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, 2018 AND 2017

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 approximately 600 public pension funds; and

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

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

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

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

Years Ended April 30, 2018 and 2017

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

TABLE OF CONTENTS

This page was left blank intentionally.

Introductory Section

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

ORGANIZATION
APRIL 30, 2018

	Term Ending
Directors	
David Kohlhaas	June 30, 2020
Dan O'Neill	June 30, 2020
Erik Viken	June 30, 2018
Kathryn Ferguson	June 30, 2018
Elaine Hansen	June 30, 2020
Jane Gilbert-Howard	June 30, 2018
Cory Salmela	June 30, 2020
Todd Torvinen	June 30, 2020

Executive Director
Brandy Ream

Officers
Chair
Cory Salmela

Vice Chair
David Kohlhaas

Secretary
Dan O'Neill

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

JULIE BLAHA
STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth, 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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2019, 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

April 2, 2019

This page was left blank intentionally.

MANAGEMENT’S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2018
(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, 2018. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Fiscal year 2018 showed a strong gain in season pass sales.

- After a less than average holiday week in December – January, we recovered nicely with a solid February – March with two weekends into April as well.

- Wedding and banquet business continues to see an increase in revenue. This is due to alignment of pricing, update on contracts, and marketing efforts for exposure, which results in additional bookings.

- Mountain biking continues to increase in growth slightly. The campground is remaining a strong source of revenue for 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, in fiscal year 2012, added in 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. The Authority currently has eight mountain bike trails and a skills park.

Currently, Spirit Mountain features 13 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 nearing completion, which will provide 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.

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

			Change from 2017 to 2018		
	FY 2018	FY 2017	Dollar	Percent (%)	FY 2016
Current and other assets	$ 929,679	$ 512,380	$ 417,299	81	$ 780,050
Capital assets	18,153,374	19,065,345	(911,971)	(5)	19,748,423
Total Assets	$ 19,083,053	$ 19,577,725	$ (494,672)	(3)	$ 20,528,473
Deferred outflows of resources					
Deferred pension outflows	$ 541,230	$ 941,501	$ (400,271)	(43)	$ 341,888
Current liabilities	$ 2,660,928	$ 2,357,934	$ (302,994)	(13)	$ 2,298,383
Long-term liabilities	2,809,166	3,320,571	511,405	15	3,034,754
Total Liabilities	$ 5,470,094	$ 5,678,505	$ 208,411	4	$ 5,333,137
Deferred inflows of resources					
Deferred pension inflows	$ 513,101	$ 583,130	$ 70,029	12	$ 460,187
Net Position					
Net investment in capital assets	$ 16,860,414	$ 17,537,746	$ (677,332)	(4)	$ 17,938,270
Unrestricted	(3,219,326)	(3,280,155)	60,829	2	(2,861,233)
Total Net Position	$ 13,641,088	$ 14,257,591	$ (616,503)	(4)	$ 15,077,037

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

	FY 2018	FY 2017	Change from 2017 to 2018 Dollar	Change from 2017 to 2018 Percent (%)	FY 2016
Operating revenues	$ 4,885,892	$ 4,315,778	$ 570,114	13	$ 4,265,806
Nonoperating revenues	493,970	395,700	98,270	25	1,408,569
Contributions from City of Duluth	-	47,367	(47,367)	(100)	5,192,543
Total Revenues	$ 5,379,862	$ 4,758,845	$ 621,017	13	$ 10,866,918
Operating expenses	$ 4,638,754	$ 4,446,715	$ 192,039	4	$ 4,191,494
Nonoperating expenses	45,353	52,886	(7,533)	(14)	75,285
Depreciation/amortization	1,312,258	1,078,690	233,568	22	1,031,790
Total Expenses	$ 5,996,365	$ 5,578,291	$ 418,074	7	$ 5,298,569
Changes in Net Position	$ (616,503)	$ (819,446)	$ 202,943	(25)	$ 5,568,349
Beginning Net Position	14,257,591	15,077,037	(819,446)	5	9,508,688
Ending Net Position	$ 13,641,088	$ 14,257,591	$ (616,503)	(4)	$ 15,077,037

