

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

**Spirit Mountain Recreation Area Authority
(A Component Unit of the
City of Duluth, Minnesota)**

Years Ended April 30, 2020 and 2019

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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**Spirit Mountain Recreation Area Authority
(A Component Unit of the
City of Duluth, Minnesota)**

Years Ended April 30, 2020 and 2019



Office of the State Auditor

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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Introductory Section

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

**ORGANIZATION
APRIL 30, 2020**

	<u>Term Ending</u>
Directors	
David Kohlhaas	June 30, 2022
Dan O'Neill	June 30, 2022
Erik Viken	June 30, 2021
Gage Hartman	June 30, 2021
Aaron Stolp	June 30, 2021
Jane Gilbert-Howard	June 30, 2021
Antoinette Pearson	June 30, 2021
Dave Cizmas	June 30, 2020
Vacant	

Executive Director
Brandy Ream*

Officers
Chair
Aaron Stolp

*Brandy Ream resigned as Executive Director on August 25, 2020. Ann Glumac was appointed Interim Executive Director as of September 1, 2020.

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Financial Section

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JULIE BLAHA
STATE AUDITOR

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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, 2020 and 2019, 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 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, 2020 and 2019, 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.

Emphasis of Matter – Subsequent Event

As discussed in Note 4 to the financial statements, subsequent to year-end, the Spirit Mountain Recreation Area Authority ended its winter season early and remained closed through its summer season due to the COVID-19 pandemic, resulting in a decrease in revenue and expenses. Our opinion is not modified with respect to this matter.

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 1, 2021, 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

February 1, 2021

/s/*Dianne Syverson*

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

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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, 2020
(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, 2020. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Fiscal Year 2020 showed a gain in season pass sales.
- Fiscal Year 2020 showed a slight decrease in daily lift ticket sales primarily as a result of ending the season early due to the COVID-19 pandemic.
- Wedding and banquet business decreased in revenue year over year.
- Mountain biking pass sales continued to increase in growth as well as mountain biking programming.
- The campground 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 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 conferred upon the Authority the power and responsibility for the operation and management of the area. The Mayor of Duluth appoints nine community members, whose appointments are approved by the City Council to serve on the Board of Directors that oversees the Authority.

The main forms of recreation provided to both local residents and visitors are skiing, both alpine and Nordic, snowboarding, and the Timber Twister Alpine Coaster, which in recent years were joined by the new year-round Timber Flyer Zip Line, a 9-hole miniature golf course, and a new snow tubing park in 2012, now branded as the Spirit Mountain Adventure Park. The Authority also has hosted 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 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 2020	FY 2019	Dollar	Change from 2019 to 2020	
				Percent (%)	FY 2018
Current and other assets	\$ 514,857	\$ 778,966	\$ (264,109)	(34)	\$ 929,679
Capital assets	17,380,723	18,058,328	(677,605)	(4)	18,153,374
Total Assets	\$ 17,895,580	\$ 18,837,294	\$ (941,714)	(5)	\$ 19,083,053
Deferred outflows of resources					
Deferred pension outflows	\$ 238,361	\$ 366,578	\$ (128,217)	(35)	\$ 541,230
Current liabilities	\$ 2,634,777	\$ 3,084,781	\$ (450,004)	(15)	\$ 2,660,928
Long-term liabilities	2,096,739	2,234,948	(138,209)	(6)	2,809,166
Total Liabilities	\$ 4,731,516	\$ 5,319,729	\$ (588,213)	(11)	\$ 5,470,094
Deferred inflows of resources					
Deferred pension inflows	\$ 336,390	\$ 518,401	\$ (182,011)	(35)	\$ 513,101
Net investment in capital assets	\$ 16,218,489	\$ 16,650,066	\$ (431,577)	(3)	\$ 16,860,414
Unrestricted	(3,152,454)	(3,284,324)	131,870	(4)	(3,219,326)
Total Net Position	\$ 13,066,035	\$ 13,365,742	\$ (299,707)	(2)	\$ 13,641,088

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

	FY 2020	FY 2019	Dollar	Change from 2019 to 2020		FY 2018
				Percent (%)		
Operating revenues	\$ 4,997,524	\$ 5,264,063	\$ (266,539)	(5)		\$ 4,885,892
Nonoperating revenues	755,700	420,700	335,000	80		493,970
Capital contributions from the City of Duluth	-	41,642	(41,642)	(100)		-
Total Revenues	<u>\$ 5,753,224</u>	<u>\$ 5,726,405</u>	<u>\$ 26,819</u>	<u>0</u>		<u>\$ 5,379,862</u>
Operating expenses	\$ 4,850,065	\$ 4,799,457	50,608	1		\$ 4,638,754
Nonoperating expenses	20,867	83,088	(62,221)	(75)		45,353
Depreciation/amortization	1,181,999	1,119,206	62,793	6		1,312,258
Total Expenses	<u>\$ 6,052,931</u>	<u>\$ 6,001,751</u>	<u>\$ 51,180</u>	<u>1</u>		<u>\$ 5,996,365</u>
Changes in Net Position	\$ (299,707)	\$ (275,346)	\$ (24,361)	9		\$ 616,503
Beginning Net Position	<u>13,365,742</u>	<u>13,641,088</u>	<u>(275,346)</u>	<u>(2)</u>		<u>14,257,591</u>
Ending Net Position	<u>\$ 13,066,035</u>	<u>\$ 13,365,742</u>	<u>\$ (299,707)</u>	<u>(2)</u>		<u>\$ 13,641,088</u>

