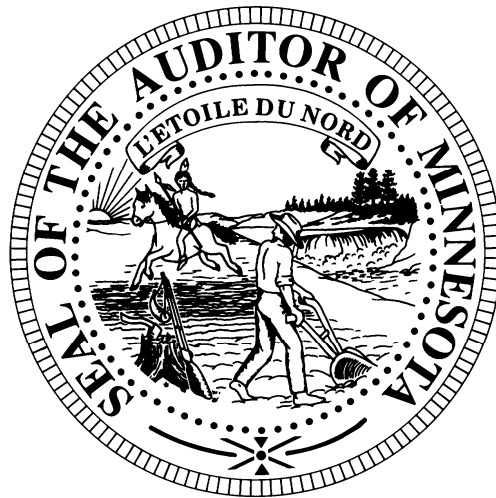


STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

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

YEARS ENDED APRIL 30, 2019 AND 2018

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 100 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 Minnesota’s local public pension funds; and

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

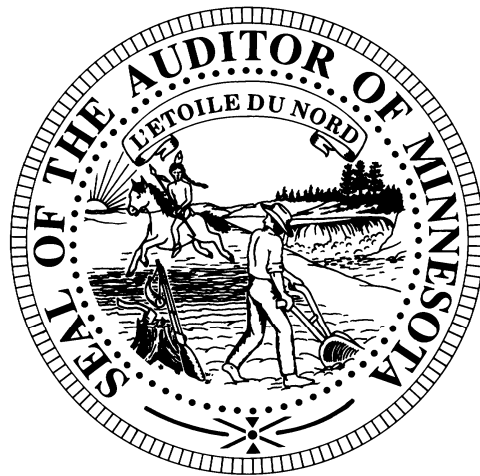
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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

Years Ended April 30, 2019 and 2018



**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, 2019

	<u>Term Ending</u>
Directors	
David Kohlhaas	June 30, 2020
Dan O'Neill	June 30, 2020
Erik Viken	June 30, 2021
Gage Hartman	June 30, 2021
Aaron Stolp	June 30, 2021
Jane Gilbert-Howard	June 30, 2021
Cory Salmela	June 30, 2020
Antoinette Pearson	June 30, 2021
Dave Cizmas	June 30, 2020
Executive Director	
Brandy Ream	
Officers	
Chair	
Erik Viken	

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, Minnesota, as of and for the years ended April 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from 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 the Spirit Mountain Recreation Area Authority as of April 30, 2019 and 2018, 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 and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary 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 February 6, 2020, on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Spirit Mountain Recreation Area Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Spirit Mountain Recreation Area Authority's internal control over financial reporting and compliance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 6, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2019
(Unaudited)**

This section presents management's analysis of the Spirit Mountain Recreation Area Authority's financial condition and activities for the fiscal year ended April 30, 2019. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Fiscal year 2019 showed a strong gain in season pass sales.
- After a strong holiday week in December and the first of January, Fiscal Year 2019 showed a slight gain in Daily Lift Ticket Sales in spite of the bitterly cold winter which was followed by rain in March.
- Wedding and banquet business has seen a slight decrease in revenue. This is due to a few late cancellations of weddings and lower liquor revenues at the weddings that have been held.
- Mountain biking continues to increase in growth as well as Mountain Biking programming.
- The campground has remained a strong source of revenue for the summer months.

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, economic resource 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 presents changes in cash and cash equivalents resulting from operating, capital, 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 forms of recreation provided to both local residents and visitors is skiing; alpine; Nordic; snowboarding; and, added in fiscal year 2012, the 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 a professional snowmobile race, Snocross, the Duluth National, over Thanksgiving weekend. Summertime activities include special events, banquets, meetings, corporate events, mountain biking, and camping, with banquets becoming an even larger business for the Authority, with wedding receptions and corporate/other events. In the summer of 2012, the Authority installed a new four-place detachable lift to replace a similar lift and added a new chalet with a bar and restaurant and a new parking lot at the Grand Avenue Chalet entrance. During 2014, two

mountain bike trails were constructed, which added lift access mountain biking to the list of summer attractions and further established Spirit Mountain as a year-round recreational facility. Currently, Spirit Mountain features 19 mountain bike trails and also a Duluth Traverse trailhead at the lower chalet. A pump track is also located at the Grand Avenue Chalet location. The All Weather Bike Trail is completed which provides a true beginner, downhill bike trail. Spirit Mountain hosts several large mountain biking events in which thousands of people attend. A jumping pillow has been added to the Adventure Park. In 2019, the Grand Avenue Nordic Center opened at the lower chalet. Spirit Mountain is responsible for all expenses and revenues from this operation.

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

FINANCIAL ANALYSIS

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

Condensed Statements of Net Position

	FY 2019	FY 2018	Change from 2018 to 2019		FY 2017
			Dollar	Percent (%)	
Current and other assets	\$ 778,966	\$ 929,679	\$ (150,713)	(16)	\$ 512,380
Capital assets	18,058,328	18,153,374	(95,046)	(1)	19,065,345
Total Assets	\$ 18,837,294	\$ 19,083,053	\$ (245,759)	(1)	\$ 19,577,725
Deferred outflows of resources					
Deferred pension outflows	\$ 366,578	\$ 541,230	\$ (174,652)	(32)	\$ 941,501
Current liabilities	\$ 3,084,781	\$ 2,660,928	\$ 423,853	16	\$ 2,357,934
Long-term liabilities	2,234,948	2,809,166	(574,218)	(20)	3,320,571
Total Liabilities	\$ 5,319,729	\$ 5,470,094	\$ (150,365)	(3)	\$ 5,678,505
Deferred inflows of resources					
Deferred pension inflows	\$ 518,401	\$ 513,101	\$ 5,300	1	\$ 583,130
Net Position					
Net investment in capital assets	\$ 16,650,066	\$ 16,860,414	\$ (210,348)	(1)	\$ 17,537,746
Unrestricted	(3,284,324)	(3,219,326)	(64,998)	(2)	(3,280,155)
Total Net Position	\$ 13,365,742	\$ 13,641,088	\$ (275,346)	(2)	\$ 14,257,591

