

# 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, 2013 AND 2012

## **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](http://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, 2013 and 2012**



**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>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
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		16
Supplementary Information		
Comparative Statement of Operating Revenues	A-1	32
Comparative Statement of Operating Expenses	A-2	33
Statement of Capital Improvements	B-1	34
<b>Management and Compliance Section</b>		
Schedule of Findings and Recommendations		35
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>		37

This page was left blank intentionally.



This page was left blank intentionally.

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

ORGANIZATION  
APRIL 30, 2013

	<u>Term Ending</u>
Directors	
Jane Gilbert-Howard	June 30, 2015
David Kohlhaas	June 30, 2014
Greg Benson	June 30, 2015
Sean Flaherty	June 30, 2015
Elaine Hansen	June 30, 2014
Dan O’Neill	June 30, 2014
Neale Roth	June 30, 2015
Cory Salmela	June 30, 2014
Todd Torvinen	June 30, 2014
Executive Director	
Renee Mattson	
Officers	
Chair	
Jane Gilbert-Howard	
Vice Chair	
David Kohlhaas	
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, 2013 and 2012, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2013 and 2012, and the changes in its financial position 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 opinions on the financial statements that collectively comprise Spirit Mountain Recreation Area Authority's basic financial statements. The supplementary information 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 April 8, 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*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 8, 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, 2013  
(Unaudited)**

This section presents management's analysis of the Authority's financial condition and activities for the fiscal year ended April 30, 2013. This information should be read in conjunction with the financial statements.

**FINANCIAL HIGHLIGHTS**

- The City of Duluth issued a \$1.647 million Gross Revenue Recreational Facility Bond in 2003 to refinance existing Authority debt. The bond is not a general obligation of the City and is payable from the Authority gross revenues. The City pledged tourism taxes in the amount of \$225,000 per year, effective January 1, 2004, as part of the gross revenues of the project. The tourism tax pledge by the City will allow the Authority to invest a minimum of \$225,000 in capital improvements on an annual basis over the life of the bond. That bond was paid off in December 2012.
- 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 cost was \$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 year-round restaurant, the Riverside Bar & Grill, general boating area (banquet space in the non-ski season), seasonal café, and a ticket/rental area.

**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,

and camping, with banquets becoming an ever larger business for the Authority, with 70 wedding receptions hosted in fiscal year 2013 and an additional 40+ 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 year-round bar and restaurant and a new parking lot at the Grand Avenue entrance. The summers of 2012 and 2013 brought the construction of five mountain bike trails, all with lift access. This new venture has placed Spirit Mountain solidly in the top category of destination mountain biking and brought a whole new avenue of revenue to the 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 Statement of Net Position

	FY 2013	FY 2012	Change from 2012 to 2013		FY 2011
			Dollar	Percent (%)	
Current and other assets	\$ 854,958	\$ 629,473	\$ 225,485	36	\$ 724,744
Capital assets	14,022,820	8,888,493	5,134,327	58	7,032,936
<b>Total Assets</b>	<b>\$ 14,877,778</b>	<b>\$ 9,517,966</b>	<b>\$ 5,359,812</b>	<b>56</b>	<b>\$ 7,757,680</b>
Current liabilities	\$ 1,642,115	\$ 1,402,971	\$ 239,144	17	\$ 935,337
Long-term liabilities	2,328,074	2,430,306	(102,232)	(4)	2,533,046
<b>Total Liabilities</b>	<b>\$ 3,970,189</b>	<b>\$ 3,833,277</b>	<b>\$ 136,912</b>	<b>4</b>	<b>\$ 3,468,383</b>
<b>Net Position</b>					
Net investment in capital assets	\$ 11,404,450	\$ 5,815,115	\$ 5,589,335	96	\$ 4,105,471
Restricted					250,000
Unrestricted	(496,861)	(130,426)	(366,435)	100	(66,174)
<b>Total Net Position</b>	<b>\$ 10,907,589</b>	<b>\$ 5,684,689</b>	<b>\$ 5,222,900</b>	<b>92</b>	<b>\$ 4,289,297</b>

As can be seen from the table, capital assets increased \$5,134,327 from 2012 to 2013 due mainly to the construction of the new Chalet at Grand Avenue.