Condensed Statement of Revenues, Expenses, and Change in Net Position (2018 Budget and Actual)

	Actual	Budget	Budget to Actual Variance	Budget % Variance
Operating revenues	$ 4,885,892	$ 4,942,905	$ (57,013)	(1)
Nonoperating revenues	493,970	297,136	196,834	66
Total Revenues	$ 5,379,862	$ 5,240,041	$ 139,821	3
Operating expenses	$ 4,638,754	$ 4,694,694	$ 55,940	1
Nonoperating expenses	45,353	78,117	32,764	42
Depreciation/amortization	1,312,258	1,105,737	(206,521)	(19)
Total Expenses	$ 5,996,365	$ 5,878,548	$ (117,817)	(2)
Changes in Net Position	$ (616,503)	$ (638,507)	$ 22,004	3
Beginning Net Position	14,257,591	14,257,591	-	-
Ending Net Position	$ 13,641,088	$ 13,619,084	$ 22,004	0.2

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues increased by $570,114, or 13 percent, in 2018 compared to 2017. Nonoperating revenues increased by $98,270, or 25 percent, in 2018 compared to 2017. Contributions decreased by $47,367, or 100 percent, in 2018 compared to 2017 due to the completion of the water project.

Expenses

The Authority's operating expenses increased $418,074, or seven percent, from 2017 due mainly to an increase in personal service 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 $57,013, or one percent, below budget due mainly to season passes, daily lift tickets, and Grand Avenue Chalet sales being lower than anticipated.

CAPITAL ASSETS

			Change	
	FY 2018	FY 2017	Dollar	Percent (%)
Land and land improvements	$ 2,556,044	$ 2,553,244	$ 2,800	0.1
Equipment	12,232,612	11,744,112	488,500	4
Plant equipment	1,030,986	984,081	46,905	5
Buildings and structures	15,008,854	14,923,939	84,915	1
Furniture and fixtures				-
	259,831	259,831	-	
Other capital assets	1,095,138	843,955	251,183	30
Construction in progress	-	500,489	(500,489)	(100)
Subtotal	$ 32,183,465	$ 31,809,651	$ 373,814	1
Less: accumulated depreciation	(14,030,091)	(12,744,306)	(1,285,785)	(10)
Total Capital Assets, Net	$ 18,153,374	$ 19,065,345	$ (911,971)	(5)

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 2018	FY 2017	Change: Dollar	Change: Percent (%)
Alpine Coaster lease	$ 1,221,524	$ 1,401,446	$ (179,922)	(13)
Groomer leases	71,436	126,153	(54,717)	(43)
Total Debt	$ 1,292,960	$ 1,527,599	$ (234,639)	(15)

During fiscal year 2018, the Authority's outstanding debt decreased $234,639.

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. The Adventure Park is open seasonally, and we have had strong attendance during the winter season.

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

The banquet business continues to be a strong revenue source for Spirit Mountain. However, after a detailed analysis of our pricing structure, it was found that our pricing was not reflective of the cost of business, and we were not seeing the revenues Spirit Mountain had anticipated.