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

	FY 2019	FY 2018	Change from 2018 to 2019		FY 2017
			Dollar	Percent (%)	
Operating revenues	\$ 5,264,063	\$ 4,885,892	\$ 378,171	8	\$ 4,315,778
Nonoperating revenues	420,700	493,970	(73,270)	(15)	395,700
Contributions from City of Duluth	41,642	-	41,642	100	47,367
Total Revenues	\$ 5,726,405	\$ 5,379,862	\$ 346,543	6	\$ 4,758,845
Operating expenses	\$ 4,799,457	\$ 4,638,754	\$ 160,703	3	\$ 4,446,715
Nonoperating expenses	83,088	45,353	37,735	83	52,886
Depreciation/amortization	1,119,206	1,312,258	(193,052)	(15)	1,078,690
Total Expenses	\$ 6,001,751	\$ 5,996,365	\$ 5,386	0	\$ 5,578,291
Changes in Net Position	\$ (275,346)	\$ (616,503)	\$ 341,157	55	\$ (819,446)
Beginning Net Position	13,641,088	14,257,591	(616,503)	(4)	15,077,037
Ending Net Position	<u>\$ 13,365,742</u>	<u>\$ 13,641,088</u>	<u>\$ (275,346)</u>	<u>(2)</u>	<u>\$ 14,257,591</u>

**Condensed Statement of Revenues, Expenses, and Change in Net Position
(2019 Budget and Actual)**

	Actual	Budget	Budget to Actual Variance	Budget Variance %
Operating revenues	\$ 5,264,063	\$ 4,825,011	\$ 439,052	9
Nonoperating revenues	420,700	420,000	700	0
Capital contributions from the City of Duluth	41,642	-	41,642	100
Total Revenues	\$ 5,726,405	\$ 5,245,011	\$ 481,394	9
Operating expenses	\$ 4,799,457	\$ 4,549,110	\$ (250,347)	(6)
Nonoperating expenses	83,088	78,117	(4,971)	(6)
Depreciation/amortization	1,119,206	1,082,434	(36,772)	(3)
Total Expenses	\$ 6,001,751	\$ 5,709,661	\$ (292,090)	(5)
Changes in Net Position	\$ (275,346)	\$ (464,650)	\$ 189,304	41
Beginning Net Position	13,641,088	13,641,088	-	0
Ending Net Position	<u>\$ 13,365,742</u>	<u>\$ 13,176,438</u>	<u>\$ 189,304</u>	<u>1</u>

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues increased by \$378,171, or 8 percent, in 2019 compared to 2018. Nonoperating revenues decreased by \$73,270, or 15 percent, in 2019 compared to 2018. Contributions increased by \$41,642, or 100 percent, in 2019 compared to 2018 due to the donation of a groomer for the Nordic trails.

Expenses

The Authority's operating expenses increased \$160,703, or three percent, from 2018 due mainly to an increase in maintenance and marketing costs.

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 \$439,052, or nine percent, above budget due mainly to an increase in season pass sales, day tickets in summer and winter, as well as mountain biking programming.

CAPITAL ASSETS

	FY 2019	FY 2018	Change	
			Dollar	Percent (%)
Land and land improvements	\$ 2,556,044	\$ 2,556,044	\$ -	-
Equipment	11,281,298	12,232,612	(951,314)	(8)
Plant equipment	1,016,862	1,030,986	(14,124)	(2)
Buildings and structures	14,986,327	15,008,854	(22,527)	(1)
Furniture and fixtures	259,831	259,831	-	-
Other capital assets	1,052,205	1,095,138	(42,933)	(4)
Construction in progress	47,272	-	47,272	100
Subtotal	\$ 31,199,839	\$ 32,183,465	\$ (983,626)	(3)
Less: accumulated depreciation	(13,141,511)	(14,030,091)	888,580	7
Total Capital Assets, Net	\$ 18,058,328	\$ 18,153,374	\$ (95,046)	(1)

The Authority’s ongoing capital plan improvements are made with the long-term goals of the Spirit Mountain Master Plan in mind. Building new attractions is the keystone to the area becoming a true four-season recreation venue. As always, we continue to seek ways to streamline the operation, find efficiencies, and provide the best possible guest experience.

Debt Administration

	FY 2019	FY 2018	Change	
			Dollar	Percent (%)
Alpine Coaster lease	\$ 1,055,618	\$ 1,221,524	\$ (165,906)	(14)
Groomer leases	29,059	71,436	(42,377)	(59)
Total Debt	\$ 1,084,677	\$ 1,292,960	\$ (208,283)	(16)

During fiscal year 2019, the Authority’s outstanding debt decreased \$208,283.

ECONOMIC AND OTHER FACTORS

The Authority must consider many factors when setting the fiscal year budgets. Spirit Mountain is not immune from lessened consumer confidence and shrinking spending habits; additionally, weather challenges hamper the consumers’ excitement for winter sporting activities. The entire pricing structure on tickets and season passes has been evaluated and restructured. We continue to offer an affordable season pass that has value to our operation. Our pricing for walk-up tickets was reviewed and changed as well. We offer a variety of methods to purchase tickets and allowing for discounts to meet consumer demands. The Adventure Park is open seasonally and focuses on snow tubing in the winter months with summer months on the other attractions.

We have spent a great deal of time and money addressing the deferred maintenance, upgrading the snow making system, mountain bike trails, as well as other internal infrastructure issues. We experienced a water leak in our kitchen at the Skyline Chalet resulting in a remodel of this area. This money comes from the Spirit Mountain budget and revenue.

Snocross continues to be a challenge with the expenses and risks being absorbed completely by Spirit Mountain where the profits are minimal. This community event is held over Thanksgiving Weekend annually.