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

	FY 2013	FY 2012	Change from 2012 to 2013		FY 2011
			Dollar	Percent (%)	
Operating revenues	\$ 4,387,088	\$ 4,430,892	\$ (43,804)	(1)	\$ 4,390,727
Nonoperating revenues	418,636	402,558	16,078	4	282,763
Contribution from City of Duluth	5,437,650	1,321,735	4,115,915	311	-
<b>Total Revenues</b>	<b>\$ 10,243,374</b>	<b>\$ 6,155,185</b>	<b>\$ 4,088,189</b>	<b>66</b>	<b>\$ 4,673,490</b>
Operating expenses	\$ 4,167,932	\$ 3,992,771	\$ 175,161	4	\$ 3,732,472
Nonoperating expenses	127,989	126,269	1,720	1	121,661
Depreciation/amortization	724,553	640,753	83,800	13	635,988
<b>Total Expenses</b>	<b>\$ 5,020,474</b>	<b>\$ 4,759,793</b>	<b>\$ 260,681</b>	<b>5</b>	<b>\$ 4,490,121</b>
Changes in Net Position	\$ 5,222,900	\$ 1,395,392	\$ 3,827,508	274	\$ 183,369
Beginning Net Position	5,684,689	4,289,297	1,395,392	33	4,105,928
Ending Net Position	<u>\$ 10,907,589</u>	<u>\$ 5,684,689</u>	<u>\$ 5,222,900</u>	<u>92</u>	<u>\$ 4,289,297</u>

**Condensed Statements of Revenues, Expenses, and Changes in Net Position  
(2013 Budget and Actual)**

	Actual	Budget	Budget to Actual Variance	Budget % Variance
Operating revenues	\$ 4,387,088	\$ 4,757,439	\$ (370,351)	(8)
Non-operating revenues	418,636	225,000	193,636	86
Contribution from City of Duluth	5,437,650	-	5,437,650	100
<b>Total Revenues</b>	<b>\$ 10,243,374</b>	<b>\$ 4,982,439</b>	<b>\$ 5,260,935</b>	<b>106</b>
Operating expenses	\$ 4,167,932	\$ 4,075,588	\$ 92,344	2
Nonoperating expenses	127,989	118,409	9,580	8
Depreciation/amortization	724,553	870,000	(145,447)	(17)
<b>Total Expenses</b>	<b>\$ 5,020,474</b>	<b>\$ 5,063,997</b>	<b>\$ (43,523)</b>	<b>(1)</b>
Changes in Net Position	\$ 5,222,900	\$ (81,558)	\$ 5,304,458	6,503
Beginning Net Position	5,684,689	5,684,689	-	-
Ending Net Position	<u>\$ 10,907,589</u>	<u>\$ 5,603,131</u>	<u>\$ 5,304,458</u>	<u>95</u>

## Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues decreased \$43,804, or 1 percent, in 2013 compared to 2012. Other revenues increased \$4,131,993 in 2013 compared to 2012, due mainly to bond proceeds received by the City of Duluth to construct a new Grand Avenue Chalet and the Express Lift.

## Expenses

The Authority's operating expenses increased \$175,161, or 4 percent, from 2012 due to an increase in supplies, salaries and wages, and associated costs resulting from the opening of the Grand Avenue Chalet.

## 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.

## CAPITAL ASSETS

	FY 2013	FY 2012	Change	
			Dollar	Percent (%)
Land	\$ 2,466,253	\$ 2,466,253	\$ -	-
Equipment	11,144,316	9,320,983	1,823,333	20
Plant equipment	863,026	863,026	-	-
Building and improvements	7,731,178	4,514,037	3,217,141	71
Furniture and fixtures	256,675	256,675	-	-
Other capital assets	772,064	724,388	47,676	7
Work in progress	233,378	1,440,249	(1,206,871)	(84)
Subtotal	\$ 23,466,890	\$ 19,585,611	\$ 3,881,279	20
Less: accumulated depreciation	(9,444,070)	(10,697,118)	1,253,048	(12)
Net Property and Equipment	\$ 14,022,820	\$ 8,888,493	\$ 5,134,327	58

By the end of fiscal year 2013, the Authority had invested \$23.47 million in capital assets. The \$5,134,327 cumulative increase in equipment, buildings and improvements, and other capital assets is mainly due to the construction in process of the new Express Chair Lift and the new Chalet.