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
(2020 Budget and Actual)**

	FY 2020	FY 2019	Dollar	Change from 2019 to 2020		
				Percent (%)		
Operating revenues	\$ 4,997,524	\$ 5,115,792	\$ (118,268)	(2)		
Nonoperating revenues	755,700	420,000	335,700	80		
Total Revenues	<u>\$ 5,753,224</u>	<u>\$ 5,535,792</u>	<u>\$ 217,432</u>	<u>4</u>		
Operating expenses	\$ 4,850,065	\$ 4,766,842	83,223	2		
Nonoperating expenses	20,867	80,000	(59,133)	(74)		
Depreciation/amortization	1,181,999	1,077,499	104,500	10		
Total Expenses	<u>\$ 6,052,931</u>	<u>\$ 5,924,341</u>	<u>\$ 128,590</u>	<u>2</u>		
Changes in Net Position	\$ (299,707)	\$ (388,549)	\$ 88,842	(23)		
Beginning Net Position	<u>13,365,742</u>	<u>13,365,742</u>	<u>-</u>	<u>0</u>		
Ending Net Position	<u>\$ 13,066,035</u>	<u>\$ 12,977,193</u>	<u>\$ 88,842</u>	<u>1</u>		

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues decreased by \$266,539, or five percent, in 2020 compared to 2019. Nonoperating revenues increased by \$335,000, or 80 percent, in 2020 compared to 2019 due to additional funds received from the City of Duluth. Contributions decreased by \$41,642, or 100 percent, in 2020 compared to 2019 due to the donation of a groomer for the Nordic trails in 2019.

Expenses

The Authority's operating expenses increased \$50,608, or one percent, from 2019 due mainly to increased labor 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 \$118,268, or two percent, below budget due primarily from closing early for the season early as a result of the COVID-19 pandemic.

CAPITAL ASSETS

	FY 2020	FY 2019	Dollar	Change	Percent (%)
Land and land improvements	\$ 2,556,044	\$ 2,556,044	\$ -	-	0
Equipment	11,660,189	11,281,298	378,891	3	
Plant equipment	1,041,115	1,016,862	24,253	2	
Buildings and structures	15,008,730	14,986,327	22,403	0	
Furniture and fixtures	259,831	259,831	-	0	
Other capital assets	1,055,140	1,052,205	2,935	0	
Construction in progress	113,744	47,272	66,472		141
 Subtotal	 \$ 31,694,793	 \$ 31,199,839	 \$ 494,954	 2	
Less: accumulated depreciation	(14,314,070)	(13,141,511)	(1,172,559)		9
 Total Capital Assets, Net	 <u>\$ 17,380,723</u>	 <u>\$ 18,058,328</u>	 <u>\$ (677,605)</u>	 <u>(4)</u>	

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 2020	FY 2019	Change	
			Dollar	Percent (%)
Alpine Coaster lease	\$ 869,734	\$ 1,055,618	\$ (185,884)	(18)
Groomer leases	-	29,059	(29,059)	(100)
Total Debt	\$ 869,734	\$ 1,084,677	\$ (214,943)	(20)

During fiscal year 2020, the Authority's outstanding debt decreased \$214,943.

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. We continue to offer an affordable season pass that has value to our operation. We offer a variety of methods to purchase tickets and allow for discounts to meet consumer demands. The Adventure Park is open seasonally and focuses on snow tubing in the winter months and other attractions in the summer months.

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. This money comes from the Spirit Mountain budget and revenue.

We look forward to an improved post COVID-19 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.

BASIC FINANCIAL STATEMENTS

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1

COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2020 AND 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 192,330	\$ 460,826
Accounts receivable	168,336	173,272
Prepaid insurance	74,359	44,235
Inventory	79,832	91,192
Total current assets	\$ 514,857	\$ 769,525
Noncurrent assets		
Planning and development costs – net of accumulated amortization	\$ -	\$ 9,441
Capital assets		
Non-depreciable	\$ 2,669,788	\$ 2,603,316
Depreciable	29,025,005	28,596,523
Less: accumulated depreciation	(14,314,070)	(13,141,511)
Total capital assets – net of accumulated depreciation	\$ 17,380,723	\$ 18,058,328
Total noncurrent assets	\$ 17,380,723	\$ 18,067,769
Total Assets	\$ 17,895,580	\$ 18,837,294
Deferred Outflows of Resources		
Deferred pension outflows	\$ 238,361	\$ 366,578
Liabilities		
Current liabilities		
Accounts payable	\$ 507,501	\$ 580,827
Due to City of Duluth	1,201,620	1,202,438
Due to other governments	5,607	11,107
Accrued salaries payable	21,505	103,560
Accrued vacation payable	125,460	112,523
Accrued interest payable	-	3,935
Leases payable	182,834	219,984
Unearned revenue	590,250	850,407
Total current liabilities	\$ 2,634,777	\$ 3,084,781
Noncurrent liabilities		
Leases payable	\$ 686,900	\$ 864,693
Net pension liability	1,409,839	1,370,255
Total noncurrent liabilities	\$ 2,096,739	\$ 2,234,948
Total Liabilities	\$ 4,731,516	\$ 5,319,729