The banquet business continues to be a strong revenue source for Spirit Mountain. We did see a bit of a downward turn this season due to late cancellations. We anticipate this improving as we move forward.

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.

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BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2019 AND 2018**

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 460,826	\$ 319,090
Accounts receivable	173,272	481,540
Prepaid insurance	44,235	129
Inventory	91,192	106,544
Total current assets	\$ 769,525	\$ 907,303
Noncurrent assets		
Planning and development costs – net of accumulated amortization	\$ 9,441	\$ 22,376
Capital assets		
Non-depreciable	\$ 2,603,316	\$ 2,556,044
Depreciable	28,596,523	29,627,421
Less: accumulated depreciation	(13,141,511)	(14,030,091)
Total capital assets – net of accumulated depreciation	\$ 18,058,328	\$ 18,153,374
Total noncurrent assets	\$ 18,067,769	\$ 18,175,750
Total Assets	\$ 18,837,294	\$ 19,083,053
Deferred Outflows of Resources		
Deferred pension outflows	\$ 366,578	\$ 541,230
Liabilities		
Current liabilities		
Accounts payable	\$ 580,827	\$ 217,095
Due to City of Duluth	1,202,438	1,207,608
Due to other governments	11,107	22,771
Accrued salaries payable	103,560	103,659
Accrued vacation payable	112,523	103,790
Accrued interest payable	3,935	1,939
Leases payable	219,984	207,455
Unearned revenue	850,407	796,611
Total current liabilities	\$ 3,084,781	\$ 2,660,928
Noncurrent liabilities		
Leases payable	\$ 864,693	\$ 1,085,505
Net pension liability	1,370,255	1,723,661
Total noncurrent liabilities	\$ 2,234,948	\$ 2,809,166
Total Liabilities	\$ 5,319,729	\$ 5,470,094

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

Page 12

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

***EXHIBIT 1
(Continued)***

**COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Deferred Inflows of Resources		
Deferred pension inflows	<u>\$ 518,401</u>	<u>\$ 513,101</u>
Net Position		
Net investment in capital assets	\$ 16,650,066	\$ 16,860,414
Unrestricted	<u>(3,284,324)</u>	<u>(3,219,326)</u>
Total Net Position	<u><u>\$ 13,365,742</u></u>	<u><u>\$ 13,641,088</u></u>

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

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018**

	2019	2018
Operating Revenues		
Sales	\$ 1,212,992	\$ 1,239,542
Less: cost of goods sold	(492,392)	(474,129)
Gross profit on sales	\$ 720,600	\$ 765,413
Charges for services	4,221,048	3,949,240
Miscellaneous	322,415	171,239
Total Operating Revenues	\$ 5,264,063	\$ 4,885,892
Operating Expenses		
Personal services	\$ 2,906,097	\$ 2,768,760
Supplies	304,855	335,193
Utilities	480,725	471,439
Other services and charges	1,094,844	1,063,362
Amortization	12,936	26,472
Depreciation	1,119,206	1,285,786
Total Operating Expenses	\$ 5,918,663	\$ 5,951,012
Operating Income (Loss)	\$ (654,600)	\$ (1,065,120)
Nonoperating Revenues (Expenses)		
Tourism tax	\$ 420,700	\$ 493,970
Gain (loss) on disposal of capital assets	(8,895)	-
Interest expense	(74,193)	(45,353)
Total Nonoperating Revenues (Expenses)	\$ 337,612	\$ 448,617
Income (loss) before contributions	\$ (316,988)	\$ (616,503)
Capital contributions from City of Duluth	41,642	-
Changes in Net Position	\$ (275,346)	\$ (616,503)
Net Position – May 1	13,641,088	14,257,591
Net Position – April 30	\$ 13,365,742	\$ 13,641,088

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

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018**

	2019	2018
Cash Flows from Operating Activities		
Cash received from customers	\$ 5,739,079	\$ 4,940,467
Cash paid to suppliers	(2,321,232)	(2,264,001)
Cash paid to employees	(3,070,917)	(2,701,695)
Other cash received	322,415	171,239
	\$ 669,345	\$ 146,010
Net cash provided by (used in) operating activities		
Cash Flows from Capital and Related Financing Activities		
City of Duluth hotel/motel taxes	\$ 420,700	\$ 493,970
Capital lease payments	(280,479)	(281,103)
Acquisition and construction of capital assets	(667,830)	(375,424)
	\$ (527,609)	\$ (162,557)
Net cash provided by (used in) capital and related financing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 141,736	\$ (16,547)
Cash and Cash Equivalents – May 1	319,090	335,637
Cash and Cash Equivalents – April 30	\$ 460,826	\$ 319,090
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	\$ (654,600)	\$ (1,065,120)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,119,206	1,285,786
Amortization	12,936	26,472
Change in assets and liabilities		
Decrease (increase) in receivables	308,268	(464,707)
Decrease (increase) in prepaid insurance	(44,106)	(129)
Decrease (increase) in inventory	15,352	5,904
Decrease (increase) in deferred pension inflows	5,300	(70,029)
Increase (decrease) in payables	23,313	74,218
Increase (decrease) in accrued salaries payable	(99)	30,443
Increase (decrease) in accrued vacation payable	8,733	4,476
Increase (decrease) in deferred pension outflows	174,652	400,271
Increase (decrease) in net pension liability	(353,406)	(298,096)
Increase (decrease) in unearned revenue	53,796	216,521
	\$ 669,345	\$ 146,010
Net Cash Provided by (Used in) Operating Activities		
Non-cash capital activities		
Loss on disposal of capital asset	\$ (8,845)	\$ -
Capital contributions	41,642	-
Capital asset purchased on account	323,585	-
Capital asset trade-ins	(75,918)	-

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

1. Summary of Significant Accounting Policies

Organization

The 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 the Spirit Mountain Recreation Area Authority conform with accounting principles generally accepted in the United States of America.

