Other capital assets	802,903	772,064	30,839	4
Construction in progress	315,707	233,378	82,329	35
Subtotal	\$ 23,914,619	\$ 23,466,890	\$ 447,729	2
Less: accumulated depreciation	(10,239,881)	(9,444,070)	(795,811)	(8)
Total Capital Assets, Net	\$ 13,674,738	\$ 14,022,820	\$ (348,082)	(2)

During fiscal year 2014, the Authority invested \$213,832 in buildings and structures. Those additions were mainly done on the Grand Avenue Chalet. Land improvements consisted of building mountain bike trails to draw additional visitors to the hill during the summer months.

The Authority’s ongoing capital plan improvements are made with the long-term goals of the Spirit Mountain Master Plan in mind. Building new attractions is the keystone to the area becoming a true four-season recreation venue, and has greatly enhanced the Authority’s operating revenues as it has been a tremendously popular draw for visitors and residents alike. As always, we continue to seek ways to streamline the operation, find efficiencies, and provide the best possible guest experience.

Debt Administration

	FY 2014	FY 2013	Change	
			Dollar	Percent (%)
Alpine Coaster lease	\$ 1,847,892	\$ 1,976,365	\$ (128,473)	(7)
Groomer lease	194,293	241,439	(47,146)	(20)
Zip/Tube/Golf lease	285,803	400,266	(114,463)	(29)
Rental lease	-	300	(300)	(100)
Total Debt	\$ 2,327,988	\$ 2,618,370	\$ (290,382)	(11)

During fiscal year 2014, the Authority’s outstanding debt decreased \$290,382.

ECONOMIC AND OTHER FACTORS

The Authority must consider many factors when setting the fiscal year budgets. Spirit Mountain is not immune from lessened consumer confidence and shrinking spending habits; additionally, weather challenges hamper the consumers’ excitement for winter sporting activities. The winter of 2013/2014 was an extremely cold winter. The cold weather kept many visitors away and caused the Authority to close for eight business days. To boost revenues and encourage continued ski/board activity, Spirit Mountain offered an aggressively priced season pass and was successful in maintaining a large season pass base. We continually seek ways to strengthen our regional appeal and have found success with the reduced price college season pass. The savings the students see for the pass price more than make up for in food and beverage purchases. The Adventure Park is open year-round, and we have had strong attendance during the winter season.

We have continued to add attractions to complement the coaster, such as mountain bike trails, and feel the key to our growth and success will be more year-round activities that appeal to families. The Adventure Park has increased our visibility as new visitors to the resort are exposed to the many opportunities available for winter recreation, camping, lodging at the Villas, and banquets.

The banquet business has continued to be a strong revenue producer as the number of events grows annually. With the addition of the new Grand Avenue Chalet, we have created a new neighborhood gathering spot and as such have seen new banquet business in that facility as well. We know that in our competitive set in the Duluth market, we far exceed other facilities' numbers.

We look forward to an improved economy, additional four season recreational enhancements, and a successful winter and summer season.

FINANCIAL CONTACT

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Finance Department, Spirit Mountain Recreation Area Authority, 9500 Spirit Mountain Place, Duluth, Minnesota 55810.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2014 AND 2013**

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 214,536	\$ 128,873
Accounts receivable	142,232	163,732
Due from City of Duluth	-	309,917
Inventory	127,433	113,180
Total current assets	\$ 484,201	\$ 715,702
Noncurrent assets		
Planning and development costs - net of accumulated amortization	\$ 114,148	\$ 139,256
Capital assets		
Non-depreciable	\$ 2,859,899	\$ 2,699,631
Depreciable	21,054,720	20,767,259
Less: accumulated depreciation	(10,239,881)	(9,444,070)
Total capital assets - net of accumulated depreciation	\$ 13,674,738	\$ 14,022,820
Total noncurrent assets	\$ 13,788,886	\$ 14,162,076
Total Assets	\$ 14,273,087	\$ 14,877,778
Liabilities		
Current liabilities		
Accounts payable	\$ 175,666	\$ 327,436
Due to City of Duluth	850,692	444,914
Due to other governments	16,163	14,751
Accrued salaries payable	5,064	25,151
Accrued vacation payable	89,793	84,407
Accrued interest payable	7,568	-
Leases payable	328,381	290,296
Unearned revenue	355,543	455,160
Total current liabilities	\$ 1,828,870	\$ 1,642,115
Noncurrent liabilities		
Leases payable	1,999,607	2,328,074
Total Liabilities	\$ 3,828,477	\$ 3,970,189
Net Position		
Net investment in capital assets	\$ 11,346,750	\$ 11,404,450
Unrestricted	(902,140)	(496,861)
Total Net Position	\$ 10,444,610	\$ 10,907,589