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1
(Continued)

COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Deferred Inflows of Resources		
Deferred pension inflows	<u>\$ 336,390</u>	<u>\$ 518,401</u>
Net Position		
Net investment in capital assets	<u>\$ 16,218,489</u>	<u>\$ 16,650,066</u>
Unrestricted	<u>(3,152,454)</u>	<u>(3,284,324)</u>
Total Net Position	<u>\$ 13,066,035</u>	<u>\$ 13,365,742</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, 2020 AND 2019**

	2020	2019
Operating Revenues		
Sales	\$ 1,055,197	\$ 1,212,992
Less: cost of goods sold	<u>(409,688)</u>	<u>(492,392)</u>
Gross profit on sales	\$ 645,509	\$ 720,600
Charges for services	4,218,705	4,221,048
Miscellaneous	<u>133,310</u>	<u>322,415</u>
Total Operating Revenues	<u>\$ 4,997,524</u>	<u>\$ 5,264,063</u>
Operating Expenses		
Personal services	\$ 3,100,954	\$ 2,906,097
Supplies	287,424	304,855
Utilities	393,554	480,725
Other services and charges	1,068,133	1,094,844
Amortization	9,441	12,936
Depreciation	<u>1,172,558</u>	<u>1,119,206</u>
Total Operating Expenses	<u>\$ 6,032,064</u>	<u>\$ 5,918,663</u>
Operating Income (Loss)	<u>\$ (1,034,540)</u>	<u>\$ (654,600)</u>
Nonoperating Revenues (Expenses)		
Earnings on investments	\$ (98)	\$ -
Tourism tax	755,700	420,700
Gain (loss) on disposal of capital assets	-	(8,895)
Interest expense	<u>(20,769)</u>	<u>(74,193)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 734,833</u>	<u>\$ 337,612</u>
Income (loss) before contributions	<u>\$ (299,707)</u>	<u>\$ (316,988)</u>
Capital contributions from City of Duluth	<u>-</u>	<u>41,642</u>
Changes in Net Position	<u>\$ (299,707)</u>	<u>\$ (275,346)</u>
Net Position – May 1	<u>\$ 13,365,742</u>	<u>\$ 13,641,088</u>
Net Position – April 30	<u>\$ 13,066,035</u>	<u>\$ 13,365,742</u>

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 3

COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities		
Cash received from customers	\$ 4,973,477	\$ 5,739,079
Cash paid to suppliers	(2,212,003)	(2,321,232)
Cash paid to employees	(3,184,282)	(3,070,917)
Other cash received	<u>133,310</u>	<u>322,415</u>
Net cash provided by (used in) operating activities	<u>(289,498)</u>	<u>669,345</u>
Cash Flows from Capital and Related Financing Activities		
City of Duluth hotel/motel taxes	\$ 755,700	\$ 420,700
Capital lease payments	(239,646)	(280,479)
Acquisition and construction of capital assets	<u>(494,954)</u>	<u>(667,830)</u>
Net cash provided by (used in) capital and related financing activities	<u>21,100</u>	<u>(527,609)</u>
Cash Flows from Investing Activities		
Interest on investments	<u>\$ (98)</u>	<u>\$ -</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (268,496)</u>	<u>\$ 141,736</u>
Cash and Cash Equivalents – May 1	<u>460,826</u>	<u>319,090</u>
Cash and Cash Equivalents – April 30	<u>\$ 192,330</u>	<u>\$ 460,826</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	\$ (1,034,540)	\$ (654,600)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,172,558	1,119,206
Amortization	9,441	12,936
Change in assets and liabilities		
Decrease (increase) in receivables	4,936	308,268
Decrease (increase) in prepaid insurance	(30,124)	(44,106)
Decrease (increase) in inventory	11,360	15,352
Decrease (increase) in deferred pension inflows	(182,011)	5,300
Increase (decrease) in payables	(79,644)	23,313
Increase (decrease) in accrued salaries payable	(82,055)	(99)
Increase (decrease) in accrued vacation payable	12,937	8,733
Increase (decrease) in deferred pension outflows	128,217	174,652
Increase (decrease) in net pension liability	39,584	(353,406)
Increase (decrease) in unearned revenue	<u>(260,157)</u>	<u>53,796</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (289,498)</u>	<u>\$ 669,345</u>
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)

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

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:

Classification	Range
Buildings and structures	5 to 40 years
Equipment	3 to 40 years
Furniture and fixtures	5 to 20 years
Other capital assets	5 to 40 years
Planning and development costs	10 years

4. Accrued Vacation Payable

Full-time employees covered by the Minnesota Arrowhead District Council 96 collective bargaining agreement are granted from 10 to 21 days of vacation per year depending on their years of service.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

1. Summary of Significant Accounting Policies

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

4. Accrued Vacation Payable (Continued)

Employees not covered by the collective bargaining agreement are granted from one to four weeks of vacation per year depending on their years of service. Vacation balances up to the amount earned in one year may be carried forward to the subsequent 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 (expense) until then. The Authority reports deferred outflows of resources associated with the defined benefit pension plan.