A. Financial Reporting Entity

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

B. Fund Accounting

The Authority is accounted for as an enterprise fund. Enterprise funds account for operations financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

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

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

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Authority uses the full accrual, economic resource basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of cash flows.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

1. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and investments held by the Treasurer of the City of Duluth. Investments are stated at fair value, and investment revenue is recorded as it is earned. For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

2. Inventories

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

3. Capital Assets

Purchased or constructed capital assets are stated at cost. Donated capital assets are recorded at acquisition value on the date of donation. 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 capital assets	2 to 40 years
Planning and development costs	10 years

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position
(Continued)

4. Accrued Vacation Payable

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.

5. Unearned Revenue

Unredeemed passes and gift certificates are reported as unearned revenue until they are earned.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The Authority reports deferred outflows of resources associated with the defined benefit pension plan.

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

6. Deferred Outflows/Inflows of Resources (Continued)

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

7. Pension Plan

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

8. Classification of Net Position

Net position is classified in the following categories:

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

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

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

8. Classification of Net Position (Continued)

- Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or constitutional provisions or enabling legislation.
- Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

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 accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets, deferred outflows or resources, liabilities, and deferred inflows of resources; and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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, 2019 and 2018, follows:

	2019		Variance
	Budget	Actual	
Operating Revenues			
Sales	\$ 902,135	\$ 1,212,992	\$ 310,857
Less: cost of goods sold	(465,017)	(492,392)	(27,375)
Gross profit on sales	\$ 437,118	\$ 720,600	\$ 283,482
Charges for services	4,362,920	4,221,048	(141,872)
Miscellaneous	24,973	322,415	297,442
Total Operating Revenues	\$ 4,825,011	\$ 5,264,063	\$ 439,052
Operating Expenses			
Personal services	\$ 2,765,843	\$ 2,906,097	\$ (140,254)
Supplies	284,912	304,855	(19,943)
Utilities	464,989	480,725	(15,736)
Other services and charges	1,010,063	1,094,844	(84,781)
Amortization	23,303	12,936	10,367
Depreciation	1,082,434	1,119,206	(36,772)
Total Operating Expenses	\$ 5,631,544	\$ 5,918,663	\$ (287,119)
Operating Income (Loss)	\$ (806,533)	\$ (654,600)	\$ 151,933
Nonoperating Revenues (Expenses)			
Tourism tax	\$ 420,000	\$ 420,700	\$ 700
Gain (loss) on disposal of capital assets	-	(8,895)	(8,895)
Interest expense	(78,117)	(74,193)	3,924
Total Nonoperating Revenues (Expenses)	\$ 341,883	\$ 337,612	\$ (4,271)
Income (loss) before contributions	\$ (464,650)	\$ (316,988)	\$ 147,662
Capital contributions from the City of Duluth	-	41,642	41,642
Change in Net Position	\$ (464,650)	\$ (275,346)	\$ 189,304

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

2. Detailed Notes

A. Budget (Continued)

	2018		
	Budget	Actual	Variance
Operating Revenues			
Sales	\$ 1,050,946	\$ 1,239,542	\$ 188,596
Less: cost of goods sold	(450,000)	(474,129)	(24,129)
Gross profit on sales	\$ 600,946	\$ 765,413	\$ 164,467
Charges for services	4,321,404	3,949,240	(372,164)
Miscellaneous	20,555	171,239	150,684
Total Operating Revenues	\$ 4,942,905	\$ 4,885,892	\$ (57,013)
Operating Expenses			
Personal services	\$ 2,812,211	\$ 2,768,760	\$ 43,451
Supplies	307,103	335,193	(28,090)
Utilities	450,134	471,439	(21,305)
Other services and charges	1,125,246	1,063,362	61,884
Amortization	23,303	26,472	(3,169)
Depreciation	1,082,434	1,285,786	(203,352)
Total Operating Expenses	\$ 5,800,431	\$ 5,951,012	\$ (150,581)
Operating Income (Loss)	\$ (857,526)	\$ (1,065,120)	\$ (207,594)
Nonoperating Revenues (Expenses)			
Tourism tax	\$ 297,136	\$ 493,970	\$ 196,834
Interest expense	(78,117)	(45,353)	32,764
Total Nonoperating Revenues (Expenses)	\$ 219,019	\$ 448,617	\$ 229,598
Change in Net Position	\$ (638,507)	\$ (616,503)	\$ 22,004

**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 Authority invests funds in the City of Duluth’s investment pool. The fair value of the investment is the fair value per share of the underlying portfolio. The Authority invests in this pool for the purpose of joint investment with the City in order to enhance investment earnings. There are no redemption limitations. The types of investment securities available to the City of Duluth Treasurer are authorized by Minn. Stat. §§ 118A.04 and 118A.05.

Additional disclosures required by Governmental Accounting Standards Board 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	
	2019	2018
City Treasurer	\$ 426,430	\$ 269,470
Petty cash and change funds	34,396	49,620
Total Cash and Cash Equivalents	\$ 460,826	\$ 319,090

**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, 2019 and 2018, follows:

	Balance May 1, 2018	Additions	Deductions	Balance April 30, 2019
Capital assets not depreciated				
Land and land improvements	\$ 2,556,044	\$ -	\$ -	\$ 2,556,044
Construction in progress	-	47,272	-	47,272
Total capital assets not depreciated	\$ 2,556,044	\$ 47,272	\$ -	\$ 2,603,316
Capital assets depreciated				
Buildings and structures	\$ 15,008,854	\$ 39,475	\$ 62,002	\$ 14,986,327
Equipment	13,263,598	823,732	1,789,170	12,298,160
Furniture and fixtures	259,831	-	-	259,831
Other capital assets	1,095,138	46,660	89,593	1,052,205
Total capital assets depreciated	\$ 29,627,421	\$ 909,867	\$ 1,940,765	\$ 28,596,523
Less: accumulated depreciation for				
Buildings and structures	\$ 5,316,950	\$ 499,895	\$ 185,356	\$ 5,631,489
Equipment	7,809,994	571,011	1,732,837	6,648,168
Furniture and fixtures	257,952	451	-	258,403
Other capital assets	645,195	47,849	89,593	603,451
Total accumulated depreciation	\$ 14,030,091	\$ 1,119,206	\$ 2,007,786	\$ 13,141,511
Total capital assets depreciated, net	\$ 15,597,330	\$ (209,339)	\$ (67,021)	\$ 15,455,012
Capital Assets, Net	\$ 18,153,374	\$ (162,067)	\$ (67,021)	\$ 18,058,328