The Authority's ongoing capital plan improvements are made with the long-term goals of the Spirit Mountain Master Plan in mind. Building new summer attractions, such as the Adventure Park and mountain bike trails, 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.

## Debt Administration

	FY 2013	FY 2012	Change	
			Dollar	Percent (%)
Alpine Coaster lease	\$ 1,976,365	\$ 2,120,904	\$ (144,539)	(7)
Groomer lease	241,439	130,406	111,033	85
Lease/leaseback (revenue bonds)	-	212,445	(212,445)	(100)
Zip/Tube/Golf lease	400,266	530,289	(130,023)	(25)
Rental lease	300	79,334	(79,034)	(100)
Total Debt	<u>\$ 2,618,370</u>	<u>\$ 3,073,378</u>	<u>\$ (455,008)</u>	(15)

During fiscal year 2013, the Authority's outstanding debt decreased \$455,008.

## ECONOMIC AND OTHER FACTORS

The Authority must consider many factors when setting the fiscal year 2014 budget. The economic downturn continues to plague the ski industry, and Spirit Mountain is not immune from lessened consumer confidence and shrinking spending habits; additionally, weather challenges hamper the consumers' excitement for winter sporting activities. 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 they 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 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, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 128,873	\$ 240,970
Accounts receivable	163,732	103,596
Due from City of Duluth	309,917	-
Inventory	113,180	117,324
<b>Total current assets</b>	<b>\$ 715,702</b>	<b>\$ 461,890</b>
<b>Noncurrent assets</b>		
Planning and development costs - net of accumulated amortization	<b>\$ 139,256</b>	<b>\$ 167,583</b>
Capital assets		
Non-depreciable	\$ 2,699,631	\$ 3,906,502
Depreciable	20,767,259	15,679,109
Less: allowance for depreciation	(9,444,070)	(10,697,118)
<b>Total capital assets - net of accumulated depreciation</b>	<b>\$ 14,022,820</b>	<b>\$ 8,888,493</b>
<b>Total noncurrent assets</b>	<b>\$ 14,162,076</b>	<b>\$ 9,056,076</b>
<b>Total Assets</b>	<b>\$ 14,877,778</b>	<b>\$ 9,517,966</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 327,436	\$ 59,911
Due to City of Duluth	444,914	174,239
Due to other governments	14,751	12,916
Accrued salaries payable	25,151	22,637
Accrued vacation payable	84,407	78,481
Accrued interest payable	-	8,145
Leases payable	290,296	430,627
Revenue bonds payable	-	212,445
Unearned revenue	455,160	403,570
<b>Total current liabilities</b>	<b>\$ 1,642,115</b>	<b>\$ 1,402,971</b>
<b>Noncurrent liabilities</b>		
Leases payable	2,328,074	2,430,306
<b>Total Liabilities</b>	<b>\$ 3,970,189</b>	<b>\$ 3,833,277</b>
<b>Net Position</b>		
Net investment in capital assets	\$ 11,404,450	\$ 5,815,115
Unrestricted	(496,861)	(130,426)
<b>Total Net Position</b>	<b>\$ 10,907,589</b>	<b>\$ 5,684,689</b>