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED APRIL 30, 2014 AND 2013**

	2014	2013
Operating Revenues		
Sales	\$ 1,551,964	\$ 1,158,138
Less: cost of goods sold	(561,158)	(480,240)
Gross profit on sales	\$ 990,806	\$ 677,898
Charges for services	3,520,722	3,616,918
Miscellaneous	110,374	92,272
Total Operating Revenues	\$ 4,621,902	\$ 4,387,088
Operating Expenses		
Personal services	\$ 2,906,652	\$ 2,609,889
Supplies	319,628	335,142
Utilities	475,800	406,890
Other services and charges	901,264	816,011
Amortization	25,108	28,327
Depreciation	810,789	696,226
Total Operating Expenses	\$ 5,439,241	\$ 4,892,485
Operating Income (Loss)	\$ (817,339)	\$ (505,397)
Nonoperating Revenues (Expenses)		
Earnings on investments	\$ 473	\$ 5,504
Grant revenue	116,066	176,435
Tourism tax	108,568	225,000
Gain (loss) on sale or disposition of capital assets - net	1,012	11,697
Miscellaneous revenue	21,000	-
Interest expense	(116,082)	(127,989)
Total Nonoperating Revenues (Expenses)	\$ 131,037	\$ 290,647
Income (loss) before contributions	\$ (686,302)	\$ (214,750)
Capital contributions from City of Duluth	223,323	5,437,650
Changes in Net Position	\$ (462,979)	\$ 5,222,900
Net Position - May 1	10,907,589	5,684,689
Net Position - April 30	\$ 10,444,610	\$ 10,907,589

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

Page 13

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2014 AND 2013**

	2014	2013
Cash Flows from Operating Activities		
Cash received from customers	\$ 5,271,915	\$ 4,422,627
Cash paid to suppliers	(1,984,112)	(1,460,138)
Cash paid to employees	(2,921,353)	(2,601,449)
Other cash received	110,374	92,272
	\$ 476,824	\$ 453,312
Cash Flows from Capital and Related Financing Activities		
Capital grants	\$ 116,066	\$ 176,435
Capital contributions from City of Duluth	223,323	5,437,650
Proceeds from sale of capital assets	1,284	62,550
Capital lease payments	(269,328)	(637,142)
Acquisition and construction of capital assets	(462,979)	(5,610,406)
	\$ (391,634)	\$ (570,913)
Cash Flows from Investing Activities		
Interest on investments	\$ 473	\$ 5,504
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 85,663	\$ (112,097)
Cash and Cash Equivalents - May 1	128,873	240,970
Cash and Cash Equivalents - April 30	\$ 214,536	\$ 128,873
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	\$ (817,339)	\$ (505,397)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	810,789	696,226
Amortization	25,108	28,327
Change in assets and liabilities		
Decrease (increase) in accounts receivable	21,500	(60,136)
Decrease (increase) in due from City of Duluth	309,917	(309,917)
Decrease (increase) in inventory	(14,253)	4,144
Increase (decrease) in accounts payable	(151,770)	267,525
Increase (decrease) in due to City of Duluth	405,778	270,675
Increase (decrease) in due to other governments	1,412	1,835
Increase (decrease) in accrued salaries payable	(20,087)	2,514
Increase (decrease) in accrued vacation payable	5,386	5,926
Increase (decrease) in unearned revenue	(99,617)	51,590
	\$ 476,824	\$ 453,312
Noncash Investing, Capital, and Financing Activities		
Capital assets acquired under lease purchase agreements	\$ -	\$ 271,000

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

Page 14

This page was left blank intentionally.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED APRIL 30, 2014 AND 2013**

1. Summary of Significant Accounting Policies

Organization

Spirit Mountain Recreation Area Authority was created by Minn. Laws 1973, ch. 327, for the purpose of developing and operating wide-range recreational facilities in the Spirit Mountain area within and adjacent to the City of Duluth, Minnesota. The management of the Authority is vested in nine directors appointed by the Mayor of Duluth and approved by resolution of the City Council.