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

2. Detailed Notes

C. Capital Assets (Continued)

	Balance May 1, 2017	Additions	Deductions	Balance April 30, 2018
Capital assets not depreciated				
Land and land improvements	\$ 2,553,244	\$ 2,800	\$ -	\$ 2,556,044
Construction in progress	500,489	2,389	502,878	-
Total capital assets not depreciated	<u>\$ 3,053,733</u>	<u>\$ 5,189</u>	<u>\$ 502,878</u>	<u>\$ 2,556,044</u>
Capital assets depreciated				
Buildings and structures	\$ 14,923,939	\$ 84,915	\$ -	\$ 15,008,854
Equipment	12,728,193	537,015	1,610	13,263,598
Furniture and fixtures	259,831	-	-	259,831
Other capital assets	843,955	251,183	-	1,095,138
Total capital assets depreciated	<u>\$ 28,755,918</u>	<u>\$ 873,113</u>	<u>\$ 1,610</u>	<u>\$ 29,627,421</u>
Less: accumulated depreciation for				
Buildings and structures	\$ 4,812,698	\$ 504,252	\$ -	\$ 5,316,950
Equipment	7,094,432	717,172	1,610	7,809,994
Furniture and fixtures	257,294	658	-	257,952
Other capital assets	579,882	65,313	-	645,195
Total accumulated depreciation	<u>\$ 12,744,306</u>	<u>\$ 1,287,395</u>	<u>\$ 1,610</u>	<u>\$ 14,030,091</u>
Total capital assets depreciated, net	<u>\$ 16,011,612</u>	<u>\$ (414,282)</u>	<u>\$ -</u>	<u>\$ 15,597,330</u>
Capital Assets, Net	<u>\$ 19,065,345</u>	<u>\$ (409,093)</u>	<u>\$ 502,878</u>	<u>\$ 18,153,374</u>

Planning and development costs, net of accumulated amortization, as of April 30, 2019 and 2018, are \$9,441 and \$22,376, respectively, and are recognized as a noncurrent asset in the financial statements.

D. Vacation and Sick Leave

Unpaid vacation pay earned as of April 30, 2019 and 2018, is \$112,523 and \$103,790, 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, 2019 and 2018, follow:

	<u>2019</u>	<u>2018</u>
General Fund – sales tax	\$ 2,438	\$ 7,608
General Fund – line of credit	<u>1,200,000</u>	<u>1,200,000</u>
Total	<u>\$ 1,202,438</u>	<u>\$ 1,207,608</u>

The City of Duluth extends the Authority a line of credit each year to assist in the management of cash flow within the budget approved. The 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.

F. Pledge Agreement with City of Duluth

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

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

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

2. Detailed Notes (Continued)

G. Capitalized Lease Obligations

Capitalized lease obligations consist of the following at April 30, 2019 and 2018:

<u>Type of Property</u>	<u>2019</u>	<u>2018</u>
Equipment	\$ 3,177,967	\$ 3,453,731
Less: accumulated depreciation	<u>(1,459,579)</u>	<u>(1,535,463)</u>
Net Capital Lease Property	<u>\$ 1,718,388</u>	<u>\$ 1,918,268</u>

Minimum future lease payments follow:

<u>Fiscal Year Ended April 30, 2019</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 219,984	\$ 37,708
2021	182,803	30,405
2022	189,895	23,313
2023	197,262	15,946
2024	204,900	8,308
2025	<u>89,833</u>	<u>1,182</u>
Total	<u>\$ 1,084,677</u>	<u>\$ 116,862</u>

<u>Fiscal Year Ended April 30, 2018</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 207,455	\$ 49,893
2020	205,003	37,708
2021	182,803	30,405
2022	189,895	23,313
2023	197,262	15,946
2024 - 2025	<u>310,542</u>	<u>9,490</u>
Total	<u>\$ 1,292,960</u>	<u>\$ 166,755</u>

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

2. Detailed Notes

G. Capitalized Lease Obligations (Continued)

Capitalized lease obligations at April 30, 2019 and 2018, consist of the following leases:

	2019	2018
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.	\$ 1,055,618	\$ 1,221,524
A \$202,200 lease purchase for a groomer, dated December 23, 2014, due in periodic installments through December 23, 2019, with interest at 3.50 percent.	29,059	71,436
Total	\$ 1,084,677	\$ 1,292,960
Current portion	\$ 219,984	\$ 207,455
Long-term portion	864,693	1,085,505
Total	\$ 1,084,677	\$ 1,292,960

H. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for each of fiscal years 2019 and 2018 is \$4,500. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2019 and 2018, are \$4,500 due in fiscal years 2020 and 2019.

I. Mountain Villas Agreements

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

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

2. Detailed Notes

I. Mountain Villas Agreements (Continued)

In November 2016, 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 \$27,000 plus ten percent of gross sales.

J. Defined Benefit Pension Plan

1. Plan Description

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

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

2. Benefits Provided

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

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

2. Detailed Notes

J. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

related to the funding ratio of the plan. Benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.00 percent.

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

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

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

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and

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

2. Detailed Notes

J. Defined Benefit Pension Plan

3. Contributions (Continued)

amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary for the year ended April 30, 2019.

