

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, 2010 AND 2009

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

For the Years Ended April 30, 2010 and 2009



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

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

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

ORGANIZATION
APRIL 30, 2010

	<u>Term Ending</u>
Directors	
Lisa Augustine (resigned April 13, 2010)	June 30, 2011
Jane Gilbert-Howard	June 30, 2012
Alan Johnson	June 30, 2011
Will Munger	June 30, 2012
Nancy Nelson	June 30, 2012
Neale Roth	June 30, 2011
Todd Torvinen	June 30, 2011
Executive Director Renee Mattson	
Officers	
Chair Nancy Nelson	
Vice Chair Todd Torvinen	
Secretary Neale Roth	

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

We have audited the accompanying basic 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, 2010 and 2009. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spirit Mountain Recreation Area Authority as of April 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary information in the table of contents is presented for additional analysis and is not a required part of the basic financial statements of Spirit Mountain Recreation Area Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, 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* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 17, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2010
(Unaudited)**

This section presents management's analysis of the Authority's financial condition and activities for the fiscal year ended April 30, 2010. 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.

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

The statement of cash flows 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 seven 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 2011, the year-round Timber Twister Alpine Coaster. The Authority also hosts the world's largest Snocross race. Summertime activities include special events, banquets, meetings, corporate events, and camping.

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 Assets

	FY 2010	FY 2009	Change from 2009 to 2010		FY 2008
			Dollar	Percent (%)	
Current and other assets	\$ 654,103	\$ 779,426	\$ (125,323)	(16)	\$ 1,016,395
Capital assets	5,832,933	5,314,097	518,836	10	4,748,089
Total Assets	\$ 6,487,036	\$ 6,093,523	\$ 393,513	6	\$ 5,764,484
Current liabilities	\$ 923,757	\$ 771,869	\$ 151,888	20	\$ 744,606
Long-term liabilities	1,457,350	1,132,892	324,458	29	938,379
Total Liabilities	\$ 2,381,107	\$ 1,904,761	\$ 476,346	25	\$ 1,682,985
Net Assets					
Invested	\$ 3,946,824	\$ 3,848,174	\$ 98,650	3	\$ 3,567,912
Restricted	250,000	340,014	(90,014)	(26)	518,134
Unrestricted	(90,896)	574	(91,470)	(15,936)	(4,547)
Total Net Assets	\$ 4,105,928	\$ 4,188,762	\$ (82,834)	(2)	\$ 4,081,499

As can be seen from the table, capital assets increased \$518,836 from 2009 to 2010 due mainly to the construction in progress of the Timber Twister, Spirit Mountain's Alpine Coaster.

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

	FY 2010	FY 2009	Change from 2009 to 2010		FY 2008
			Dollar	Percent (%)	
Operating revenues	\$ 3,512,650	\$ 3,841,498	\$ (328,848)	(9)	\$ 3,918,859
Nonoperating revenues	226,145	287,900	(61,755)	(21)	291,494
Total Revenues	\$ 3,738,795	\$ 4,129,398	\$ (390,603)	(9)	\$ 4,210,353
Operating expenses	\$ 3,235,339	\$ 3,557,416	\$ (322,077)	(9)	\$ 3,352,224
Nonoperating expenses	62,268	55,221	7,047	13	61,850
Depreciation/amortization	524,022	409,498	114,524	28	411,744
Total Expenses	\$ 3,821,629	\$ 4,022,135	\$ (200,506)	(5)	\$ 3,825,818
Changes in Net Assets	\$ (82,834)	\$ 107,263	\$ (190,097)	(177)	\$ 384,535
Beginning Net Assets	4,188,762	4,081,499	107,263	3	3,696,964
Ending Net Assets	\$ 4,105,928	\$ 4,188,762	\$ (82,834)	(2)	\$ 4,081,499

**Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(2010 Budget and Actual)**

	Actual	Budget	Budget to Actual Variance	Budget % Variance
Operating revenues	\$ 3,512,650	\$ 4,121,683	\$ (609,033)	(15)
Nonoperating revenues	226,145	229,400	(3,255)	(1)
Total Revenues	<u>\$ 3,738,795</u>	<u>\$ 4,351,083</u>	<u>\$ (612,288)</u>	(14)
Operating expenses	\$ 3,235,339	\$ 3,605,798	\$ (370,459)	(10)
Nonoperating expenses	62,268	60,340	1,928	3
Depreciation/amortization	524,022	453,060	70,962	16
Total Expenses	<u>\$ 3,821,629</u>	<u>\$ 4,119,198</u>	<u>\$ (297,569)</u>	(7)
Changes in Net Assets	\$ (82,834)	\$ 231,885	\$ (314,719)	(136)
Beginning Net Assets	<u>4,188,762</u>	<u>4,188,762</u>	-	-
Ending Net Assets	<u>\$ 4,105,928</u>	<u>\$ 4,420,647</u>	<u>\$ (314,719)</u>	(7)

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues decreased \$328,848, or 9 percent, in 2010 compared to 2009. Nonoperating revenues decreased \$61,755, or 21 percent, in 2010 compared to 2009.