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

**EXHIBIT 2**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED APRIL 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>		
Sales	\$ 1,158,138	\$ 965,357
Less: cost of goods sold	(480,240)	(396,195)
<b>Gross profit on sales</b>	<b>\$ 677,898</b>	<b>\$ 569,162</b>
Charges for services	3,616,918	3,775,127
Miscellaneous	92,272	86,603
<b>Total Operating Revenues</b>	<b>\$ 4,387,088</b>	<b>\$ 4,430,892</b>
<b>Operating Expenses</b>		
Personal services	\$ 2,609,889	\$ 2,419,397
Supplies	335,142	283,935
Utilities	406,890	423,818
Other services and charges	816,011	865,621
Amortization	28,327	28,327
Depreciation	696,226	612,426
<b>Total Operating Expenses</b>	<b>\$ 4,892,485</b>	<b>\$ 4,633,524</b>
<b>Operating Income (Loss)</b>	<b>\$ (505,397)</b>	<b>\$ (202,632)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Earnings on investments	\$ 5,504	\$ 1,558
Grant revenue	176,435	40,000
Tourism tax	225,000	350,000
Gain (loss) on sale or disposition of capital assets - net	11,697	11,000
Interest expense	(127,989)	(126,269)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 290,647</b>	<b>\$ 276,289</b>
<b>Income (loss) before contributions</b>	<b>\$ (214,750)</b>	<b>\$ 73,657</b>
<b>Capital contributions from City of Duluth</b>	<b>5,437,650</b>	<b>1,321,735</b>
<b>Change in Net Position</b>	<b>\$ 5,222,900</b>	<b>\$ 1,395,392</b>
<b>Net Position - May 1</b>	<b>5,684,689</b>	<b>4,289,297</b>
<b>Net Position - April 30</b>	<b>\$ 10,907,589</b>	<b>\$ 5,684,689</b>

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

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

**EXHIBIT 3**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED APRIL 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers	\$ 4,422,627	\$ 4,943,044
Cash paid to suppliers	(1,460,138)	(1,881,839)
Cash paid to employees	(2,601,449)	(2,427,452)
Other cash received	92,272	86,603
	<b>\$ 453,312</b>	<b>\$ 720,356</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital grants	\$ 176,435	\$ 40,000
Capital contributions from the City of Duluth	5,437,650	1,321,735
Proceeds from sale of capital assets	62,550	11,000
Capital lease payments	(637,142)	(327,512)
Acquisition and construction of capital assets	(5,610,406)	(1,867,983)
	<b>\$ (570,913)</b>	<b>\$ (822,760)</b>
<b>Cash Flows from Investing Activities</b>		
Interest on investments	<b>\$ 5,504</b>	<b>\$ 1,558</b>
	<b>\$ (112,097)</b>	<b>\$ (100,846)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		
	<b>\$ 240,970</b>	<b>\$ 341,816</b>
<b>Cash and Cash Equivalents - May 1</b>		
	<b>\$ 128,873</b>	<b>\$ 240,970</b>
<b>Cash and Cash Equivalents - April 30</b>	<b>\$ 128,873</b>	<b>\$ 240,970</b>

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

**EXHIBIT 3  
(Continued)**

**COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED APRIL 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>		
Net operating income (loss)	\$ (505,397)	\$ (202,632)
<b>Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities</b>		
Depreciation	696,226	612,426
Amortization	28,327	28,327
Change in assets and liabilities		
Decrease (increase) in receivables	(60,136)	(46,592)
Decrease (increase) in due from City of Duluth	(309,917)	-
Decrease (increase) in inventory	4,144	(14,366)
Decrease (increase) in prepaid items	-	27,057
Increase (decrease) in accounts payable	540,035	46,101
Increase (decrease) in salaries payable	2,514	(11,573)
Increase (decrease) in vacation payable	5,926	3,518
Increase (decrease) in unearned revenue	51,590	278,090
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 453,312</b>	<b>\$ 720,356</b>
<b>Noncash Investing, Capital, and Financing Activities</b>		
Capital assets acquired under lease purchase agreements	\$ 271,000	\$ 600,000

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED APRIL 30, 2013 AND 2012**

---

---

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 component unit of the City of Duluth reporting entity and, therefore, is included in the City's Comprehensive Annual Financial Report.

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. 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.

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

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

---

1. Summary of Significant Accounting Policies (Continued)

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.