During the current year, the Authority was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

The Authority's contributions for the General Employees Plan for the years ended April 30, 2019 and 2018, were \$131,464 and \$114,178, respectively. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At April 30, 2019 and 2018, the Authority reported a liability of \$1,370,255 and \$1,723,661, respectively, for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates. The Authority's proportion of the net pension liability was based on the Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, and July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Authority's proportion was 0.0247 percent. It was 0.0270 percent measured as of June 30, 2017. For the years ended April 30, 2019 and 2018, the Authority recognized pension expense of \$86,921 and \$183,305, respectively, for its proportionate share of the General Employees Plan's pension expense.

The Authority also recognized \$10,477 and \$626 for the years ended April 30, 2019 and 2018, as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General

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

2. Detailed Notes

J. Defined Benefit Pension Plan

4. Pension Costs (Continued)

Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and \$6 million thereafter, through calendar year 2031.

	2019	2018
The Authority's proportionate share of the net pension liability	\$ 1,370,255	\$ 1,723,661
State of Minnesota's proportionate share of the net pension liability associated with the Authority	44,929	21,676
Total	\$ 1,415,184	\$ 1,745,337

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

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 39,493	\$ 40,288	\$ 56,806	\$ 105,746
Changes in actuarial assumptions	131,955	163,777	263,909	172,797
Difference between projected and actual investment earnings	-	152,390	-	94,387
Changes in proportion	85,254	161,946	127,882	140,171
Contributions paid to PERA subsequent the measurement date	109,876	-	92,633	-
Total	\$ 366,578	\$ 518,401	\$ 541,230	\$ 513,101

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

2. Detailed Notes

J. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The \$109,876 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended April 30, 2020. At April 30, 2018, \$92,633 was reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date and was recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

As of April 30, 2019:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2020	\$ (1,845)
2021	(77,134)
2022	(154,123)
2023	(28,597)

As of April 30, 2018:

<u>Year Ended December 31</u>	<u>Pension Expense Amount</u>
2019	\$ (74,281)
2020	79,115
2021	3,826
2022	(73,164)

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, and June 30, 2017, actuarial valuations was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

2. Detailed Notes

J. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

June 30, 2018	
Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent
June 30, 2017	
Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

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

2. Detailed Notes

J. Defined Benefit Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2018 and 2017:

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

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

2. Detailed Notes

J. Defined Benefit Pension Plan

7. Changes in Actuarial Assumptions and Plan Provisions

2017 (Continued)

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to \$21 million in calendar years 2017 and 2018 and returns to \$31 million through calendar year 2031. The state's required contribution is \$16 million in PERA's fiscal years 2018 and 2019 and returns to \$6 million annually through calendar year 2031.

8. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Proportionate Share of the General Employees Plan			
	2019		2018	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 2,226,839	6.50%	\$ 2,673,528
Current	7.50	1,370,255	7.50	1,723,661
1% Increase	8.50	633,169	8.50	946,024

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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

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 League of Minnesota Cities (LMC) for commercial insurance and to insure against general liability claims, except the liability claims arising by reason of selling, serving, or furnishing alcoholic beverages. There were no significant reductions in insurance coverage from the previous year. There was 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 LMC, the Authority retains responsibility for paying the first \$50,000 of each loss resulting from each occurrence. The maximum coverage provided by the LMC was \$500,000 per claimant; \$2,000,000 per occurrence. The estimated liability of the Authority for general liability claims, where coverage is not provided, is accrued if the Authority's attorney determines settlement is probable, based on a case-by-case evaluation.

4. Subsequent Event

On December 9, 2019, the City of Duluth approved an additional \$235,000 in tourism tax be provided to the Spirit Mountain Recreation Area Authority.

REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
APRIL 30, 2019**

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Spirit Mountain Recreation Area Authority (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0247 %	\$ 1,370,255	\$ 44,929	\$ 1,415,184	\$ 1,522,947	89.97 %	79.53 %
2017	0.0270	1,723,661	21,676	1,745,337	1,739,320	99.10	75.90
2016	0.0249	2,021,757	26,483	2,048,240	1,659,293	121.84	68.91
2015	0.0289	1,497,748	N/A	1,497,748	1,670,387	89.66	78.19
2014	0.0316	1,484,410	N/A	1,484,410	1,737,780	85.42	78.75

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

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

EXHIBIT A-2

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
APRIL 30, 2019**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2019	\$ 131,464	\$ 131,464	\$ -	\$ 1,752,857	7.50 %
2018	114,178	114,178	-	1,522,373	7.50
2017	125,108	125,108	-	1,668,107	7.50
2016	115,982	115,982	-	1,546,427	7.50
2015	127,523	104,147	(23,376)	1,737,780	5.99

This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The Spirit Mountain Recreation Area Authority's year-end is April 30.

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED APRIL 30, 2019 AND 2018

Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

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

General Employees Retirement Plan

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

2017

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

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

Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2016

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

SUPPLEMENTARY INFORMATION

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

EXHIBIT B-1

**COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED APRIL 30, 2019 AND 2018**

	2019	2018
Sales		
Food	\$ 526,945	\$ 575,997
Liquor	294,452	319,015
Ski shop	117,526	115,771
Grand Avenue Chalet	274,069	228,759
Less: cost of goods sold	(492,392)	(474,129)
Net sales	\$ 720,600	\$ 765,413
Charges for Services		
Season passes	\$ 1,107,831	\$ 889,975
Daily lift tickets	1,217,550	1,158,129
Alpine Coaster	727,345	760,267
Ski school and snow sports	141,613	125,478
Ski rental	280,357	283,574
Snowboard rental	51,955	46,516
Locker rental	17,441	16,628
Nordic tickets and rental	2,950	995
Snocross	189,134	214,825
Campground	200,005	187,897
Mountain Villas management fee	115,666	115,826
Marketing revenue	-	9,748
Summer activities	169,201	139,382
Total charges for services	\$ 4,221,048	\$ 3,949,240
Miscellaneous		
Other revenues	\$ 322,415	\$ 171,239
Total Operating Revenues	\$ 5,264,063	\$ 4,885,892