The accounting policies of Spirit Mountain Recreation Area Authority conform to generally accepted accounting principles.

A. Financial Reporting Entity

The Authority is a discretely presented component unit of the City of Duluth reporting entity and, therefore, is included in the City's Comprehensive Annual Financial Report because of the significance of its operations and financial relationships with the City.

B. Fund Accounting

The Authority is accounted for as an enterprise fund. Enterprise funds account for operations 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.

The principal operating revenues of the Authority are charges to customers for sales and services for recreational activities offered within the Spirit Mountain area. All revenues not meeting this definition are reported as nonoperating revenues.

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.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. Assets

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.

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

Development costs, consisting of engineering, feasibility study, and interest costs during construction, have been recorded at cost and are being amortized over 40 years.

Monies restricted for the payment of capital improvements, special projects, and workers' compensation claims are accounted for as restricted assets

Capital assets are stated at cost. Interest costs incurred during construction are not capitalized unless determined to be significant. Depreciation of capital assets is determined using the straight-line method. The estimated useful lives of the assets are:

<u>Classification</u>	<u>Range</u>
Buildings and structures	5 to 40 years
Equipment	3 to 40 years
Furniture and fixtures	5 to 20 years
Other fixed assets	2 to 40 years

E. Trade-Offs

The Authority issues lift passes, rentals, lessons, etc., in exchange for other non-monetary assets or services, such as advertising and other promotional services. The value of the lift passes, rentals, or lessons, is credited to the appropriate revenue account and debited to the appropriate expense account.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Use of Estimates

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

2. Detailed Notes

A. Budget

The Authority adopts an annual budget which is approved by the Duluth City Council. A comparison of budget to actual for the years ended April 30, 2014 and 2013, follows:

	Budget	2014 Actual	Variance
Operating Revenues			
Sales	\$ 1,760,496	\$ 1,551,964	\$ (208,532)
Less: cost of goods sold	(518,598)	(561,158)	(42,560)
Gross profit on sales	\$ 1,241,898	\$ 990,806	\$ (251,092)
Charges for services	3,767,783	3,520,722	(247,061)
Miscellaneous	49,250	110,374	61,124
Total Operating Revenues	\$ 5,058,931	\$ 4,621,902	\$ (437,029)
Operating Expenses			
Personal services	\$ 2,876,867	\$ 2,906,652	\$ (29,785)
Supplies	292,651	319,628	(26,977)
Utilities	458,646	475,800	(17,154)
Other services and charges	859,703	901,264	(41,561)
Amortization	23,703	25,108	(1,405)
Depreciation	684,000	810,789	(126,789)
Total Operating Expenses	\$ 5,195,570	\$ 5,439,241	\$ (243,671)
Operating Income (Loss)	\$ (136,639)	\$ (817,339)	\$ (680,700)

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

A. Budget (Continued)

	2014		
	Budget	Actual	Variance
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ -	\$ 473	\$ 473
Grant revenue	-	116,066	116,066
Tourism tax	60,000	108,568	48,568
Gain (loss) on sale or disposition of capital assets - net	-	1,012	1,012
Miscellaneous revenue	-	21,000	21,000
Interest expense	(90,527)	(116,082)	(25,555)
	<u>(30,527)</u>	<u>131,037</u>	<u>161,564</u>
Total Nonoperating Revenues (Expenses)	\$ (30,527)	\$ 131,037	\$ 161,564
Income (loss) before contributions	\$ (167,166)	\$ (686,302)	\$ (519,136)
Capital contributions from City of Duluth	-	223,323	223,323
Change in Net Position	<u>\$ (167,166)</u>	<u>\$ (462,979)</u>	<u>\$ (295,813)</u>