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

FINANCIAL CONTACT

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

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1

COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2018 AND 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 319,090	$ 335,637
Accounts receivable	481,540	16,833
Prepaid insurance	129	-
Inventory	106,544	112,448
Total current assets	**$ 907,303**	**$ 464,918**
Noncurrent assets		
Planning and development costs - net of accumulated amortization	**$ 22,376**	**$ 47,462**
Capital assets		
Non-depreciable	$ 2,556,044	$ 3,053,733
Depreciable	29,627,421	28,755,918
Less: accumulated depreciation	(14,030,091)	(12,744,306)
Total capital assets - net of accumulated depreciation	**$ 18,153,374**	**$ 19,065,345**
Total noncurrent assets	**$ 18,175,750**	**$ 19,112,807**
Total Assets	**$ 19,083,053**	**$ 19,577,725**
Deferred Outflows of Resources		
Deferred pension outflows	**$ 541,230**	**$ 941,501**
Liabilities		
Current liabilities		
Accounts payable	$ 217,095	$ 144,681
Due to City of Duluth	1,207,608	1,207,248
Due to other governments	22,771	21,327
Accrued salaries payable	103,659	73,216
Accrued vacation payable	103,790	99,314
Accrued interest payable	1,939	3,273
Leases payable	207,455	228,785
Unearned revenue	796,611	580,090
Total current liabilities	**$ 2,660,928**	**$ 2,357,934**
Noncurrent liabilities		
Leases payable	$ 1,085,505	$ 1,298,814
Net pension liability	1,723,661	2,021,757
Total noncurrent liabilities	**$ 2,809,166**	**$ 3,320,571**
Total Liabilities	**$ 5,470,094**	**$ 5,678,505**

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

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1
(Continued)

COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2018 AND 2017

	2018	2017
Deferred Inflows of Resources		
Deferred pension inflows	**$ 513,101**	**$ 583,130**
Net Position		
Net investment in capital assets	$ 16,860,414	$ 17,537,746
Unrestricted	(3,219,326)	(3,280,155)
Total Net Position	**$ 13,641,088**	**$ 14,257,591**

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

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, 2018 AND 2017

	2018	2017
Operating Revenues		
Sales	$ 1,239,542	$ 1,113,595
Less: cost of goods sold	(474,129)	(403,640)
Gross profit on sales	**$ 765,413**	**$ 709,955**
Charges for services	3,949,240	3,458,214
Miscellaneous	171,239	147,609
Total Operating Revenues	**$ 4,885,892**	**$ 4,315,778**
Operating Expenses		
Personal services	$ 2,768,760	$ 2,791,831
Supplies	335,193	242,467
Utilities	471,439	401,467
Other services and charges	1,063,362	1,010,950
Amortization	26,472	20,850
Depreciation	1,285,786	1,057,840
Total Operating Expenses	**$ 5,951,012**	**$ 5,525,405**
Operating Income (Loss)	**$ (1,065,120)**	**$ (1,209,627)**
Nonoperating Revenues (Expenses)		
Tourism tax	$ 493,970	$ 395,700
Interest expense	(45,353)	(52,886)
Total Nonoperating Revenues (Expenses)	**$ 448,617**	**$ 342,814**
Income (loss) before contributions	**$ (616,503)**	**$ (866,813)**
Capital contributions from City of Duluth	-	47,367
Changes in Net Position	**$ (616,503)**	**$ (819,446)**
Net Position - May 1	**14,257,591**	**15,077,037**
Net Position - April 30	**$ 13,641,088**	**$ 14,257,591**

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

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 3

COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from customers	$ 4,940,467	$ 4,636,984
Cash paid to suppliers	(2,264,001)	(2,062,864)
Cash paid to employees	(2,701,695)	(2,689,898)
Other cash received	171,239	147,609
Net cash provided by (used in) operating activities	**$ 146,010**	**$ 31,831**
Cash Flows from Capital and Related Financing Activities		
Capital contributions from City of Duluth	$ -	$ 47,367
City of Duluth hotel/motel taxes	493,970	395,700
Capital lease payments	(281,103)	(335,968)
Acquisition and construction of capital assets	(375,424)	(374,762)
Net cash provided by (used in) capital and related financing activities	**$ (162,557)**	**$ (267,663)**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (16,547)**	**$ (235,832)**
Cash and Cash Equivalents - May 1	**335,637**	**571,469**
Cash and Cash Equivalents - April 30	**$ 319,090**	**$ 335,637**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	**$ (1,065,120)**	**$ (1,209,627)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,285,786	1,057,840
Amortization	26,472	20,850
Change in assets and liabilities		
Decrease (increase) in receivables	(464,707)	(14,505)
Decrease (increase) in prepaid insurance	(129)	13,247
Decrease (increase) in inventory	5,904	(36,507)
Increase (decrease) in payables	74,218	23,910
Increase (decrease) in accrued salaries payable	30,443	42,980
Increase (decrease) in accrued vacation payable	4,476	11,614
Increase (decrease) in deferred pension outflows	400,271	(599,613)
Increase (decrease) in deferred pension inflows	(70,029)	122,943
Increase (decrease) in net pension liability	(298,096)	524,009
Increase (decrease) in unearned revenue	216,521	74,690
Net Cash Provided by (Used in) Operating Activities	**$ 146,010**	**$ 31,831**