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

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

1. Summary of Significant Accounting Policies

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

7. Pension Plan (Continued)

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.
- 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 of resources, liabilities, and deferred inflows of resources; and disclosure of

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

1. Summary of Significant Accounting Policies

F. Use of Estimates (Continued)

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

A. Budget

The Authority adopts an annual budget which is approved by the Duluth City Council. A comparison of budget-to-actual for the years ended April 30, 2020 and 2019, follows:

	2020		
	Budget	Actual	Variance
Operating Revenues			
Sales	\$ 853,399	\$ 1,055,197	\$ 201,798
Less: cost of goods sold	<u>(452,827)</u>	<u>(409,688)</u>	<u>43,139</u>
Gross profit on sales	\$ 400,572	\$ 645,509	\$ 244,937
Charges for services	4,692,355	4,218,705	(473,650)
Miscellaneous	<u>22,865</u>	<u>133,310</u>	<u>110,445</u>
Total Operating Revenues	<u>\$ 5,115,792</u>	<u>\$ 4,997,524</u>	<u>\$ (118,268)</u>
Operating Expenses			
Personal services	\$ 2,904,135	\$ 3,100,954	\$ (196,819)
Supplies	313,403	287,424	25,979
Utilities	488,239	393,554	94,685
Other services and charges	1,061,065	1,068,133	(7,068)
Amortization	7,414	9,441	(2,027)
Depreciation	<u>1,070,085</u>	<u>1,172,558</u>	<u>(102,473)</u>
Total Operating Expenses	<u>\$ 5,844,341</u>	<u>\$ 6,032,064</u>	<u>\$ (187,723)</u>
Operating Income (Loss)	<u>\$ (728,549)</u>	<u>\$ (1,034,540)</u>	<u>\$ (305,991)</u>
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ -	\$ (98)	\$ (98)
Tourism tax	<u>420,000</u>	<u>755,700</u>	<u>335,700</u>
Interest expense	<u>(80,000)</u>	<u>(20,769)</u>	<u>59,231</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 340,000</u>	<u>\$ 734,833</u>	<u>\$ 394,833</u>
Change in Net Position	<u>\$ (388,549)</u>	<u>\$ (299,707)</u>	<u>\$ 88,842</u>

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

A. Budget (Continued)

	2019		
	Budget	Actual	Variance
Operating Revenues			
Sales	\$ 902,135	\$ 1,212,992	\$ 310,857
Less: cost of goods sold	<u>(465,017)</u>	<u>(492,392)</u>	<u>(27,375)</u>
Gross profit on sales	\$ 437,118	\$ 720,600	\$ 283,482
Charges for services	4,362,920	4,221,048	(141,872)
Miscellaneous	<u>24,973</u>	<u>322,415</u>	<u>297,442</u>
Total Operating Revenues	<u>\$ 4,825,011</u>	<u>\$ 5,264,063</u>	<u>\$ 439,052</u>
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	<u>1,082,434</u>	<u>1,119,206</u>	<u>(36,772)</u>
Total Operating Expenses	<u>\$ 5,631,544</u>	<u>\$ 5,918,663</u>	<u>\$ (287,119)</u>
Operating Income (Loss)	<u>\$ (806,533)</u>	<u>\$ (654,600)</u>	<u>\$ 151,933</u>
Nonoperating Revenues (Expenses)			
Tourism tax	\$ 420,000	\$ 420,700	\$ 700
Gain (loss) on disposal of capital assets	-	(8,895)	(8,895)
Interest expense	<u>(78,117)</u>	<u>(74,193)</u>	<u>3,924</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 341,883</u>	<u>\$ 337,612</u>	<u>\$ (4,271)</u>
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	<u>\$ (464,650)</u>	<u>\$ (275,346)</u>	<u>\$ 189,304</u>

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	
	2020	2019
City Treasurer	\$ 157,360	\$ 426,430
Petty cash and change funds	<u>34,970</u>	<u>34,396</u>
Total Cash and Cash Equivalents	<u>\$ 192,330</u>	<u>\$ 460,826</u>

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended April 30, 2020 and 2019, follows:

	Balance May 1, 2019	Additions	Deductions	Balance April 30, 2020
Capital assets not depreciated				
Land and land improvements	\$ 2,556,044	\$ -	\$ -	\$ 2,556,044
Construction in progress	47,272	89,012	22,540	113,744
Total capital assets not depreciated	<u>\$ 2,603,316</u>	<u>\$ 89,012</u>	<u>\$ 22,540</u>	<u>\$ 2,669,788</u>
Capital assets depreciated				
Buildings and structures	\$ 14,986,327	\$ 22,403	\$ -	\$ 15,008,730
Equipment	12,298,160	403,144	-	12,701,304
Furniture and fixtures	259,831	-	-	259,831
Other capital assets	1,052,205	2,935	-	1,055,140
Total capital assets depreciated	<u>\$ 28,596,523</u>	<u>\$ 428,482</u>	<u>\$ -</u>	<u>\$ 29,025,005</u>
Less: accumulated depreciation for				
Buildings and structures	\$ 5,631,489	\$ 497,883	\$ -	\$ 6,129,372
Equipment	6,648,168	625,539	-	7,273,707
Furniture and fixtures	258,403	451	-	258,854
Other capital assets	603,451	48,686	-	652,137
Total accumulated depreciation	<u>\$ 13,141,511</u>	<u>\$ 1,172,559</u>	<u>\$ -</u>	<u>\$ 14,314,070</u>
Total capital assets depreciated, net	<u>\$ 15,455,012</u>	<u>\$ (744,077)</u>	<u>\$ -</u>	<u>\$ 14,710,935</u>
Capital Assets, Net	<u>\$ 18,058,328</u>	<u>\$ (655,065)</u>	<u>\$ 22,540</u>	<u>\$ 17,380,723</u>