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

EXHIBIT B-2

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2019 AND 2018**

	2019	2018
Department		
Food and beverage	\$ 406,063	\$ 519,321
Housekeeping	38,423	32,707
Rental	96,370	78,562
Ski shop	6,997	33,967
Campground	66,009	64,808
Parking and shuttle	8,036	4,886
Building and grounds	330,588	358,544
Snocross	121,691	123,600
Ski school and snow sports center	153,400	180,044
Outside mountain operations	1,630,577	1,395,475
Nordic	15,315	4,640
Ski patrol	9,639	10,232
Sales and marketing	394,333	370,748
Office administration	831,704	932,703
Mountain Villas	52,314	44,914
Grand Avenue Chalet	376,701	259,791
Summer activities	97,504	48,478
Adventure Park	150,857	175,334
Total departmental costs	\$ 4,786,521	\$ 4,638,754
Amortization	12,936	26,472
Depreciation	1,119,206	1,285,786
Total Operating Expenses	\$ 5,918,663	\$ 5,951,012

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Spirit Mountain Recreation Area Authority
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended April 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 6, 2020.

Internal Control Over Financial Reporting

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

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

financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 2015-001 and 2018-001, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for deposits and investments because the City of Duluth has custody of the Authority's deposits and is responsible for compliance. We also did not test for compliance with the provisions for tax increment financing because the Authority does not administer any tax increment financing districts.

In connection with our audit, nothing came to our attention that caused us to believe that the Spirit Mountain Recreation Area Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Cities*, except as described in the Schedule of Findings and Recommendations as items 2018-002 and 2019-001. 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.

Spirit Mountain Recreation Area Authority's Response to Findings

The Spirit Mountain Recreation Area Authority's responses to the internal control and legal compliance findings identified in our audit are described in the Corrective Action Plan. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 6, 2020

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED APRIL 30, 2019**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 2015-001

Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect the Spirit Mountain Recreation Area Authority's assets, proper segregation of record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

Condition: Due to the limited number of personnel, segregation of duties necessary to ensure adequate internal accounting control is not possible.

Context: The size of the Authority and its staffing limits the internal control that management can design and implement into the organization. Without proper segregation of duties, errors or irregularities may not be detected timely.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect misstatements in a timely period by employees in the normal course of performing their assigned functions.

Cause: The size of the Spirit Mountain Recreation Area Authority and its staffing limits the internal control that management can design and implement into the organization.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Directors and management be mindful that limited staffing causes inherent risks in safeguarding the

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2019**

Authority's assets and the proper reporting of its financial activity. We recommend the Board of Directors and management continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

View of Responsible Official: Acknowledged

Finding Number 2018-001

Credit Card Policy and Procedures

Criteria: The Spirit Mountain Recreation Area Authority has the authority to make purchases using credit cards, and the Authority Board has adopted a credit card policy, including management and internal control procedures. As part of the internal control procedures, the Authority's Finance Committee Chair and/or Board Chair review the monthly credit card payment with its supporting documentation and sign off on the payment as reviewed. Internal control procedures over the use of credit cards should also include a system for tracking credit card usage by employees, as well as, requiring all employees who utilize credit cards to sign a credit card user agreement form acknowledging the employee has read the Authority's credit card policy.

Condition: The following internal control deficiencies were noted during the testing of credit card use by the Authority:

- For one of the three payments tested, one receipt was missing and another receipt was not itemized as required by the Authority's policy. Without the proper receipts and supporting documentation, it is not possible to determine if the purchases were in accordance with the Authority's credit card policy.
- The Finance Committee Chair and/or Board Chair are not reviewing and signing off on the payment as reviewed on a monthly basis as required by the Authority's credit card policy.

Context: The Authority has a Board-approved credit card policy and procedures in place for the payment of credit cards. However, the Authority did not properly follow the policies and procedures included in its credit card policy. The Authority's credit card policy also does not require employees to sign credit card user agreements.

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2019

Effect: Failure to follow the credit card policy increases the likelihood for the misuse of both the credit cards and Authority funds.

Cause: The Authority is not following its credit card policy.

Recommendation: We recommend the Authority follow the Board-approved credit card policy and ensure that the employees are submitting the proper documentation to the Finance Department for payment. The Authority should also develop a procedure to ensure that all employees who utilize credit cards have signed the credit card user agreement acknowledging the employee is aware of the policy.

View of Responsible Official: Acknowledged

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2018-002

Retiree Insurance Continuation

Criteria: Minnesota Statutes, section 471.61, subdivision 2b, requires that former local government employees be allowed to continue in the employer-provided employee health insurance. Until the retiree reaches age 65, he or she must be pooled in the same group as active employees.

Condition: The Authority is only offering retirees insurance through the Consolidated Omnibus Budget Reconciliation Act (COBRA), which does not meet the requirements of Minn. Stat. § 471.61, subd. 2b, for retiree insurance continuation.

Context: The Authority did not properly follow Minnesota statutes for retiree insurance continuation.

Effect: Noncompliance with Minn. Stat. § 471.61, subd. 2b.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2019**

Cause: The Authority was unaware of the requirements of Minn. Stat. § 471.61, subd. 2b, and was only following COBRA.

Recommendation: We recommend the Authority follow Minn. Stat. § 471.61, subd. 2b, for retiree insurance continuation.

View of Responsible Official: Acknowledged

ITEM ARISING THIS YEAR

Finding Number 2019-001

Contracting and Bidding Compliance

Criteria: Minnesota Statutes, section 471.345, subdivision 3, requires local governments use sealed bids solicited by public notice on contracts estimated to exceed \$100,000 (\$175,000 effective August 1, 2018).