Expenses

The Authority's operating expenses decreased \$322,077, or 9 percent from 2009, and total expenses decreased \$200,506, or 5 percent from 2009.

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 deficient of budgeted projections due to less than favorable weather conditions, beginning with the postponement by two weeks, of the Duluth National Snocross.

Total expenses were also deficient of budgeted projections due primarily to the cease on spending.

CAPITAL ASSETS

	FY 2010	FY 2009	Change	
			Dollar	Percent (%)
Land	\$ 2,466,253	\$ 2,466,253	\$ -	-
Equipment	6,618,781	6,497,175	121,606	2
Plant equipment	781,629	758,072	23,557	3
Building and improvements	4,036,074	3,985,887	50,187	1
Furniture and fixtures	242,452	229,589	12,863	6
Other capital assets	401,533	399,325	2,208	1
Work in progress	813,854	-	813,854	n/a
Subtotal	\$ 15,360,576	\$ 14,336,301	\$ 1,024,275	7
Less: accumulated depreciation	(9,527,643)	(9,022,204)	(505,439)	(6)
Net Property and Equipment	<u>\$ 5,832,933</u>	<u>\$ 5,314,097</u>	<u>\$ 518,836</u>	10

By the end of fiscal year 2010, the Authority had invested \$15.4 million in capital assets. The increase of \$518,836 in net property and equipment is due primarily to the construction in progress of the Alpine Coaster.

The Authority's ongoing capital plan improvements include: as part of the approved Spirit Mountain Master Plan, improvements are made with the long-term goals of the plan in mind. During 2009, these upgrades/improvements included replacement of chairs and restraint bars on the Big Air Chair, the addition of the Slopeside Saloon on the lower level of the Moosehead Chalet, the purchase of a used City of Duluth plow truck to replace a 25-year-old plow truck, and the replacement of windows in the Fireside Room that provide a better view and are energy efficient. The Siriusware Sales system was upgraded and has proven to be extremely beneficial in terms of user ease and better control. We continue to seek ways to streamline the operation and provide the best possible guest experience.

Debt Administration

	FY 2010	FY 2009	Change	
			Dollar	Percent (%)
Alpine Coaster lease	\$ 753,134	\$ -	\$ 753,134	-
Groomer lease	307,692	390,866	(83,174)	(21)
Lease/leaseback (revenue bonds)	620,104	810,726	(190,622)	(24)
Rental lease	205,179	264,331	(59,152)	(22)
Total Debt	<u>\$ 1,886,109</u>	<u>\$ 1,465,923</u>	<u>\$ 420,186</u>	29

At the end of fiscal year 2010, the Authority's outstanding debt increased \$420,186 to \$1.88 million due to the addition of the Alpine Coaster lease netted against the principal payments of the other three existing leases.

ECONOMIC AND OTHER FACTORS

The Authority must consider many factors when setting the fiscal year 2011 budget. The recent economic downturn has directly and aggressively affected the ski industry, and Spirit Mountain is not immune from lessened consumer confidence and shrinking spending habits. In addition to a still soft economy, the 2009/2010 season proved extremely challenging with regard to weather conditions. The financial boost of Duluth National Snocross did not occur due to a two-week postponement because of lack of snow for the event. During the vastly important Christmas holiday week, attendance was down, and weather was a contributing factor as well. A poor December was followed by a poor January, again related to weather; two weekends of extreme cold followed by a weekend of rain. February, however, was a record revenue month for the resort, prompted by pent up demand and almost perfect weather conditions. However, that trend did not continue into March, as rain early in the month prompted an early end to the ski season.

We remain optimistic that the economy will improve, and we continue to seek opportunities to enhance our marketing efforts through partnerships and innovative marketing endeavors. In addition, the summer 2010 saw the opening of the Timber Twister Alpine Coaster, which has exceeded revenue projections for every month in operation. The new summer attraction 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. In addition to the direct positive impact on revenue, the ability to keep more of our work force employed has reduced costly unemployment claims.