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

C. Capital Assets (Continued)

	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	<u>\$ 2,556,044</u>	<u>\$ 47,272</u>	<u>\$ -</u>	<u>\$ 2,603,316</u>
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	<u>\$ 29,627,421</u>	<u>\$ 909,867</u>	<u>\$ 1,940,765</u>	<u>\$ 28,596,523</u>
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	<u>\$ 14,030,091</u>	<u>\$ 1,119,206</u>	<u>\$ 2,007,786</u>	<u>\$ 13,141,511</u>
Total capital assets depreciated, Net	<u>\$ 15,597,330</u>	<u>\$ (209,339)</u>	<u>\$ (67,021)</u>	<u>\$ 15,455,012</u>
Capital Assets, Net	<u><u>\$ 18,153,374</u></u>	<u><u>\$ (162,067)</u></u>	<u><u>\$ (67,021)</u></u>	<u><u>\$ 18,058,328</u></u>

Planning and development costs, net of accumulated amortization, as of April 30, 2019, are \$9,441 and are recognized as a noncurrent asset in the financial statements. Planning and development costs were completely amortized as of April 30, 2020.

D. Vacation and Sick Leave

Unpaid vacation pay earned as of April 30, 2020 and 2019, is \$125,460 and \$112,523, 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, 2020 and 2019, follow:

	<u>2020</u>	<u>2019</u>
General Fund – sales tax	\$ 1,620	\$ 2,438
General Fund – line of credit	<u>1,200,000</u>	<u>1,200,000</u>
Total	<u>\$ 1,201,620</u>	<u>\$ 1,202,438</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, 2020 and 2019:

Type of Property	2020	2019
Equipment	\$ 3,177,967	\$ 3,177,967
Less: accumulated depreciation	(1,562,941)	(1,459,579)
Net Capital Lease Property	<u>\$ 1,615,026</u>	<u>\$ 1,718,388</u>

Minimum future lease payments follow:

Fiscal Year Ended April 30, 2020	Principal	Interest
2021	\$ 182,834	\$ 30,405
2022	189,895	23,313
2023	197,262	15,946
2024	204,900	8,308
2025	<u>94,843</u>	<u>1,182</u>
Total	<u>\$ 869,734</u>	<u>\$ 79,154</u>

Fiscal Year Ended April 30, 2019	Principal	Interest
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>

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

G. Capitalized Lease Obligations (Continued)

Capitalized lease obligations at April 30, 2020 and 2019, consist of the following leases:

	<u>2020</u>	<u>2019</u>
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.	\$ 869,734	\$ 1,055,618
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.	- <hr/>	29,059 <hr/>
Total	<u>\$ 869,734</u>	<u>\$ 1,084,677</u>
Current portion	\$ 182,834	\$ 219,984
Long-term portion	<u>686,900</u>	<u>864,693</u>
Total	<u>\$ 869,734</u>	<u>\$ 1,084,677</u>

H. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for fiscal year 2020 is \$9,005. Lease expense for fiscal year 2019 is \$4,500. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2020 and 2019, are \$1,125 and \$4,500 due in fiscal years 2021 and 2020, respectively.

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 plans are tax qualified plans 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.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

J. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

Beginning January 1, 2019, General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase.

For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

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.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

J. Defined Benefit Pension Plan (Continued)

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 amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2019.

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

The Authority's contributions for the General Employees Plan for the year ended April 30, 2020 and 2019, were \$147,641 and \$131,464, respectively. The contributions are equal to the statutorily required contributions as set by state statute.

4. Pension Costs

At April 30, 2020 and 2019, the Authority reported a liability of \$1,409,839 and \$1,370,255, respectively, for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2018, through June 30, 2019, and July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the Authority's proportion was 0.0255 percent. It was 0.0247 percent measured as of June 30, 2018. For the years ended April 30, 2020 and 2019, the Authority recognized pension expense of \$133,431 and (\$86,921), respectively, for its proportionate share of the General Employees Plan's pension expense.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

J. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The Authority also recognized \$3,283 and \$10,477 for the years ended April 30, 2020 and 2019, 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 requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually.

	2020	2019
The Authority's proportionate share of the net pension liability	\$ 1,409,839	\$ 1,370,255
State of Minnesota's proportionate share of the net pension liability associated with the Authority	<u>43,831</u>	<u>44,929</u>
Total	<u>\$ 1,453,670</u>	<u>\$ 1,415,184</u>

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:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 40,087	\$ -	\$ 39,493	\$ 40,288
Changes in actuarial assumptions	-	112,966	131,955	163,777
Difference between projected and actual investment earnings	-	150,012	-	152,390
Changes in proportion	75,912	73,412	85,254	161,946
Contributions paid to PERA subsequent the measurement date	<u>122,362</u>	<u>-</u>	<u>109,876</u>	<u>-</u>
Total	<u>\$ 238,361</u>	<u>\$ 336,390</u>	<u>\$ 366,578</u>	<u>\$ 518,401</u>

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

J. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The \$122,362 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, 2019, \$109,876 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, 2020:

Year Ended April 30	Pension Expense Amount
2021	\$ (64,737)
2022	(141,726)
2023	(16,200)
2024	2,272

As of April 30, 2019:

Year Ended April 30	Pension Expense Amount
2020	\$ (1,845)
2021	(77,134)
2022	(154,123)
2023	(28,597)

5. Actuarial Assumptions

The total pension liability in the June 30, 2019, and June 30, 2018, 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, 2019

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

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

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, 2019, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. Inflation and investment assumptions were reviewed in the experience study report for the General Employees Plan dated June 27, 2019.