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, 2013 and 2012, follows:

	2013		Variance Favorable (Unfavorable)
	Budget	Actual	
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)

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

2. Detailed Notes

A. Budget (Continued)

	2013		Variance Favorable (Unfavorable)
	Budget	Actual	
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

A. Budget (Continued)

	2012		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Sales	\$ 1,047,026	\$ 965,357	\$ (81,669)
Less: cost of goods sold	(389,247)	(396,195)	(6,948)
Gross profit on sales	\$ 657,779	\$ 569,162	\$ (88,617)
Charges for services	4,324,363	3,775,127	(549,236)
Miscellaneous	64,520	86,603	22,083
Total Operating Revenues	\$ 5,046,662	\$ 4,430,892	\$ (615,770)
Operating Expenses			
Personal services	\$ 2,499,345	\$ 2,419,397	\$ 79,948
Supplies	278,989	283,935	(4,946)
Utilities	393,044	423,818	(30,774)
Other services and charges	976,063	865,621	110,442
Amortization	28,653	28,327	326
Depreciation	500,907	612,426	(111,519)
Total Operating Expenses	\$ 4,677,001	\$ 4,633,524	\$ 43,477
Operating Income (Loss)	\$ 369,661	\$ (202,632)	\$ (572,293)
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ 1,500	\$ 1,558	\$ 58
Grant revenue	-	40,000	40,000
Tourism tax	350,000	350,000	-
Gain (loss) on sale or disposition of capital assets - net	-	11,000	11,000
Interest expense	(140,142)	(126,269)	13,873
Total Nonoperating Revenues (Expenses)	\$ 211,358	\$ 276,289	\$ 64,931
Income (loss) before contributions	\$ 581,019	\$ 73,657	\$ (507,362)
Capital contributions from City of Duluth	-	1,321,735	1,321,735
Change in Net Position	\$ 581,019	\$ 1,395,392	\$ 814,373

**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	
	2013	2012
City Treasurer	\$ 105,548	\$ 227,045
Petty cash and change funds	23,325	13,925
Total Cash and Cash Equivalents	<u>\$ 128,873</u>	<u>\$ 240,970</u>

**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, 2013 and 2012, follows:

	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
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	\$ 10,697,118	\$ 696,226	\$ 1,949,274	\$ -	\$ 9,444,070
Total capital assets depreciated, net	\$ 4,981,991	\$ (396,581)	\$ 50,853	\$ 6,788,632	\$ 11,323,189
Capital Assets, Net	\$ 8,888,493	\$ 5,185,180	\$ 50,853	\$ -	\$ 14,022,820

  

	Balance May 1, 2011	Additions	Deductions	Reclassification	Balance April 30, 2012
Capital assets not depreciated					
Land and land improvements	\$ 2,466,253	\$ -	\$ -	\$ -	\$ 2,466,253
Construction in progress	76,949	1,718,266	-	(354,966)	1,440,249
Total capital assets not depreciated	\$ 2,543,202	\$ 1,718,266	\$ -	\$ (354,966)	\$ 3,906,502
Capital assets depreciated					
Buildings and structures	\$ 4,234,272	\$ 40,480	\$ -	\$ 239,285	\$ 4,514,037
Equipment	9,403,044	703,184	37,900	115,681	10,184,009
Furniture and fixtures	250,622	6,053	-	-	256,675
Other capital assets	724,388	-	-	-	724,388
Total capital assets depreciated	\$ 14,612,326	\$ 749,717	\$ 37,900	\$ 354,966	\$ 15,679,109