Condition: The Authority purchased equipment that exceeded the threshold for bidding, but did not solicit bids.

Context: One purchase exceeded the bid threshold.

Effect: Noncompliance with Minn. Stat. § 471.345.

Cause: The Spirit Mountain Recreation Area Authority wants to run the same type of snow equipment that its mechanics are trained to repair and for which parts are easily available. The Board is aware of this and understands why this purchase decision was not put out to bid.

Recommendation: We recommend the Authority follow Minn Stat. § 471.345 when making a purchase.

View of Responsible Official: Acknowledged



**REPRESENTATION OF THE
SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED APRIL 30, 2019**

Finding Number: 2015-001
Finding Title: Segregation of Duties

Name of Contact Person Responsible for Corrective Action:

Brandy Ream, Executive Director and Jane Kaiser, Director of Finance

Corrective Action Planned:

Due to the limited number of personnel, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. We currently have policies and procedures in place to provide an on-going monitoring system. We will continue with this monitoring and develop additional policies and procedures as needed to improve our internal control.

Anticipated Completion Date:

Ongoing

Finding Number: 2018-001
Finding Title: Credit Card Policy and Procedures

Name of Contact Person Responsible for Corrective Action:

Brandy Ream, Executive Director; Jane Kaiser, Director of Finance and Board of Directors Finance Chair

Corrective Action Planned:

Spirit Mountain will develop and execute a credit user agreement. Samples have been obtained from other entities for our guidance in creating this document. This document will then be distributed and signed by all managers that use the company credit card.

The current Spirit Mountain credit card policy states that if there are personal expenses on the credit card, these can be and are reimbursed to the organization from said person responsible. We will develop a new procedure in which all original receipts stay with the credit card monthly statement and copies are placed with the personal reimbursement. Additionally, the Finance Director will verify all purchases have the proper receipts and documentation.

At the monthly board meeting; the Finance Director will present the monthly credit card statements and receipts to the Board of Director Finance Chair for all to be approved. This procedure has been in place; it is noted, that Spirit Mountain must perform this duty on a monthly basis. In the event a board meeting doesn't take place, the statements will be taken to the next monthly meeting.

Anticipated Completion Date:

Ongoing. Finance Committee is continuing to review all credit card purchases, receipts and coding. Regarding the Credit User Agreement, anticipated completion date of March 2020.

Finding Number: 2018-002

Finding Title: Retiree Insurance Continuation

Name of Contact Person Responsible for Corrective Action:

Brandy Ream, Executive Director and Marty Francisco, Human Resources Manager

Corrective Action Planned:

Spirit Mountain will develop a procedure for allowing a retiree to remain on the Spirit Mountain insurance policy until age 65 in accordance with Minn. Stat 471.61, subd. 2b. This information will be discussed and distributed to all retirees.

Anticipated Completion Date:

Ongoing

Finding Number: 2019-001

Finding Title: Contracting and Bidding Compliance

Name of Contact Person Responsible for Corrective Action:

Brandy Ream, Executive Director

Corrective Action Planned:

Spirit Mountain follows Minn Stat. §§ 471.345, when purchasing.

Anticipated Completion Date:

Already in place.



REPRESENTATION OF THE SPIRIT MOUNTAIN RECREATION AREA AUTHORITY DULUTH, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED APRIL 30, 2019

Finding Number: 2015-001
Finding Title: Segregation of Duties

Summary of Condition: Due to the limited number of personnel, segregation of duties necessary to ensure adequate internal accounting control is not possible.

Summary of Corrective Action Previously Reported: Due to the limited number of personnel, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. We currently have policies and procedures in place to provide an on-going monitoring system. We will continue with this monitoring and develop additional policies and procedures as needed to improve our internal control.

Status: Not Corrected. The Spirit Mountain Recreation Area Authority understands the risk and is willing to assume the responsibility.

Was corrective action taken significantly different than the action previously reported?
Yes _____ No X_____

Finding Number: 2018-001
Finding Title: Credit Card Policy and Procedures

Summary of Condition: The following issues with Credit cards were noted: Proper supporting documentation was not obtained, purchases were not clearly for a public purpose, and Board was not reviewing and approving the statements.

Summary of Corrective Action Previously Reported: The original receipts are retained with the credit card monthly statements. Any personal expenses are billed to the employee through our Accounts Receivable system. Currently, the Finance Committee of the Board of Directors is in the process of catching up on their review of the VISA Statements.

The Finance Committee of the Board of Directors has been working to catch up on reviewing the credit card statements. They have stated that recent credit card statements are in much better shape and have most or all of the required documentation. The committee is working to get caught up in the next six months. Any personal employee expenses are now invoiced through our A/R system where payments can be tracked. This has proved to be beneficial for all.

Status: Partially corrected.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Finding Number: 2018-002

Finding Title: Retiree Insurance Continuation

Summary of Condition: The Authority is only offering retirees insurance through the Consolidated Omnibus Budget Reconciliation Act (COBRA) which does not meet Minn. Stat. § 471.61, subd. 2b, for retiree insurance continuation.

Summary of Corrective Action Previously Reported: Spirit Mountain will develop a procedure for allowing a retiree to remain on the Spirit Mountain insurance policy until age 65 in accordance with Minn. Stat 471.61, subd. 2b. This information will be discussed and distributed to all retirees.

Status: Not Corrected.

Was corrective action taken significantly different than the action previously reported?

Yes _____ No X

Currently, our monthly insurance is over \$1100 for an employee over 60 years of age. Someone of the same age, with preexisting conditions, is able to go out on the open market through the Affordable Care Act and obtain insurance for around \$700 - \$800 per month. We have not made it a priority to complete this task because it is so much cheaper to obtain insurance on the open market. If requested, we will create a policy for retirees to have an option of staying on the Spirit Mountain health plan or seeking insurance on their own.