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 geometric real rates of return for each major asset class are summarized in the following table:

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

J. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.50%	5.10%
International equity	17.50	5.30
Fixed income	20.00	0.75
Private markets	25.00	5.90
Cash equivalents	2.00	0.00

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2019, which remained consistent with 2018. 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 assumption occurred in 2019 and 2018:

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

J. Defined Benefit Pension Plan

7. Changes in Actuarial Assumptions and Plan Provisions

2018 (Continued)

- 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.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

2. Detailed Notes

J. Defined Benefit Pension Plan (Continued)

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 one percentage point lower or one percentage point higher than the current discount rate:

Proportionate Share of the General Employees Plan				
	2020		2019	
	Discount Rate	Net Pension Liability	Discount Rate	Net Pension Liability
1% Decrease	6.50%	\$ 2,317,698	6.50%	\$ 2,226,839
Current	7.50	1,409,839	7.50	1,370,255
1% Increase	8.50	660,219	8.50	633,169

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.

K. Noncompliance with Provisions of Purchase Agreements

At April 30, 2020, the Authority was not in compliance with the provisions of the purchase agreement for the Pistenbully 400 Park Pro snow groomer purchased in March of 2019. The purchase agreement required that a payment of \$98,425 be made by November 30, 2019. As of April 30, 2020, this payment has not been made.

Additionally, at April 30, 2020, the Authority was not in compliance with the provisions of the purchase agreement for the Pistenbully 600 Park Pro snow groomer purchased in January of 2019. The purchase agreement required that a payment of \$29,200 be made by February 1, 2020. As of April 30, 2020, this payment has not been made.

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 were no settlements in excess of insurance for any of the past three fiscal years. No liability has been recognized in the financial statements for excess workers' compensation claims and costs.

For general liability claims insured through the 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

In 2020, the United States, State of Minnesota, and City of Duluth declared states of emergency related to urgent conditions created by the Coronavirus Pandemic (COVID-19). The spread of COVID-19 necessitated unprecedented actions including social distancing requirements and stay-at-home orders and has impacted the Authority's ability to operate. Following Governor Walz's declaration of a peacetime state of emergency on March 13, 2020, public health guidelines for social distancing, and the rapidly changing situation involving COVID-19, the Authority determined that the Spirit Mountain Recreation Area would closeout its 2019 - 2020 winter season early on March 16, 2020. On May 20, 2020, the Spirit Mountain Board of Directors, in consultation with the City of Duluth, made the determination that Spirit Mountain would not open for the 2020 summer season. Refunds were offered to individuals affected by the cancellation of the 2020 summer season. On September 25, 2020, the Duluth City Council approved allocating \$300,000 of tourism tax funds to be used to reopen Spirit Mountain for its 2020 - 2021 winter season. Spirit Mountain reopened on November 27, 2020, for its winter season.

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, 2020

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 Liabilities (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Employer's Proportionate Share of the Net Pension Liability Fiduciary Net Position as a Percentage of the Total Pension Liability
						Plan	Fiduciary Net Position
2019	0.0255 %	\$ 1,409,839	\$ 43,831	\$ 1,453,670	\$ 1,802,067	78.23 %	80.23 %
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, 2020

Year Ending	Actual Contributions in Relation to Statutorily Required Contributions		Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
	Statutorily Required Contributions (a)	Statutorily Required Contributions (b)			
2020	\$ 147,641	\$ 147,641	\$ -	\$ 1,968,547	7.50 %
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, 2020 AND 2019**

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

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

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.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

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

General Employees Retirement Plan

2018 (Continued)

- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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.

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.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

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

General Employees Retirement Plan

2016 (Continued)

- 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.

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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, 2020 AND 2019

	2020	2019
Sales		
Food	\$ 428,372	\$ 526,945
Liquor	202,668	294,452
Ski shop	106,963	117,526
Grand Avenue Chalet	317,194	274,069
Less: cost of goods sold	<u>(409,688)</u>	<u>(492,392)</u>
Net sales	\$ 645,509	\$ 720,600
Charges for Services		
Season passes	\$ 1,218,924	\$ 1,107,831
Daily lift tickets	1,165,864	1,217,550
Alpine Coaster	760,386	727,345
Ski school and snow sports	132,864	141,613
Ski rental	236,130	280,357
Snowboard rental	38,979	51,955
Locker rental	15,693	17,441
Nordic tickets and rental	2,984	2,950
Snocross	115,708	189,134
Campground	214,237	200,005
Mountain Villas management fee	111,784	115,666
Summer activities	<u>205,152</u>	<u>169,201</u>
Total charges for services	\$ 4,218,705	\$ 4,221,048
Miscellaneous		
Other revenues	\$ 133,310	\$ 322,415
Total Operating Revenues	\$ 4,997,524	\$ 5,264,063