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

2. Detailed Notes

C. Capital Assets (Continued)

	Balance May 1, 2011	Additions	Deductions	Reclassification	Balance April 30, 2012
Less: accumulated depreciation for					
Buildings and structures	\$ 2,919,668	\$ 162,274	\$ -	\$ -	\$ 3,081,942
Equipment	6,637,722	397,741	37,900	-	6,997,563
Furniture and fixtures	215,515	10,108	-	-	225,623
Other capital assets	349,687	42,303	-	-	391,990
Total accumulated depreciation	<u>\$ 10,122,592</u>	<u>\$ 612,426</u>	<u>\$ 37,900</u>	<u>\$ -</u>	<u>\$ 10,697,118</u>
Total capital assets depreciated, net	<u>\$ 4,489,734</u>	<u>\$ 137,291</u>	<u>\$ -</u>	<u>\$ 354,966</u>	<u>\$ 4,981,991</u>
Capital Assets, Net	<u>\$ 7,032,936</u>	<u>\$ 1,855,557</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,888,493</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, 2013 and 2012, is \$84,407 and \$78,481, 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, 2013 and 2012, follow:

	<u>2013</u>	<u>2012</u>
General Fund - sales tax	\$ 4,914	\$ 4,239
General Fund - line of credit	<u>440,000</u>	<u>170,000</u>
Total	<u>\$ 444,914</u>	<u>\$ 174,239</u>

The City of Duluth extends the Authority a line of credit each year up to \$600,000 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 October 14, 2013, the City of Duluth passed resolution 13-0510R changing the date when the line of credit is to be repaid in full from December 31, 2013, to December 31, 2014.

Changes in line of credit balance for the years ending December 31, 2013 and 2012, were:

	<u>2013</u>	<u>2012</u>
Beginning	\$ 170,000	\$ 132,000
Draws	390,000	170,000
Repayments	<u>120,000</u>	<u>132,000</u>
Ending	<u>\$ 440,000</u>	<u>\$ 170,000</u>

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

---

2. Detailed Notes (Continued)

F. Long-Term Debt

The following is a summary of the long-term bonded debt transactions of the Authority.

	2013	2012
Bonds Payable - May 1	\$ 212,445	\$ 420,809
Payments	(212,445)	(208,364)
Bonds Payable - April 30	\$ -	\$ 212,445
Amount Due Within One Year	\$ -	\$ 212,445

G. 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 will be 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.

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 pledge operating revenues to pay the balance of the principal and interest owed each year until the bond is paid off in 2030.

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

---

2. Detailed Notes (Continued)

H. Contract Commitments

The Authority was in the process of completing a new chalet at year-end. As of April 30, 2013, the Authority had contract commitments related to the Grand Avenue Chalet for \$298,130.

I. Capitalized Lease Obligations

Capitalized lease obligations consist of the following at April 30, 2013:

Type of Property		
Equipment	\$	3,426,698
Less: accumulated amortization		(772,905)
Net Capital Lease Property	\$	2,653,793

Minimum future lease payments follow:

Fiscal Year Ended April 30	Principal	Interest
2014	\$ 307,117	\$ 100,770
2015	323,533	88,144
2016	336,543	74,804
2017	219,952	63,223
2018	187,921	54,965
2019 - 2023	895,926	170,112
2024 - 2025	347,378	14,690
Total	\$ 2,618,370	\$ 566,708

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

---

2. Detailed Notes

I. Capitalized Lease Obligations (Continued)

Capitalized lease obligations at April 30, 2013, consist of the following leases:

A \$317,261 lease purchase for ski rental equipment, dated June 26, 2008, due in periodic installments during the ski season through November 2013, with interest at 4.125 percent.	\$ 300
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.	1,976,365
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.	400,266
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.	241,439
Total	\$ 2,618,370
Current portion	\$ 290,296
Long-term portion	2,328,074
Total	\$ 2,618,370

J. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for fiscal year 2013 is \$5,335 and \$5,335 for fiscal year 2012. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2013, are \$5,335 due in fiscal year 2014.

K. 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

K. 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. Defeased Debt

On March 31, 2003, the City of Duluth issued a Gross Revenue Recreational Facility Bond, with an interest rate of 4.5 percent, to refund the Authority's refinancing lease, having an interest rate of 4.85 percent. The \$1,646,750 Gross Revenue Recreation Facility Bond was issued at par. The proceeds, together with Authority funds of \$53,527, were used to refund a \$1,646,750 refinancing lease with accrued interest of \$53,527.

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

---

4. Defeased Debt (Continued)

As a result of the refunding, the Authority increased its total debt service requirement by \$312,471, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$106,360.