We continue to partner with Giants Ridge Ski Area with a “Buy One Get One” lift ticket offer. Recently, a partnership with Giants Ridge and Welch Village was begun to promote a “Minnesota Three Peaks” lift ticket that provides a great value and encourages groups and families to visit all three resorts. This particular program has proven to be extremely popular and has had the additional benefit of good press within the ski industry.

The banquet business continued to be a strong revenue producer in 2010, and 2011 bookings are very strong.

We look forward to an improved economy and a successful winter 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.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
APRIL 30, 2010 AND 2009**

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 14,322	\$ 148,331
Accounts receivable	48,027	75,453
Inventory	111,645	90,168
Prepaid items	5,547	6,201
Restricted assets		
Cash and cash equivalents - restricted for capital improvements	225,000	264,665
Cash and cash equivalents - restricted for unemployment claims	-	50,349
	\$ 404,541	\$ 635,167
Total current assets		
Noncurrent assets		
Cash and cash equivalents - restricted for workers' compensation claims	\$ 25,000	\$ 25,000
Planning and development costs - net of accumulated amortization	222,935	116,737
Debt issuance costs - net of accumulated amortization	1,627	2,522
	\$ 249,562	\$ 144,259
Total noncurrent assets, other than capital		
Capital assets		
Non-depreciable	\$ 3,280,107	\$ 2,466,253
Depreciable	12,080,469	11,870,048
Less: allowance for depreciation	(9,527,643)	(9,022,204)
	\$ 5,832,933	\$ 5,314,097
Total capital assets - net of accumulated depreciation		
Total noncurrent assets	\$ 6,082,495	\$ 5,458,356
Total Assets	\$ 6,487,036	\$ 6,093,523

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

**EXHIBIT A
(Continued)**

**COMPARATIVE STATEMENT OF NET ASSETS
APRIL 30, 2010 AND 2009**

	2010	2009
Liabilities		
Current liabilities		
Accounts payable	\$ 125,672	\$ 66,340
Due to City of Duluth	89,898	105,938
Due to other governments	5,611	7,004
Accrued salaries payable	40,907	53,548
Accrued vacation payable	66,823	64,496
Accrued interest payable	13,714	17,754
Leases payable	229,847	142,793
Revenue bonds payable	198,912	190,238
Deferred revenue	152,373	123,758
Total current liabilities	\$ 923,757	\$ 771,869
Noncurrent liabilities		
Leases payable	\$ 1,036,158	\$ 512,404
Revenue bonds payable	421,192	620,488
Total noncurrent liabilities	\$ 1,457,350	\$ 1,132,892
Total Liabilities	\$ 2,381,107	\$ 1,904,761
Net Assets		
Invested in capital assets - net of related debt	\$ 3,946,824	\$ 3,848,174
Restricted for capital improvements	225,000	264,665
Restricted for workers' compensation claims	25,000	25,000
Restricted for unemployment claims	-	50,349
Unrestricted	(90,896)	574
Total Net Assets	\$ 4,105,928	\$ 4,188,762

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

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED APRIL 30, 2010 AND 2009**

	2010	2009
Operating Revenues		
Sales	\$ 906,593	\$ 1,036,662
Less: cost of goods sold	(328,112)	(394,006)
Gross profit on sales	\$ 578,481	\$ 642,656
Charges for services	2,878,320	3,130,063
Miscellaneous	55,849	68,779
Total Operating Revenues	\$ 3,512,650	\$ 3,841,498
Operating Expenses		
Personal services	\$ 2,004,874	\$ 2,024,941
Supplies	218,403	230,562
Utilities	295,577	378,607
Other services and charges	716,485	923,306
Amortization	18,583	16,275
Depreciation	505,439	393,223
Total Operating Expenses	\$ 3,759,361	\$ 3,966,914
Operating Income (Loss)	\$ (246,711)	\$ (125,416)
Nonoperating Revenues (Expenses)		
Earnings on investments	\$ 1,145	\$ 6,585
Tourism tax	225,000	225,000
Gain (loss) on sale or disposition of capital assets - net	-	56,315
Interest expense	(62,268)	(55,221)
Total Nonoperating Revenues (Expenses)	\$ 163,877	\$ 232,679
Change in Net Assets	\$ (82,834)	\$ 107,263
Net Assets - May 1	4,188,762	4,081,499
Net Assets - April 30	\$ 4,105,928	\$ 4,188,762