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

A. Budget (Continued)

	2013		
	Budget	Actual	Variance
Operating Revenues			
Sales	\$ 1,110,463	\$ 1,158,138	\$ 47,675
Less: cost of goods sold	(390,247)	(480,240)	(89,993)
Gross profit on sales	\$ 720,216	\$ 677,898	\$ (42,318)
Charges for services	3,979,048	3,616,918	(362,130)
Miscellaneous	58,175	92,272	34,097
Total Operating Revenues	\$ 4,757,439	\$ 4,387,088	\$ (370,351)
Operating Expenses			
Personal services	\$ 2,514,232	\$ 2,609,889	\$ (95,657)
Supplies	288,642	335,142	(46,500)
Utilities	435,862	406,890	28,972
Other services and charges	836,852	816,011	20,841
Amortization	30,000	28,327	1,673
Depreciation	840,000	696,226	143,774
Total Operating Expenses	\$ 4,945,588	\$ 4,892,485	\$ 53,103
Operating Income (Loss)	\$ (188,149)	\$ (505,397)	\$ (317,248)
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ -	\$ 5,504	\$ 5,504
Grant revenue	-	176,435	176,435
Tourism tax	225,000	225,000	-
Gain (loss) on sale or disposition of capital assets - net	-	11,697	11,697
Interest expense	(118,409)	(127,989)	(9,580)
Total Nonoperating Revenues (Expenses)	\$ 106,591	\$ 290,647	\$ 184,056
Income (loss) before contributions	\$ (81,558)	\$ (214,750)	\$ (133,192)
Capital contributions from City of Duluth	-	5,437,650	5,437,650
Change in Net Position	\$ (81,558)	\$ 5,222,900	\$ 5,304,458

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

B. Deposits

The Treasurer of the City of Duluth is designated by Minn. Laws 1973, ch. 327, as Treasurer of the Authority. Authority deposits are pooled with all other City deposits. The City Treasurer is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash and to invest in certificates of deposit in financial institutions designated by the Duluth City Council. Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral.

The types of investments available to the City Treasurer are detailed in Minn. Stat. §§ 118A.04 and 118A.05. Investments are stated at fair value.

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

Following is a summary of the Authority's cash:

	April 30	
	2014	2013
City Treasurer	\$ 181,711	\$ 105,548
Petty cash and change funds	32,825	23,325
Total Cash and Cash Equivalents	\$ 214,536	\$ 128,873

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended April 30, 2014 and 2013, follows:

	Balance May 1, 2013	Additions	Deductions	Reclassification	Balance April 30, 2014
Capital assets not depreciated					
Land and land improvements	\$ 2,466,253	\$ 77,939	\$ -	\$ -	\$ 2,544,192
Construction in progress	233,378	307,687	-	(225,358)	315,707
Total capital assets not depreciated	\$ 2,699,631	\$ 385,626	\$ -	\$ (225,358)	\$ 2,859,899
Capital assets depreciated					
Buildings and structures	\$ 7,731,178	\$ -	\$ -	\$ 221,226	\$ 7,952,404
Equipment	12,007,342	46,514	15,250	4,132	12,042,738
Furniture and fixtures	256,675	-	-	-	256,675
Other capital assets	772,064	30,839	-	-	802,903
Total capital assets depreciated	\$ 20,767,259	\$ 77,353	\$ 15,250	\$ 225,358	\$ 21,054,720
Less: accumulated depreciation for					
Buildings and structures	\$ 3,273,915	\$ 255,581	\$ -	\$ -	\$ 3,529,496
Equipment	5,498,748	501,849	14,978	-	5,985,619
Furniture and fixtures	236,319	8,057	-	-	244,376
Other capital assets	435,088	45,302	-	-	480,390
Total accumulated depreciation	\$ 9,444,070	\$ 810,789	\$ 14,978	\$ -	\$ 10,239,881
Total capital assets depreciated, net	\$ 11,323,189	\$ (733,436)	\$ 272	\$ 225,358	\$ 10,814,839
Capital Assets, Net	\$ 14,022,820	\$ (347,810)	\$ 272	\$ -	\$ 13,674,738