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT B-2

COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2020 AND 2019

Department	2020	2019
Food and beverage	\$ 386,382	\$ 406,063
Housekeeping	40,116	38,423
Rental	63,298	96,370
Ski shop	10,156	6,997
Campground	69,161	66,009
Parking and shuttle	6,086	8,036
Building and grounds	298,680	330,588
Snocross	102,120	121,691
Ski school and snow sports center	153,675	153,400
Outside mountain operations	1,576,031	1,630,577
Nordic	10,541	15,315
Ski patrol	7,477	9,639
Sales and marketing	411,930	394,333
Office administration	1,058,130	831,704
Mountain Villas	58,684	52,314
Grand Avenue Chalet	267,969	376,701
Summer activities	92,507	97,504
Adventure Park	237,122	150,857
Total departmental costs	\$ 4,850,065	\$ 4,786,521
Amortization	9,441	12,936
Depreciation	1,172,558	1,119,206
Total Operating Expenses	\$ 6,032,064	\$ 5,918,663

**Management and
Compliance Section**

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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, 2020, 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 1, 2021.

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 as a basis for designing 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 2020-001 and 2020-002, 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 financial statements. 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

In connection with our audit, we noted that the Spirit Mountain Recreation Area Authority failed to comply with provisions of the claims and disbursements and contracting and bidding sections of the *Minnesota Legal Compliance Audit Guide for Cities*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Recommendations as items 2020-004 and 2020-005 and another matter reported as 2020-003. Also, 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 deposits and investments, conflicts of interest, public indebtedness, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Cities*, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

Other Matters

Included in the Schedule of Findings and Recommendations is a management practices comment. We believe this recommendation to be of benefit to the Authority, and it is reported for that purpose.

Spirit Mountain Recreation Area Authority's Response to Findings

The Spirit Mountain Recreation Area Authority's responses to the internal control, legal compliance, and management practices 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/*Dianne Syverson*

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

February 1, 2021

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED APRIL 30, 2020**

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

INTERNAL CONTROL

Finding Number: 2020-001

Prior Year Finding Number: 2015-001

Repeat Finding Since: 2015

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.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2020**

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.

Finding Number: 2020-002

Prior Year Finding Number: 2018-001

Repeat Finding Since: 2018

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.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2020**

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

- For one of the 15 payments tested, the invoice and other support for the purchase was not available for review. Without this supporting documentation, it was not possible to determine if the purchase was made 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 credit card payment as reviewed on a monthly basis as required by the Authority's credit card policy. Eight credit card statements were found to have been reviewed more than 90 days subsequent to the month ending date on the statement.

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.

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 and the Finance Committee Chair and/or Board Chair review and sign off on the monthly credit card 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.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2020**

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

Finding Number: 2020-003

Prior Year Finding Number: 2018-002

Repeat Finding Since: 2018

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 indefinitely. 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.

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.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2020**

Finding Number: 2020-004

Prior Year Finding Number: 2019-001

Repeat Finding Since: 2019

Contracting and Bidding Compliance

Criteria: Minnesota Statutes, section 471.345, subdivision 4, requires contracts estimated to exceed \$25,000, but not to exceed \$175,000, be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for the purchase or sale when possible.

Condition: One instance was identified where a contract for an estimated amount between \$25,000 and \$175,000 was awarded based on a single direct quote.

Context: One purchase exceeded the threshold for quotes but was not significant enough to require bids.

Effect: Noncompliance with Minn. Stat. § 471.345, subd 4.

Cause: The Authority was unable to provide documentation to show whether two or more quotes were obtained prior to the purchase being made. The employee who handled this purchase left employment prior to the start of the audit and was unavailable to provide any information regarding the purchase.

Recommendation: We recommend the Authority develop contracting procedures to ensure that contracting is performed in accordance with applicable statutes.

View of Responsible Official: Acknowledged.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2020**

Finding Number: 2020-005

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Prompt Payment of Invoices

Criteria: As stated in Minn. Stat. § 471.425, the Authority is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later. For bills paid after the time period set by contract or standard payment period, the government entity must calculate and pay interest as required.

Condition: Two of the 25 invoices tested for compliance with Minn. Stat. § 471.425 were not paid within 35 days. In addition, two payments required to be made on November 30, 2019, and February 1, 2020, by purchase agreements entered into by the Authority have not been made as of April 30, 2020. The Authority did not calculate or pay interest for these payments.

Context: Payments not made timely could be an indicator of other issues, such as poor procedural controls, poor internal controls, or cash flow problems.

Effect: Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, or not making payment in accordance with the terms of the contract, are in noncompliance with Minnesota law if interest is not calculated and paid.

Cause: Inadequate cash flow caused the Authority to be unable to make payments as required by the purchase agreements or within the time period specified by Minnesota law.

Recommendation: We recommend the Authority develop a process to ensure payments are made in accordance with Minn. Stat. § 471.425.

View of Responsible Official: Acknowledged.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2020**

MANAGEMENT PRACTICES

Finding Number: 2020-006

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Financial Condition

Criteria: Management is responsible for fiscally managing the operations of the Spirit Mountain Recreation Area Authority, including the financial condition of its fund.