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

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED APRIL 30, 2010 AND 2009**

	2010	2009
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,794,751	\$ 4,068,200
Cash paid to suppliers	(1,491,298)	(1,928,221)
Cash paid to employees	(2,015,188)	(1,998,040)
Other cash received	55,849	68,779
Net cash provided by (used in) operating activities	\$ 344,114	\$ 210,718
Cash Flows from Capital and Related Financing Activities		
Capital lease payments	\$ (174,254)	\$ (126,545)
Acquisition and construction of capital assets	(395,028)	(423,433)
Net cash provided by (used in) capital and related financing activities	\$ (569,282)	\$ (549,978)
Cash Flows from Investing Activities		
Interest on investments	\$ 1,145	\$ 6,585
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (224,023)	\$ (332,675)
Cash and Cash Equivalents - May 1	488,345	821,020
Cash and Cash Equivalents - April 30	\$ 264,322	\$ 488,345
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	\$ (246,711)	\$ (125,416)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	505,439	393,223
Amortization	18,583	16,275
Change in assets and liabilities		
Decrease (increase) in receivables	27,426	(42,130)
Decrease (increase) in inventory	(21,477)	(24,961)
Decrease (increase) in prepaid items	654	40,609
Increase (decrease) in accounts payable	41,899	(66,829)
Increase (decrease) in salaries payable	(12,641)	27,193
Increase (decrease) in vacation payable	2,327	(292)
Increase (decrease) in deferred revenue	28,615	(6,954)
Net Cash Provided by (Used in) Operating Activities	\$ 344,114	\$ 210,718
Noncash Investing, Capital, and Financing Activities		
Capital assets acquired under lease purchase agreements	\$ 753,134	\$ 753,389

The City of Duluth directly makes revenue bond payments for the Spirit Mountain Recreation Area Authority. The revenue bonds are secured by the Authority, but tourism tax is actually used to fund the bond payments. The Authority is to withhold \$225,000 in revenue to use for capital improvements. A capital improvement budget is submitted and approved by the City.

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED APRIL 30, 2010 AND 2009**

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

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 ski 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, 2010 and 2009, follows:

	2010		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Sales	\$ 1,048,150	\$ 906,593	\$ (141,557)
Less: cost of goods sold	(380,759)	(328,112)	52,647
Gross profit on sales	\$ 667,391	\$ 578,481	\$ (88,910)
Charges for services	3,404,692	2,878,320	(526,372)
Miscellaneous	49,600	55,849	6,249
Total Operating Revenues	\$ 4,121,683	\$ 3,512,650	\$ (609,033)

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

2. Detailed Notes

A. Budget (Continued)

	2009		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Expenses			
Personal services	\$ 2,058,968	\$ 2,024,941	\$ 34,027
Supplies	250,652	230,562	20,090
Utilities	365,360	378,607	(13,247)
Other services and charges	839,469	923,306	(83,837)
Amortization	9,600	16,275	(6,675)
Depreciation	480,000	393,223	86,777
Total Operating Expenses	<u>\$ 4,004,049</u>	<u>\$ 3,966,914</u>	<u>\$ 37,135</u>
Operating Income (Loss)	<u>\$ 8,109</u>	<u>\$ (125,416)</u>	<u>\$ (133,525)</u>
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ 19,055	\$ 6,585	\$ (12,470)
City of Duluth hotel-motel, food, and beverage tax	225,000	225,000	-
Gain (loss) on disposal of assets	-	56,315	56,315
Interest expense	(63,429)	(55,221)	8,208
Total Nonoperating Revenues (Expenses)	<u>\$ 180,626</u>	<u>\$ 232,679</u>	<u>\$ 52,053</u>
Change in Net Assets	<u>\$ 188,735</u>	<u>\$ 107,263</u>	<u>\$ (81,472)</u>

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.