	Balance May 1, 2012	Additions	Deductions	Reclassification	Balance April 30, 2013
Capital assets not depreciated					
Land and land improvements	\$ 2,466,253	\$ -	\$ -	\$ -	\$ 2,466,253
Construction in progress	1,440,249	5,581,761	-	(6,788,632)	233,378
Total capital assets not depreciated	\$ 3,906,502	\$ 5,581,761	\$ -	\$ (6,788,632)	\$ 2,699,631
Capital assets depreciated					
Buildings and structures	\$ 4,514,037	\$ 7,250	\$ -	\$ 3,209,891	\$ 7,731,178
Equipment	10,184,009	292,395	2,000,127	3,531,065	12,007,342
Furniture and fixtures	256,675	-	-	-	256,675
Other capital assets	724,388	-	-	47,676	772,064
Total capital assets depreciated	\$ 15,679,109	\$ 299,645	\$ 2,000,127	\$ 6,788,632	\$ 20,767,259

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

C. Capital Assets (Continued)

	Balance May 1, 2012	Additions	Deductions	Reclassification	Balance April 30, 2013
Less: accumulated depreciation for					
Buildings and structures	\$ 3,081,942	\$ 191,973	\$ -	\$ -	\$ 3,273,915
Equipment	6,997,563	450,459	1,949,274	-	5,498,748
Furniture and fixtures	225,623	10,696	-	-	236,319
Other capital assets	391,990	43,098	-	-	435,088
Total accumulated depreciation	<u>\$ 10,697,118</u>	<u>\$ 696,226</u>	<u>\$ 1,949,274</u>	<u>\$ -</u>	<u>\$ 9,444,070</u>
Total capital assets depreciated, net	<u>\$ 4,981,991</u>	<u>\$ (396,581)</u>	<u>\$ 50,853</u>	<u>\$ 6,788,632</u>	<u>\$ 11,323,189</u>
Capital Assets, Net	<u>\$ 8,888,493</u>	<u>\$ 5,185,180</u>	<u>\$ 50,853</u>	<u>\$ -</u>	<u>\$ 14,022,820</u>

D. Vacation, Sick Leave, and Compensatory Time

Full-time employees are granted from 10 to 20 days of vacation per year depending on their years of service. Maximum amounts of vacation time that can be accumulated depend on which union bargaining unit is representing the employee. Sick leave is accumulated at the rate of 30 days per year up to a maximum of 120 days for those employees covered by the Minnesota Arrowhead District Council 96.

Staff personnel are granted from one to four weeks of vacation per year depending on their years of service. Staff may carry forward no more than the amount that was earned in the year. Staff personnel are granted 30 days of sick leave per year.

Unpaid vacation pay earned as of April 30, 2014 and 2013, is \$89,793 and \$84,407, respectively, and is recognized as a liability in the financial statements.

Sick leave is recorded as an expense when paid. The contingent liability for unused sick leave is not recognized in the financial statements.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes (Continued)

E. Due to City of Duluth

The amounts due to the City at April 30, 2014 and 2013, follow:

	2014	2013
General Fund - sales tax	\$ 5,692	\$ 4,914
General Fund - line of credit	845,000	440,000
Total	\$ 850,692	\$ 444,914

The City of Duluth extends the Authority a line of credit each year to assist in the management of cash flow within the budget approved. Spirit Mountain Recreation Area Authority is allowed to draw upon the line of credit as needed to assist in the management of cash flows. The amounts withdrawn need to be repaid in full at least once per calendar year. On May 30, 2014, the City of Duluth passed resolution 14-0281R changing the date when the line of credit is to be repaid in full from December 31, 2014, to December 31, 2015 and extending the line of credit up to \$1,200,000.

Changes in line of credit balance for the years ending April 30, 2014 and 2013, were:

	2014	2013
Beginning	\$ 440,000	\$ 170,000
Draws	480,000	390,000
Repayments	75,000	120,000
Ending	\$ 845,000	\$ 440,000

F. Pledge Agreement with City of Duluth

On February 23, 2012, the City of Duluth issued General Obligation Tax Abatement Bonds, Series 2012A, in the amount of \$7,055,000. The proceeds from these bonds were used to finance capital improvements to the Spirit Mountain Recreation Area Authority, including lift improvements, parking lot improvements, and a new chalet on Grand Avenue.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

F. Pledge Agreement with City of Duluth (Continued)

The Authority entered into a pledge agreement with the City of Duluth dated February 23, 2012. Under this agreement, the City has pledged tax abatement revenue for paying the principal and interest on the bonds, but the City's and Authority's plan of finance for the project is for the City to provide \$500,000 per year of tourism taxes toward the repayment of the bond principal and interest, and the Authority to pledge operating revenues to pay the balance of the principal and interest owed each year until the bond is paid off in 2030.