As part of the agreement to issue the Gross Revenue Recreational Facility Bond, the City of Duluth pledged tourism taxes in the amount of \$225,000 per year to pay principal and interest on the bond.

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service (five years for those first eligible for membership after June 30, 2010). Defined retirement benefits are based on a member's average yearly salary for the five highest-paid consecutive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated 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 year thereafter. 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 successive year. Using 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.

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

---

5. Pension Plans - Defined Benefit Plans

A. Plan Description (Continued)

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at [www.mnpera.org](http://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 2012 and 2013:

	<u>2012</u>	<u>2013</u>
General Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	7.25	7.25

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

---

5. Pension Plans - Defined Benefit Plans

B. Funding Policy (Continued)

The Authority's contributions for the years ending April 30, 2013, 2012, and 2011, for the General Employees Retirement Fund were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
General Employees Retirement Fund	\$ 107,044	\$ 94,435	\$ 81,230

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, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Sales</b>		
Food	\$ 591,059	\$ 574,369
Liquor	288,591	287,706
Ski shop	119,755	103,282
Grand Avenue	158,733	-
Less: cost of goods sold	(480,240)	(396,195)
<b>Net sales</b>	<b>\$ 677,898</b>	<b>\$ 569,162</b>
<b>Charges for Services</b>		
Season pass	\$ 971,238	\$ 974,256
Daily lift tickets	845,969	893,407
Alpine coaster	895,535	1,098,170
Ski school and snow sports	152,354	135,577
Ski rental	240,513	219,991
Snowboard rental	73,115	68,775
Locker rental	25,314	25,009
Nordic tickets and rental	785	3,060
Snocross	156,594	127,521
Campground	128,012	110,203
Mountain Villa management fee	103,036	98,608
Marketing revenue	24,453	20,550
<b>Total charges for services</b>	<b>\$ 3,616,918</b>	<b>\$ 3,775,127</b>
<b>Miscellaneous</b>		
Other revenues	<b>\$ 92,272</b>	<b>\$ 86,603</b>
<b>Total Operating Revenues</b>	<b>\$ 4,387,088</b>	<b>\$ 4,430,892</b>

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

**EXHIBIT A-2**

**COMPARATIVE STATEMENT OF OPERATING EXPENSES  
YEARS ENDED APRIL 30, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>Department</b>		
Food and beverage	\$ 324,396	\$ 333,345
Housekeeping	143,889	86,497
Rental	70,072	69,837
Ski shop	30,630	36,126
Campground	49,892	87,980
Parking and shuttle	16,235	21,600
Building and grounds	274,926	249,386
Snocross	144,742	132,006
Ski school and snow sports center	123,350	122,213
Outside mountain operations	1,267,836	1,311,639
Nordic	2,962	2,408
Ski patrol	13,756	5,146
Sales and marketing	483,124	522,884
Office administration	661,301	627,460
Mountain Villas	47,099	46,996
Grand Avenue	136,652	-
Adventure Park	377,070	337,248
	<b>\$ 4,167,932</b>	<b>\$ 3,992,771</b>
<b>Total departmental costs</b>		
Amortization	28,327	28,327
Depreciation	696,226	612,426
	<b>\$ 4,892,485</b>	<b>\$ 4,633,524</b>
<b>Total Operating Expenses</b>		

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

**EXHIBIT B-1**

**STATEMENT OF CAPITAL IMPROVEMENTS  
YEAR ENDED APRIL 30, 2013**

	<b>Repair and Replacement Account Capital Improvements</b>	<b>Non-Repair and Replacement Account Capital Improvements</b>	<b>Total</b>
<b>Capital Improvements</b>			
Computer equipment	\$ -	\$ 9,362	\$ 9,362
Moosehead entrance	-	7,250	7,250
New Grand Avenue Chalet	-	3,078,562	3,078,562
Grand Avenue parking	-	13,352	13,352
New lift	-	2,357,262	2,357,262
Great Lakes restoration	-	111,584	111,584
Adventure Park performance deck	-	21,001	21,001
Radio system	-	6,539	6,539
Piston bully groomer	276,494	-	276,494
<b>Total Capital Improvements</b>	<b>\$ 276,494</b>	<b>\$ 5,604,912</b>	<b>\$ 5,881,406</b>

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, 2013**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

**Internal Control - Segregation of Duties and Monitoring (09-1)**

Duties related to invoice preparation, receipt collection, deposit, and posting to the general ledger were concentrated. The accounting assistant was responsible for preparing and mailing out invoices, posting receipts to the general ledger, and preparing the deposit for the receipts collected through the main office. There were controls in place to verify that the deposit total matched the daily receipt log total to assure all receipts were properly posted and deposited.

**Resolution**

Duties have been reviewed and segregated to the extent possible. Controls are now in place in which the Executive Director obtains a copy of the receipt log and reviews all related posting entries to the general ledger to verify that all receipts received were properly posted to customer accounts and deposited.

**II. OTHER FINDINGS AND RECOMMENDATIONS**

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-3 Donation to Nonprofit Foundation

**Criteria:** Each expenditure of public funds must be authorized by law and for a public purpose.

**Condition:** The Authority entered into an agreement with the Duluth-Superior Area Community Foundation (Foundation), a non-profit corporation. The agreement requires the Authority to “irrevocably assign, convey, transfer and deliver to the Trustee property set forth in Exhibit A” to the Foundation as trustee of a fund to be known as the “Spirit Mountain Recreation Area Authority Fund” (Fund). The net income and principal of the

Fund must be disbursed by the Foundation “exclusively for educational and charitable uses and purposes” according to the Foundation’s articles of incorporation and bylaws. Exhibit A to the agreement is blank, except for a sentence indicating “(This page is where the establishing gift to the fund will be listed.)” The Authority donated \$5,000 to the Foundation.

**Context:** The Minnesota Attorney General’s Office has consistently stated that no donations of public funds to people, non-profits, charities, etc., are permitted unless based upon specific statutory or charter authority. *See, e.g.,* Ops. Att’y. Gen. 442a-17 (Jan. 17, 1938) (Red Cross), 59-A-3 (May 21, 1948), and (Sept. 28, 1933) (Boy Scouts). The assumption is that a gift of public funds to an individual or private entity necessarily serves a private rather than a public purpose. *See* Ops. Att’y. Gen. 107-a-3 (Jan. 22, 1980), 270-D (Aug. 12, 1977), and 59a-22 (Dec. 4, 1934).

**Effect:** Because there is no specific statutory or charter authority, the Authority’s contribution to the Foundation is not authorized by law.

**Cause:** The Authority entered into the agreement with the Foundation not to benefit any other organization than the Authority and contends this is a proper expenditure due to the future benefit it will provide to the Authority.

**Recommendation:** We recommend the Authority follow Minnesota law and cease donations to the Foundation, that it recover all money already donated, and terminate the agreement.

Client’s Response:

*Spirit Mountain Recreation Area Authority entered into the above noted agreement with the Duluth Superior Area Community Foundation (DSACF), not to benefit any other organization than Spirit Mountain. We disagree with the findings for two important reasons:*

1. *The donation of \$5,000 was for the specific benefit of Spirit Mountain and will come back to the Authority in the form of grants once the fund is fully endowed. The donation was not made for the benefit of another non-profit organization. The DSACF has the staff, the expertise and the experience to host our endowment fund and exists for that purpose.*
2. *The funds generated by the grants from the endowment will far exceed the initial \$5,000 contribution once fully endowed. These grants will enable Spirit Mountain to provide important programming for the youth in the region, both summer and winter.*

*The only entity to benefit from the initial contribution and subsequent grants will be the Spirit Mountain Recreation Area Authority.*



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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 8, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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. 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: 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.

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*, except as described in the Schedule of Findings and Recommendations as item 09-3. 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.

### **Other Matters**

Spirit Mountain Recreation Area Authority's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Recommendations. The Authority's response was not subject 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, 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

April 8, 2014