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

2. Detailed Notes

B. Deposits (Continued)

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	
	2010	2009
City Treasurer	\$ 255,397	\$ 425,571
Certificate of deposit	-	50,349
Petty cash and change funds	8,925	12,425
Total Cash and Cash Equivalents	\$ 264,322	\$ 488,345
Current assets		
Unrestricted	\$ 14,322	\$ 148,331
Restricted for capital improvements	225,000	264,665
Restricted for unemployment claims	-	50,349
Noncurrent assets		
Restricted for workers' compensation claims	25,000	25,000
Total Cash and Cash Equivalents	\$ 264,322	\$ 488,345

C. Capital Assets

A summary of the changes in capital assets for the years ended April 30, 2010 and 2009, follows:

	Balance May 1, 2009	Additions	Deductions	Reclassification	Balance April 30, 2010
Capital assets not depreciated					
Land and land improvements	\$ 2,466,253	\$ -	\$ -	\$ -	\$ 2,466,253
Construction in progress	-	1,148,162	-	(334,308)	813,854
Total capital assets not depreciated	\$ 2,466,253	\$ 1,148,162	\$ -	\$ (334,308)	\$ 3,280,107

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

2. Detailed Notes

C. Capital Assets (Continued)

	Balance May 1, 2009	Additions	Deductions	Reclassification	Balance April 30, 2010
Capital assets depreciated					
Buildings and structures	\$ 3,985,887	\$ -	\$ -	\$ 50,187	\$ 4,036,074
Equipment	7,255,247	-	-	145,163	7,400,410
Furniture and fixtures	229,589	-	-	12,863	242,452
Other capital assets	399,325	-	-	2,208	401,533
Total capital assets depreciated	\$ 11,870,048	\$ -	\$ -	\$ 210,421	\$ 12,080,469
Less: accumulated depreciation for					
Buildings and structures	\$ 2,612,365	\$ 151,893	\$ -	\$ -	\$ 2,764,258
Equipment	5,919,064	325,917	-	-	6,244,981
Furniture and fixtures	197,287	8,564	-	-	205,851
Other capital assets	293,488	19,065	-	-	312,553
Total accumulated depreciation	\$ 9,022,204	\$ 505,439	\$ -	\$ -	\$ 9,527,643
Total capital assets depreciated, net	\$ 2,847,844	\$ (505,439)	\$ -	\$ 210,421	\$ 2,552,826
Capital Assets, Net	\$ 5,314,097	\$ 642,723	\$ -	\$ (123,887)*	\$ 5,832,933

*Reclassification balance is due to construction in progress item reclassified to planning and development.

	Balance May 1, 2008	Additions	Deductions	Reclassification	Balance April 30, 2009
Capital assets not depreciated					
Land and land improvements	\$ 2,446,545	\$ -	\$ -	\$ 19,708	\$ 2,466,253
Construction in progress	189,130	423,432	-	(612,562)	-
Total capital assets not depreciated	\$ 2,635,675	\$ 423,432	\$ -	\$ (592,854)	\$ 2,466,253
Capital assets depreciated					
Buildings and structures	\$ 3,885,456	\$ -	\$ 5,023	\$ 105,454	\$ 3,985,887
Equipment	6,706,561	753,389	551,042	346,339	7,255,247
Furniture and fixtures	204,058	-	-	25,531	229,589
Other capital assets	368,413	-	-	30,912	399,325
Total capital assets depreciated	\$ 11,164,488	\$ 753,389	\$ 556,065	\$ 508,236	\$ 11,870,048
Less: accumulated depreciation for					
Buildings and structures	\$ 2,455,334	\$ 162,054	\$ 5,023	\$ -	\$ 2,612,365
Equipment	6,132,435	204,699	418,070	-	5,919,064
Furniture and fixtures	189,484	7,803	-	-	197,287
Other capital assets	274,821	18,667	-	-	293,488
Total accumulated depreciation	\$ 9,052,074	\$ 393,223	\$ 423,093	\$ -	\$ 9,022,204
Total capital assets depreciated, net	\$ 2,112,414	\$ 360,166	\$ 132,972	\$ 508,236	\$ 2,847,844
Capital Assets, Net	\$ 4,748,089	\$ 783,598	\$ 132,972	\$ (84,618)*	\$ 5,314,097

*Reclassification balance is due to construction in progress item reclassified to planning and development.

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

2. Detailed Notes (Continued)

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, 2010 and 2009, is \$66,823 and \$64,496, 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.

E. Due to City of Duluth

The amounts due to the City at April 30, 2010 and 2009, follow:

	<u>2010</u>	<u>2009</u>
General Fund - cost allocation plan	\$ 39,306	\$ 55,656
General Fund - sales tax	2,666	2,356
Self-Insurance Fund - insurance premiums	<u>47,926</u>	<u>47,926</u>
Total	<u>\$ 89,898</u>	<u>\$ 105,938</u>

In 2005, the City of Duluth and the Authority agreed on a repayment schedule. The total amount of \$89,898 owed to the City is expected to be repaid within the next year.