G. Capitalized Lease Obligations

Capitalized lease obligations consist of the following at April 30, 2014:

Type of Property		
Equipment	\$	3,426,698
Less: accumulated amortization		(1,011,197)
Net Capital Lease Property	\$	2,415,501

Minimum future lease payments follow:

Fiscal Year Ended April 30	Principal	Interest
2015	\$ 328,381	\$ 87,984
2016	336,543	74,639
2017	230,116	63,052
2018	187,811	54,862
2019	165,138	480,700
2020 - 2024	932,544	133,494
2025	147,455	3,238
Total	\$ 2,327,988	\$ 897,969

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

G. Capitalized Lease Obligations (Continued)

Capitalized lease obligations at April 30, 2014, consist of the following leases:

A \$2,340,150 lease purchase for purchase, design, and installation of an Alpine Coaster and construction of a ticket/concession building and parking lot, dated January 26, 2010, due in periodic installments commencing September 1, 2010, through February 1, 2025, with interest at 3.96 percent.	\$ 1,847,892
A \$600,000 lease purchase for purchase, design, and installation of a zip line, tubing hill, and mini golf course, dated June 1, 2011, due in periodic installments commencing October 1, 2011, through June 1, 2016, with interest at 4.05 percent.	285,803
A \$266,519 lease purchase for a groomer, dated October 15, 2012, due in periodic installments through October 1, 2017, with interest at 3.50 percent.	<u>194,293</u>
Total	<u>\$ 2,327,988</u>
Current portion	\$ 328,381
Long-term portion	<u>1,999,607</u>
Total	<u>\$ 2,327,988</u>

H. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for fiscal year 2014 is \$5,335 and \$5,335 for fiscal year 2013. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2014, are \$5,335 due in fiscal year 2015.

I. Mountain Villas Agreements

In November 1979, the Authority entered into an agreement with the Mountain Villas Owner's Association, Inc., for the rental of property associated with 15 rental housing units sold by the Authority to the Association. The agreement provides for an annual base rental payment of \$15,000 by the Association and features an annual inflation adjustment clause equal to the change in the consumer price index. This clause was not invoked by the Authority until 1989.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

2. Detailed Notes

I. Mountain Villas Agreements (Continued)

In October 1989, the Authority entered into another agreement with the Mountain Villas Owner's Association, Inc., to manage the 15 rental housing units owned by the Association. The agreement provides payment to the Authority of an annual base management fee of \$24,000 plus ten percent of gross sales.

3. Risk Management

The Authority uses State Fund Mutual (SFM) to insure against its obligation to provide benefits to employees pursuant to the Minnesota Workers' Compensation Act. The Authority participates in the City of Duluth Internal Service Fund to insure against general liability claims, except the liability claims arising by reason of selling, serving, or furnishing alcoholic beverages. The Authority purchases commercial insurance for all risks of loss not covered by the City's Internal Service Fund. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years. No liability has been recognized in the financial statements for excess workers' compensation claims and costs.

For general liability claims insured through the City of Duluth Self-Insurance Internal Service Fund, the Authority retains responsibility for paying the first \$50,000 of each loss resulting from each occurrence. The maximum coverage provided by the City was \$300,000 per claimant; \$1,000,000 per occurrence. The estimated liability of the Authority for general liability claims, where coverage is not provided by the City, is accrued if the Authority's attorney determines settlement is probable, based on a case-by-case evaluation.