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.

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:

Classification	Range
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

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 a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Currently, the Authority has one item, deferred pension outflows, which qualifies for reporting in this category. This amount consists of pension plan contributions paid subsequent to the measurement date, changes in actuarial assumptions, pension plan changes in proportionate share, and differences between expected and actual economic experience.

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 so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, deferred pension inflows, which qualifies for reporting in this category. This amount consists of differences between expected and actual pension plan economic experience, pension plan changes in proportionate share, differences between projected and actual earnings on pension plan investments, and changes in actuarial assumptions.

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 (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.

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.

G. Reclassifications

Certain items on the Statement of Revenues, Expenses, and Changes in Net Position have been reclassified from the previous years; however, total revenues, expenses, and net position were unchanged.

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, 2018 and 2017, follows:

	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

2. Detailed Notes

A. Budget (Continued)

	2017		
	Budget	Actual	Variance
Operating Revenues			
Sales	$ 1,035,508	$ 1,113,595	$ 78,087
Less: cost of goods sold	(519,739)	(403,640)	116,099
Gross profit on sales	$ 515,769	$ 709,955	$ 194,186
Charges for services	4,125,821	3,458,214	(667,607)
Miscellaneous	22,819	147,609	124,790
Total Operating Revenues	$ 4,664,409	$ 4,315,778	$ (348,631)
Operating Expenses			
Personal services	$ 2,600,018	$ 2,791,831	$ (191,813)
Supplies	293,979	242,467	51,512
Utilities	358,661	401,467	(42,806)
Other services and charges	822,347	1,010,950	(188,603)
Amortization	23,400	20,850	2,550
Depreciation	835,800	1,057,840	(222,040)
Total Operating Expenses	$ 4,934,205	$ 5,525,405	$ (591,200)
Operating Income (Loss)	$ (269,796)	$ (1,209,627)	$ (939,831)
Nonoperating Revenues (Expenses)			
Tourism tax	$ 395,700	$ 395,700	$ -
Interest expense	(92,892)	(52,886)	40,006
Total Nonoperating Revenues (Expenses)	$ 302,808	$ 342,814	$ 40,006
Income (loss) before contributions	$ 33,012	$ (866,813)	$ (899,825)
Capital contributions from City of Duluth	-	47,367	47,367
Change in Net Position	$ 33,012	$ (819,446)	$ (852,458)

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	
	2018	2017
City Treasurer	$ 269,470	$ 291,392
Petty cash and change funds	49,620	44,245
Total Cash and Cash Equivalents	$ 319,090	$ 335,637

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended April 30, 2018 and 2017, follows:

	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	$ 3,053,733	$ 5,189	$ 502,878	$ 2,556,044
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	$ 28,755,918	$ 873,113	$ 1,610	$ 29,627,421
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	$ 12,744,306	$ 1,287,395	$ 1,610	$ 14,030,091
Total capital assets depreciated, net	$ 16,011,612	$ (414,282)	$ -	$ 15,597,330
Capital Assets, Net	$ 19,065,345	$ (409,093)	$ 502,878	$ 18,153,374