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

2. Detailed Notes (Continued)

F. Line of Credit

The City of Duluth extended the Authority a line of credit up to \$350,000 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 beginning May 1 through October 31, and it needs to be repaid in full at least once per calendar year, by October 31 of that year. If repaid as agreed with the City Treasurer, no interest shall be charged. The Authority obtained \$350,000 in fiscal year 2010 and repaid the money on October 31 as agreed.

G. Long-Term Debt

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

	2010	2009
Bonds Payable - May 1	\$ 810,726	\$ 993,432
Payments	(190,622)	(182,706)
Bonds Payable - April 30	\$ 620,104	\$ 810,726
Amount Due Within One Year	\$ 198,912	\$ 190,238

Bonds payable comprise the following issue:

A \$1,646,750 City of Duluth Gross Revenue Recreational Facility Bond dated March 28, 2003, with interest at 4.50 percent, is due in semi-annual installments on June 1 and December 1, through 2012. The bond is not a general obligation of the City and is payable from Authority gross revenues. The City has pledged tourism taxes in the amount of \$225,000 per year as part of the gross revenues of the project. The Authority is required to deposit \$75,000 on each November 15, December 15, and January 15 to the Repair and Replacement Account each year until 2012. The monies in this account can then be expended by the Authority for repairs and replacements made to the facilities. The bond was issued to refinance existing debt. The refinancing resulted in a \$53,850 deferred loss, which is amortized over the life of the old debt.

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

2. Detailed Notes

G. Long-Term Debt (Continued)

The annual requirements to service the debt follow:

<u>Fiscal Year Ended April 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 198,912	\$ 25,705
2012	208,364	16,636
2013	212,828	7,154
Total	<u>\$ 620,104</u>	<u>\$ 49,495</u>

H. Capitalized Lease Obligations

Capitalized lease obligations consist of the following at April 30, 2010:

<u>Type of Property</u>	
Equipment	\$ 1,509,984
Less: accumulated amortization	<u>(194,503)</u>
Net Capital Lease Property	<u>\$ 1,315,481</u>

Minimum future lease payments follow:

<u>Fiscal Year Ended April 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 229,847	\$ 81,720
2012	279,490	102,467
2013	291,412	90,545
2014	182,147	79,057
2015	140,682	72,526
2016 - 2020	794,247	271,790
2021 - 2025	935,196	95,309
Total	<u>\$ 2,853,021</u>	<u>\$ 793,414</u>

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

2. Detailed Notes

H. Capitalized Lease Obligations (Continued)

Capitalized lease obligations at April 30, 2010, 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.	\$ 205,179
A \$435,968 lease purchase for two groomers, dated November 5, 2008, due in periodic installments during the ski season through December 2013, with interest at 4.25 percent.	307,692
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. The Authority has received \$753,134 in advancements for project costs through April 30, 2010, and the remaining balance to be drawn on is \$1,587,016. The Authority will make payments in monthly installments of the interest portion of the amounts advanced for the project commencing on March 1 through August 1, 2010.	<u>2,340,150</u>
Total	<u>\$ 2,853,021</u>
Current portion	\$ 229,168
Long-term portion	<u>2,623,853</u>
Total	<u>\$ 2,853,021</u>

I. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for fiscal year 2010 is \$4,608 and \$4,252 for fiscal year 2009. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2009, are \$4,608 due in fiscal year 2011.

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

2. Detailed Notes (Continued)

J. 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.

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 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. The Authority participates in the City of Duluth Internal Service Fund to insure against its obligation to provide benefits to employees pursuant to the Minnesota Workers' Compensation Act and 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.

For claims arising from the Workers' Compensation Act, insured through the City of Duluth Self-Insurance Internal Service Fund, the Authority retains responsibility for attorney fees on contested claims. In addition, the Authority escrows \$25,000 as a reserve fund to pay excess workers' compensation claims and costs that exceed the agreed-upon value of plan participation with the City. No liability has been recognized in the financial statements for excess workers' compensation claims and costs.

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

3. Risk Management (Continued)

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. The attorney has indicated there are \$65,000 in claims that may become losses to the Authority.

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.

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

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

5. Pension Plans - Defined Benefit Plans

A. Plan Description (Continued)

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

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

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.

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

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

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

5. 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 Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.1 and 6.0 percent, respectively, of their annual covered salary.