4. Pension Plans - Defined Benefit Plans

A. Plan Description

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

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

4. Pension Plans - Defined Benefit Plans

A. Plan Description (Continued)

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

4. Pension Plans - Defined Benefit Plans

A. Plan Description (Continued)

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

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

The Authority is required to contribute the following percentages of annual covered payroll in 2014 and 2013:

	2014	2013
General Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	7.25	7.25

The Authority's contributions for the years ending April 30, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

	2014	2013	2012
General Employees Retirement Fund	\$ 109,062	\$ 107,044	\$ 94,435

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

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-1

**COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED APRIL 30, 2014 AND 2013**

	2014	2013
Sales		
Food	\$ 584,463	\$ 591,059
Liquor	288,291	288,591
Ski shop	120,716	119,755
Grand Avenue Chalet	558,494	158,733
Less: cost of goods sold	(561,158)	(480,240)
Net sales	\$ 990,806	\$ 677,898
Charges for Services		
Season pass	\$ 901,098	\$ 971,238
Daily lift tickets	780,584	845,969
Alpine coaster	915,848	895,535
Ski school and snow sports	134,106	152,354
Ski rental	219,838	240,513
Snowboard rental	68,237	73,115
Locker rental	28,242	25,314
Nordic tickets and rental	1,469	785
Snocross	148,677	156,594
Campground	138,921	128,012
Mountain Villas management fee	104,855	103,036
Marketing revenue	22,700	24,453
Summer activities	56,147	-
Total charges for services	\$ 3,520,722	\$ 3,616,918
Miscellaneous		
Other revenues	\$ 110,374	\$ 92,272
Total Operating Revenues	\$ 4,621,902	\$ 4,387,088

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT A-2

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2014 AND 2013**

	2014	2013
Department		
Food and beverage	\$ 371,077	\$ 324,396
Housekeeping	121,926	143,889
Rental	108,277	70,072
Ski shop	35,682	30,630
Campground	62,601	49,892
Parking and shuttle	20,493	16,235
Building and grounds	292,614	274,926
Snocross	151,972	144,742
Ski school and snow sports center	101,064	123,350
Outside mountain operations	1,297,554	1,267,836
Nordic	8,850	2,962
Ski patrol	7,284	13,756
Sales and marketing	480,058	483,124
Office administration	729,242	661,301
Mountain Villas	47,675	47,099
Grand Avenue Chalet	390,503	136,652
Adventure Park	376,472	377,070
	\$ 4,603,344	\$ 4,167,932
Total departmental costs		
Amortization	25,108	28,327
Depreciation	810,789	696,226
	\$ 5,439,241	\$ 4,892,485
Total Operating Expenses		

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

EXHIBIT B-1

**STATEMENT OF CAPITAL IMPROVEMENTS
YEAR ENDED APRIL 30, 2014**

	Repair and Replacement Account Capital Improvements	Non-Repair and Replacement Account Capital Improvements	Total
Capital Improvements			
Computer equipment	\$ -	\$ 2,944	\$ 2,944
Moosehead entrance	-	13,200	13,200
New Grand Avenue Chalet	-	188,128	188,128
New lift	-	2,703	2,703
Great Lakes restoration	-	108,426	108,426
Air conditioner compressor	-	2,829	2,829
Snow hose	-	10,200	10,200
Snowblowers	-	2,769	2,769
Snow gun	-	5,333	5,333
Rental and tickets digital sign	-	11,108	11,108
Skis/poles	-	11,330	11,330
Bike trail	-	77,939	77,939
Road	17,640	-	17,640
Bridge	8,430	-	8,430
Total Capital Improvements	\$ 26,070	\$ 436,909	\$ 462,979

This page was left blank intentionally.

This page was left blank intentionally.

**SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED APRIL 30, 2014**

OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Donation to Nonprofit Foundation (2006-009)

The Authority had entered into an agreement with the Duluth-Superior Area Community Foundation (Foundation), a non-profit corporation. The Authority had donated \$5,000 to the Foundation without specific statutory or charter authority to do so.

Resolution

Spirit Mountain Recreation Area Authority made no contributions to the Duluth-Superior Area Community Foundation during fiscal year 2014 and plans to recover the previously donated money back in future years through local grants from the foundation as the fund was fully endowed as of April 30, 2014.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Independent Auditor's Report

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

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 Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, as of and for the year ended April 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Spirit Mountain Recreation Area Authority's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions of deposits and investments because the City of Duluth has custody of the Authority's deposits and is responsible for compliance.

In connection with our audit, nothing came to our attention that caused us to believe that Spirit Mountain Recreation Area Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

Purpose of This Report

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 18, 2014