2. Detailed Notes

C. Capital Assets (Continued)

	Balance May 1, 2016	Additions	Deductions	Balance April 30, 2017
Capital assets not depreciated				
Land and land improvements	$ 2,553,244	$ -	$ -	$ 2,553,244
Construction in progress	509,885	799	10,195	500,489
Total capital assets not depreciated	$ 3,063,129	$ 799	$ 10,195	$ 3,053,733
Capital assets depreciated				
Buildings and structures	$ 14,908,536	$ 15,403	$ -	$ 14,923,939
Equipment	12,400,490	327,703	-	12,728,193
Furniture and fixtures	259,831	-	-	259,831
Other capital assets	802,903	41,052	-	843,955
Total capital assets depreciated	$ 28,371,760	$ 384,158	$ -	$ 28,755,918
Less: accumulated depreciation for				
Buildings and structures	$ 4,293,020	$ 519,678	$ -	$ 4,812,698
Equipment	6,587,520	506,912	-	7,094,432
Furniture and fixtures	254,657	2,637	-	257,294
Other capital assets	551,269	28,613	-	579,882
Total accumulated depreciation	$ 11,686,466	$ 1,057,840	$ -	$ 12,744,306
Total capital assets depreciated, net	$ 16,685,294	$ (673,682)	$ -	$ 16,011,612
Capital Assets, Net	$ 19,748,423	$ (672,883)	$ 10,195	$ 19,065,345

Planning and development costs, net of accumulated amortization, as of April 30, 2018 and 2017, are $22,376 and $47,462, respectively, and are recognized as a noncurrent asset in the financial statements.

D. Vacation, Sick Leave, and Compensatory Time

Unpaid vacation pay earned as of April 30, 2018 and 2017, is $103,790 and $99,314, 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.

2. Detailed Notes (Continued)

E. Due to City of Duluth

The amounts due to the City at April 30, 2018 and 2017, follow:

	2018	2017
General Fund - sales tax	$ 7,608	$ 7,248
General Fund - line of credit	1,200,000	1,200,000
Total	$ 1,207,608	$ 1,207,248

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.

2. Detailed Notes (Continued)

G. Capitalized Lease Obligations

Capitalized lease obligations consist of the following at April 30, 2018 and 2017:

Type of Property	2018	2017
Equipment	$ 3,453,731	$ 3,453,731
Less: accumulated depreciation	(1,535,463)	(1,336,347)
Net Capital Lease Property	$ 1,918,268	$ 2,117,384

Minimum future lease payments follow:

Fiscal Year Ended April 30, 2018	Principal	Interest
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	310,542	9,490
Total	$ 1,292,960	$ 166,755

Fiscal Year Ended April 30, 2017	Principal	Interest
2018	$ 228,785	$ 58,139
2019	207,455	49,893
2020	185,486	41,805
2021	178,917	34,290
2022	186,235	26,973
2023 – 2025	540,721	34,046
Total	$ 1,527,599	$ 245,146

2. Detailed Notes

G. Capitalized Lease Obligations (Continued)

Capitalized lease obligations at April 30, 2018 and 2017, consist of the following leases:

	2018	2017
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.	$ 1,221,524	$ 1,401,446
A $266,519 lease purchase for a groomer, dated October 15, 2012, due in periodic installments through October 1, 2017, with interest at 3.50 percent.	-	29,271
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.	71,436	96,882
Total	$ 1,292,960	$ 1,527,599
Current portion	$ 207,455	$ 228,785
Long-term portion	1,085,505	1,298,814
Total	$ 1,292,960	$ 1,527,599

H. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for each of fiscal years 2018 and 2017 is $4,500. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2018 and 2017, are $4,500 due in fiscal years 2019 and 2018.

2. Detailed Notes (Continued)

   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.

   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.

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. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of the Spirit Mountain Recreation Area Authority are covered by a defined benefit pension plan 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 Retirement Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No Authority employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

B. 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 related to the funding ratio of the plan. Benefit recipients receive a future annual 1.00 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 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.

4. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Plan Coordinated Plan and Basic 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 10 years of service and 1.70 percent 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.

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary for the year ended April 30, 2018.

In 2017, the Authority was required to contribute the following percentage of annual covered salary:

General Employees Retirement Plan	
Coordinated Plan members	7.50%

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, 2018 and 2017, were $114,188 and $125,108, respectively. The contributions are equal to the contractually required contributions as set by state statute.

4. Defined Benefit Pension Plan (Continued)

D. Pension Costs

At April 30, 2018 and 2017, the Authority reported a liability of $1,723,661 and $2,021,757, respectively, for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those 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, 2016, through June 30, 2017, and July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Authority's proportion was 0.0270 percent. It was 0.0249 percent measured as of June 30, 2016. For the years ended April 30, 2018 and 2017, the Authority recognized pension expense of $183,305 and $198,930, respectively, for its proportionate share of the General Employees Plan's pension expense.

The Authority also recognized $626 and $7,897 for the years ended April 30, 2018 and 2017, 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 Employees Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute $6 million to the General Employees Plan for the fiscal year ended June 30, 2017 and 2016.

	2018	2017
The Authority's proportionate share of the net pension liability	$ 1,723,661	$ 2,021,757
State of Minnesota's proportionate share of the net pension liability associated with the Authority	21,676	26,483
Total	$ 1,745,337	$ 2,048,240

4. Defined Benefit Pension Plan

D. Pension Costs (Continued)

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:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 56,806	$ 105,746	$ 7,593	$ 171,205
Changes in actuarial assumptions	263,909	172,797	441,851	-
Difference between projected and actual investment earnings	-	94,387	398,457	183,408
Changes in proportion	127,882	140,171	-	228,517
Contributions paid to PERA subsequent to the measurement date	92,633	-	93,600	-
Total	$ 541,230	$ 513,101	$ 941,501	$ 583,130

The $92,633 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, 2019. At April 30, 2017, $93,600 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, 2018:

Year Ended April 30	Pension Expense Amount
2019	$ (74,281)
2020	79,115
2021	3,826
2022	(73,164)

4. Defined Benefit Pension Plan

D. Pension Costs (Continued)

As of April 30, 2017:

Year Ended April 30	Pension Expense Amount
2018	$ 48,500
2019	(5,078)
2020	148,316
2021	73,033

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, and June 30, 2016, actuarial valuations was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

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

June 30, 2016	
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. The cost of living benefit increases for retirees are assumed to be 1.00 percent through 2044 and 2.50 percent thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015.

4. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

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	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. 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.

4. Defined Benefit Pension Plan (Continued)

G. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017 and 2016:

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 $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

4. Defined Benefit Pension Plan (Continued)

H. 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			
	2018		2017	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 2,673,528	6.50%	$ 2,871,493
Current	7.50	1,723,662	7.50	2,021,756
1% Increase	8.50	946,024	8.50	1,321,805

I. 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.

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

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, 2018

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
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, 2018

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)
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 Authority's year-end is April 30.

Defined Benefit Pension Plan – 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

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 $21,000,000 in PERA's calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

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

General Employees Retirement Plan

2016 (Continued)

- 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

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT B-1

COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED APRIL 30, 2018 AND 2017

	2018	2017
Sales		
Food	$ 575,997	$ 526,913
Liquor	319,015	289,994
Ski shop	115,771	97,750
Grand Avenue Chalet	228,759	198,938
Less: cost of goods sold	(474,129)	(403,640)
Net sales	**$ 765,413**	**$ 709,955**
Charges for Services		
Season passes	$ 889,975	$ 842,125
Daily lift tickets	1,158,129	919,064
Alpine Coaster	760,267	717,560
Ski school and snow sports	125,478	122,032
Ski rental	283,574	195,762
Snowboard rental	46,516	38,231
Locker rental	16,628	15,888
Nordic tickets and rental	995	706
Snocross	214,825	195,484
Campground	187,897	169,436
Mountain Villas management fee	115,826	111,210
Marketing revenue	9,748	9,794
Summer activities	139,382	120,922
Total charges for services	**$ 3,949,240**	**$ 3,458,214**
Miscellaneous		
Other revenues	**$ 171,239**	**$ 147,609**
Total Operating Revenues	**$ 4,885,892**	**$ 4,315,778**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT B-2

COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2018 AND 2017

	2018	2017
Department		
Food and beverage	$ 519,321	$ 425,301
Housekeeping	32,707	46,117
Rental	78,562	68,330
Ski shop	33,967	38,926
Campground	64,808	80,998
Parking and shuttle	4,886	3,638
Building and grounds	358,544	296,770
Snocross	123,600	127,345
Ski school and snow sports center	180,044	163,047
Outside mountain operations	1,395,475	1,177,766
Nordic	4,640	2,856
Ski patrol	10,232	8,911
Sales and marketing	370,748	299,948
Office administration	932,703	1,236,953
Mountain Villas	44,914	55,814
Grand Avenue Chalet	259,791	143,817
Summer activities	48,478	3,312
Adventure Park	175,334	266,866
Total departmental costs	**$ 4,638,754**	**$ 4,446,715**
Amortization	26,472	20,850
Depreciation	1,285,786	1,057,840
Total Operating Expenses	**$ 5,951,012**	**$ 5,525,405**

Management and Compliance Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

JULIE BLAHA
STATE AUDITOR

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

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

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

Independent Auditor's Report

Mayor and City Council
City of Duluth, 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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 2, 2019.

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 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 of 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 of 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 item 2018-002. 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	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 2, 2019

This page was left blank intentionally.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED APRIL 30, 2018

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM 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 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

ITEM ARISING THIS YEAR

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 Finance Committee Chair and/or Board Chair review the monthly credit card statement with its supporting documentation and sign off on the statement 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:

- Two receipts were missing, one non-itemized receipt was maintained, and one receipt did not contain the purpose of the meeting or meeting attendees as required by the Authority's credit card policy. Without the proper receipts and supporting documentation, we are unable to determine if the purchases were in accordance with the Authority's credit card policy.

- There was one purchase that was questionable as to whether the purchase was a personal expense rather than an Authority expense. All purchases should be made in accordance with the Authority's credit card policy.

- During testing, a memo prepared by the General Manager was reviewed documenting lost receipts due to a lost planner. The memo did not identify the specific purpose of the meetings or the meeting attendees. The Executive Director then reviewed and approved the lost receipts for payment. The General Manger and Executive Director are related parties and both report to the Authority Board. All payments should follow the Authority's credit card policy and contain the proper review and approvals for payment.

- During testing, two instances were noted where the Finance Committee Chair and/or Board Chair did not review and/or sign off on the credit card statement documenting the review 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 its policies and procedures included in its credit card policy. The Authority's credit card policy also does not include the use of credit user agreements.

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 its 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

ITEM ARISING THIS YEAR

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 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.

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

SpiritMountain

REPRESENTATION OF THE
SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED APRIL 30, 2018

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:

In December 2018 and January 2019, an audit of credit card purchasing procedures and processes was performed by three members of the Board of Directors. Keeping with our model of complete transparency on any and all purchases, recommendations were made to the procedure and process, these were implemented immediately.

With the above corrective action plan as noted in this report; we will continue to improve our procedure and processes and implement immediately.

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. This plan will be developed and executed by June 1, 2019.

Anticipated Completion Date:

June 1, 2019

SpiritMountain

REPRESENTATION OF THE
SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED APRIL 30, 2018

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____

spiritmt.com
9500 Spirit Mountain Place | Duluth Minnesota 55810 | 218.628.2891 800.642.6377 | Fax 218.624.0213