The Authority is required to contribute the following percentages of annual covered payroll in 2009 and 2010:

	2009	2010
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.75	7.00

The Authority's contributions for the years ending April 30, 2010, 2009, and 2008, for the Public Employees Retirement Fund were:

	2010	2009	2008
Public Employees Retirement Fund	\$ 71,628	\$ 71,847	\$ 59,839

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

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SUPPLEMENTARY INFORMATION

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

Schedule 1

**COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED APRIL 30, 2010 AND 2009**

	2010	2009
Sales		
Food	\$ 524,064	\$ 596,328
Liquor	259,072	286,531
Ski shop	123,457	153,803
Less: cost of goods sold	(328,112)	(394,006)
Net sales	\$ 578,481	\$ 642,656
Charges for Services		
Season pass	\$ 1,089,969	\$ 1,155,793
Daily lift tickets	986,926	1,045,149
Ski school and snow sports	122,319	128,174
Ski rental	229,215	250,731
Snowboard rental	85,191	96,936
Locker rental	25,343	30,884
Nordic tickets and rental	15,835	14,704
Snocross	95,633	174,780
Campground	108,498	107,475
Mountain villa management fee	91,679	95,369
Marketing revenue	27,712	30,068
Total charges for services	\$ 2,878,320	\$ 3,130,063
Miscellaneous		
Other revenues	\$ 55,849	\$ 68,779
Total Operating Revenues	\$ 3,512,650	\$ 3,841,498

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

Schedule 2

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2010 AND 2009**

	2010	2009
Department		
Food and beverage	\$ 315,679	\$ 327,411
Housekeeping	92,122	103,394
Rental	76,077	90,838
Ski shop	40,702	36,575
Campground	74,872	68,503
Parking and shuttle	20,419	23,241
Building and grounds	213,114	231,631
Snocross	123,846	167,167
Ski school and snow sports center	104,058	117,435
Outside mountain operations	1,106,645	1,174,500
Nordic	8,794	8,960
Ski patrol	7,519	9,354
Sales and marketing	425,792	465,423
Office administration	580,542	688,936
Mountain villas	45,158	44,048
Total departmental costs	\$ 3,235,339	\$ 3,557,416
Amortization	18,583	16,275
Depreciation	505,439	393,223
Total Operating Expenses	\$ 3,759,361	\$ 3,966,914

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

Schedule 3

**STATEMENT OF CAPITAL IMPROVEMENTS
YEAR ENDED APRIL 30, 2010**

	Repair and Replacement Account Capital Improvements	Non-Repair and Replacement Account Capital Improvements	Total
Construction in Progress			
New vestibule entrance for Bear Paw and Eagles Nest	\$ 22,286	\$ -	\$ 22,286
Banquet tables	8,064	-	8,064
Slopeside bar	29,298	1,053	30,351
Used plow truck	5,450	-	5,450
Replace A lift chairs	84,423	13,217	97,640
Install reach-all on BR-275	15,000	3,517	18,517
Siriusware upgrade	17,937	1,499	19,436
Banquet chairs	4,792	7	4,799
Banquet skirting	935	22	957
Spirit Mountain permitting	35,000	-	35,000
Fargo printer	580	1,520	2,100
Master plan fees	20,000	44,500	64,500
2009 Thinkpad T-400	1,063	-	1,063
Fireside wall and window repair	19,837	-	19,837
Parking lot gravel	-	2,208	2,208
2009 environmental study	-	2,100	2,100
Alpine coaster	-	813,854	813,854
	\$ 264,665	\$ 883,497	\$ 1,148,162
Total Construction in Progress	\$ 264,665	\$ 883,497	\$ 1,148,162

Repair and Replacement Account Summary

Net Assets - restricted for capital improvements at April 30, 2009	\$ 264,665
2009 repair and replacement account deposits	225,000
Repair and replacement account capital improvements	(264,665)
Net Assets - restricted for capital improvements at April 30, 2010	\$ 225,000

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

Schedule 4

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED APRIL 30, 2010

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Internal Control - Segregation of Duties, Documentation, and Monitoring

Management is responsible for establishing and maintaining effective internal control. This includes designing and implementing programs and controls to prevent and detect errors and fraud, ensuring fair presentation of the financial statements and related notes, and monitoring ongoing activities. Adequate segregation of duties and written policies and procedures are key control activities in an organization's accounting system. Monitoring helps to ensure that internal control continues to operate effectively.