Condition: The financial condition of the Spirit Mountain Recreation Area Authority has declined to the point where the current liabilities of \$2,634,777 exceeds the current assets of \$514,857 by \$2,119,920 as of April 30, 2020. This indicates that the Authority does not have sufficient liquidity available to cover all of its short-term obligations to its vendors and employees.

Context: Due to the nature of the activities offered at Spirit Mountain, the Authority's ability to conduct business is especially sensitive to weather conditions. Additionally, the State of Minnesota has been experiencing a health pandemic, which has necessitated actions such as social distancing requirements and stay-at-home orders, which have negatively impacted the Authority's operations.

Effect: The Authority was not in compliance with the provisions of agreements made for the purchase of two snow grooming machines. Two payments totaling \$127,625 that were required to be made on November 30, 2019, and February 1, 2020, have not been made as of April 30, 2020, due to insufficient funding being available.

Cause: During the fiscal year ending April 30, 2020, two events negatively impacted the Authority's cash flow. A strong winter storm impacted the City of Duluth at the end of November 2019, forcing the cancellation of the Snocross event held at Spirit Mountain. Subsequently, the Authority sought and obtained additional tourism tax funding from the

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED APRIL 30, 2020**

City of Duluth to make up the losses from the cancellation. In March 2020, the COVID-19 pandemic caused the Authority to announce the early ending of the Authority's winter season. Spirit Mountain closed down entirely for the remainder of the 2020 fiscal year due to the pandemic.

Recommendation: We recommend the Spirit Mountain Recreation Area Authority consider a financial plan to bring the Authority into a more positive financial position and into compliance with its purchase agreements.

View of Responsible Official: Acknowledged.



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

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED APRIL 30, 2020**

Finding Number: 2020-001

Finding Title: Segregation of Duties

Name of Contact Persons Responsible for Corrective Action:

Ann Glumac, Interim Executive Director, and Dave Wadsworth, 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 ongoing 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: 2020-002

Finding Title: Credit Card Policy and Procedures

Name of Contact Persons Responsible for Corrective Action:

Ann Glumac, Interim Executive Director, Dave Wadsworth, Director of Finance, and Board of Directors Finance Chair

Corrective Action Planned:

Spirit Mountain will develop and execute a credit card user agreement. This document will be distributed and signed by all managers who 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 Finance Committee meeting, the Finance Director will present the monthly credit card statements and receipts to the Finance Chair for approval. This procedure has been in place; it is noted that Spirit Mountain must perform this duty on a monthly basis. In the event a Finance Committee 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 2021.

Finding Number: 2020-003

Finding Title: Retiree Insurance Continuation

Name of Contact Persons Responsible for Corrective Action:

Ann Glumac, Interim Executive Director, and Jennifer Hoffman, Assistant Human Resources Manager

Corrective Action Planned:

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

Anticipated Completion Date:

Policy in place as of December 2020.

Finding Number: 2020-004

Finding Title: Contracting and Bidding Compliance

Name of Contact Persons Responsible for Corrective Action:

Ann Glumac, Interim Executive Director, and Dave Wadsworth, Director of Finance

Corrective Action Planned:

Spirit Mountain follows Minn. Stat. § 471.345 when purchasing. A copy of the statute as well as an explanation has been provided to directors in a position to make a purchase of an amount that would require obtaining bids.

Anticipated Completion Date:

Already in place.

Finding Number: 2020-005

Finding Title: Prompt Payment of Invoices

Name of Contact Persons Responsible for Corrective Action:

Ann Glumac, Interim Executive Director, and Dave Wadsworth, Director of Finance

Corrective Action Planned:

The Interim Executive Director is in the process of negotiating a payment plan for the unpaid purchase agreements.

Anticipated Completion Date:

Already in place.

Finding Number: 2020-006

Finding Title: Financial Condition

Name of Contact Persons Responsible for Corrective Action:

Ann Glumac, Interim Executive Director, and Dave Wadsworth, Director of Finance

Corrective Action Planned:

On behalf of Spirit Mountain Recreation Area, the City of Duluth has engaged industry consultants to provide data and insights to a mayoral task force charged with making recommendations to return SMRAA to a sustainable business model.

Anticipated Completion Date:

March 2021

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED APRIL 30, 2020**

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 ongoing 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 and the Board of Directors was not reviewing and approving the statements.

Summary of Corrective Action Previously Reported: Spirit Mountain will develop and execute a credit user agreement. This document will then be distributed and signed by all managers that use the company credit card.

The original receipts are retained with the credit card monthly statements. Any personal expenses are billed to the employee through our Accounts Receivable system. At the monthly Board meeting; the Finance Director will present the monthly credit card statements and receipts to the Board of Directors and the Finance Chair for all to be approved.

Status: Partially corrected. All credit card statements were reviewed by Finance Committee members.
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: Corrected subsequent to year end of 4/30/2020. Retirees and their dependents are now allowed to continue at the employee rate until the retiree is age 65. A clause explaining this benefit has been added to the employee benefits handbook.

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

Finding Number: 2019-001

Finding Title: Contracting and Bidding Compliance

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

Summary of Corrective Action Previously Reported: Spirit Mountain will follow the requirements of Minn. Stat. § 471.345 when purchasing.

Status: Not corrected. The Authority's staff continues to work to resolve this issue.

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