The size of Spirit Mountain Recreation Area Authority and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view. Ideally, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and be responsible for custody of the asset resulting from the transaction. In addition, the work of one individual should be either independent of, or serve to check on, the work of another. Such arrangements reduce the risk of undetected errors and limit opportunities to misappropriate assets or conceal intentional misstatement.

An outside payroll service is not used to process payroll; it is processed by Authority staff. This puts an even greater burden on the Authority, already limited by its small staff size, to prevent, and detect and correct, errors and irregularities. In addition, access controls currently in the payroll module of the computerized accounting system cannot be limited or restricted for staff that process payroll. Therefore, the Finance Director, who is responsible for processing payroll, also has access to make changes to the employee master file in the computerized payroll module for occurrences such as new hires, terminations, and pay increases. The Human Resources Manager, who is responsible for

maintenance of the employee master file, has access to only employee master files and not to the processing components of the computerized payroll module. The Executive Director is responsible for reviewing an extensive number of reports in an effort to mitigate payroll-related internal control weaknesses.

We recommend the Board of Directors be mindful that limited staffing and segregation of duties causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls. This is especially important in the payroll area.

Client's Response:

As noted previously, Spirit Mountain takes implementing strong internal controls very seriously. With regard to payroll processing, the authority was able to save significantly by taking payroll processing in house and addressed the issue with the auditor prior to doing so to be clear on the best procedures for internal control.

The Finance Director does the payroll processing and must have access to all aspects of the payroll system to process payroll and make changes to the employee master file.

In the numerous steps involved in processing the payroll, procedures have been put in place to ensure payroll is processed properly. Department supervisors are required to print their own employee times, review for accuracy and submit signed timesheets for each employee in their department.

The Executive Director reviews all aspects of the payroll process, paying careful attention to the payroll for the Finance Director; by signing and approving the payroll prior to processing and by reviewing the actual pay amount after processing to ensure no changes have been made.

All of the detailed reports are reviewed and approved by the Executive Director. In addition, the Human Resources Director also reviews the "Calculate" report that shows the pay amount for each employee.

We believe the steps we have taken to ensure the veracity of the payroll are proper and leave little room for either mistakes or improper pay amounts.

PREVIOUSLY REPORTED ITEMS RESOLVED

Internal Control - Segregation of Duties, Documentation, and Monitoring of Snocross Event (09-1)

The Authority did not have written policies and procedures documenting internal controls related to the Snocross event. We recommended written policies and procedures for significant events be prepared and approved by the Board of Directors.

Resolution

The Authority developed a Duluth National Snocross Ticket Sales and Reconciliation policy.

Audit Adjustment (09-2)

One material adjustment of \$313,190 was made to correct depreciation expense. We recommended the Authority continue its efforts in reducing audit adjustments by establishing review procedures to ensure all postings to the general ledger and supporting schedules are accurate and complete.

Resolution

No material adjustments were made for the year ending April 30, 2010.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-3 **Donation to Nonprofit Foundation**

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.

Schedule 4
(Continued)

Each expenditure of public funds must be authorized by law and for a public purpose. *See e.g.* Minn. Const., art. X, § 1 (“Taxes . . . shall be levied and collected for public purposes.”). For this reason, 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. 59a-3 (Aug. 19, 1947) (no authority to donate to 4-H Clubs), 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). The Office of the State Auditor knows of no specific statutory or charter authority for this charitable gift.

We recommend that 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:

The agreement the Authority entered into with the Duluth-Superior Area Community Foundation is for the purpose of establishing an endowment fund for Spirit Mountain Recreation Area. The fund, when fully endowed, will support ONLY Spirit Mountain Recreation Area Activities. No other entities or organizations will be supported by this fund. The fund has been established to assist activities for youth programming at Spirit Mountain.

While the initial seed money was donated by Spirit Mountain, all the proceeds of the fund as it grows over the years will come back to the Authority. So in reality the initial contribution will be given back to the Authority in time. It is our position that in essence the Foundation is simply holding funds for Spirit Mountain for a future use. These funds will grow more aggressively through the funds investments.

Spirit Mountain entered into this agreement believing it was the same program as that of the City of Duluth Legacy Fund.



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

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

We have audited the basic 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, 2010, and have issued our report thereon dated December 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Spirit Mountain Recreation Area Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting, described in the Schedule of Findings and Recommendations as item 09-1, that we consider to be a significant deficiency in internal control over financial reporting. 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 attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Spirit Mountain Recreation Area Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, Spirit Mountain Recreation Area Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 09-3.

Spirit Mountain Recreation Area Authority's written responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 17, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR