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)

Year Ended April 30, 2023

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

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Introductory Section

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Organization
April 30, 2023

	Term Ending
Directors	
David Montgomery	June 30, 2023
David Kohlhaas	June 30, 2023
Daniel Hartman	June 30, 2023
Aaron Stolp	June 30, 2024
Michele Dressel	June 30, 2023
Arik Forsman	June 30, 2024
Dave Cizmas	June 30, 2023
Molly Floen	June 30, 2026
Vacant	
Interim Executive Director	
Ann Glumac	
Officer	
Chair	
Michele Dressel	

Financial Section

STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

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 Audit of the Financial Statements

Opinion

We have audited 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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2023, and the changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2023, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;

- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, PERA retirement plan schedules, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB, 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 Schedules of Operating Revenues and Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The 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 as identified above 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 May 21, 2024, on our consideration of the Spirit Mountain Recreation Area Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Spirit Mountain Recreation Area Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Spirit Mountain Recreation Area Authority's internal control over financial reporting and compliance.

/s/Julie Blaha

Julie Blaha
State Auditor

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

May 21, 2024

Management's Discussion and Analysis

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Management's Discussion and Analysis
April 30, 2023
(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, 2023. This information should be read in conjunction with the financial statements.

Financial Highlights

- Fiscal year 2023 showed an increase in season pass and daily lift ticket sales.
- Banquet revenue significantly increased in fiscal year 2023 because of an increase in bookings due to pent-up demand as a result of the COVID-19 pandemic.
- Adventure Park revenues decreased as staffing challenges resulted in reduced operational hours.

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 Timber Flyer Zip Line, a jumping pillow, a 9-hole putt-putt golf course, and a snow tubing park, now branded as the Spirit Mountain Adventure Park. Summertime activities include special events, banquets, meetings, corporate events, mountain biking, and camping, with banquets a growing business for the Authority. In the summer of 2012, the Authority installed a new four place detachable lift capable of transporting mountain bikes to replace a similar lift and added a chalet with a bar and restaurant and a parking lot at Grand Avenue. Spirit Mountain features 22 mountain bike trails, a Duluth Traverse trailhead and access to the Duluth, Winnipeg, and Pacific (DWP) railroad trail, along with a pump track. The All-Weather Bike Trail provides a true beginner, downhill bike trail. Spirit Mountain hosts several large mountain biking events that thousands of people attend. The Spirit Mountain Nordic Center opened at the Grand Avenue Chalet in 2019.

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 2023	FY 2022	Change from 2022 to 2023 Dollar	Change from 2022 to 2023 Percent (%)	FY 2021
Current and other assets	$ 3,316,847	$ 2,527,537	$ 789,310	31	$ 1,431,994
Capital assets	15,672,422	15,841,019	(168,597)	(1)	16,277,129
Total Assets	$ 18,989,269	$ 18,368,556	$ 620,713	3	$ 17,709,123
Deferred outflows of resources					
Deferred pension outflows	$ 801,976	$ 604,744	$ 197,232	33	$ 128,496
Current liabilities	$ 2,124,914	$ 2,569,098	$ (444,184)	(17)	$ 2,717,479
Long-term liabilities	2,255,857	1,180,196	1,075,661	91	2,068,908
Total Liabilities	$ 4,380,771	$ 3,749,294	$ 631,477	17	$ 4,786,387
Deferred inflows of resources					
Deferred lease inflows	$ 562,188	$ -	$ 562,188	100	$ -
Deferred pension inflows	211,938	1,001,081	(789,143)	(79)	167,111
Total Deferred Inflows of Resources	$ 774,126	$ 1,001,081	$ (226,955)	(23)	$ 167,111
Net Position					
Net investment in capital assets	$ 14,961,213	$ 15,158,430	$ (197,217)	(1)	$ 15,374,945
Unrestricted	(324,865)	(935,505)	610,640	65	(2,490,824)
Total Net Position	$ 14,636,348	$ 14,222,925	$ 413,423	3	$ 12,884,121

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

	FY 2023	FY 2022	Change from 2022 to 2023 Dollar	Change from 2022 to 2023 Percent (%)	FY 2021
Operating revenues	$ 5,887,743	$ 5,616,546	$ 271,197	5	$ 3,367,995
Nonoperating revenues	1,244,009	1,144,693	99,316	9	622,997
Total Revenues	$ 7,131,752	$ 6,761,239	$ 370,513	5	$ 3,990,992
Operating expenses	$ 5,509,235	$ 4,294,356	$ 1,214,879	28	$ 2,999,987
Nonoperating expenses	37,467	33,746	3,721	11	70,946
Depreciation/amortization	1,171,627	1,094,333	77,294	7	1,101,973
Total Expenses	$ 6,718,329	$ 5,422,435	$ 1,295,894	24	$ 4,172,906
Changes in Net Position	$ 413,423	$ 1,338,804	$ (925,381)	(69)	$ (181,914)
Beginning Net Position	14,222,925	12,884,121	1,338,804	10	13,066,035
Ending Net Position	$ 14,636,348	$ 14,222,925	$ 413,423	3	$ 12,884,121

Condensed Statement of Revenues, Expenses, and Changes in Net Position
(2023 Budget and Actual)

	Actual	Budget	Budget to Actual Variance	Percent (%) Over Under Budget
Operating revenues	$ 5,887,743	$ 5,633,948	$ 253,795	5
Nonoperating revenues	1,244,009	889,300	354,709	40
Total Revenues	$ 7,131,752	$ 6,523,248	$ 608,504	9
Operating expenses	$ 5,509,235	$ 5,566,100	$ (56,865)	(1)
Nonoperating expenses	37,467	35,400	2,067	6
Depreciation/amortization	1,171,627	1,119,000	52,627	5
Total Expenses	$ 6,718,329	$ 6,720,500	$ (2,171)	(1)
Changes in Net Position	$ 413,423	$ (197,252)	$ 610,675	310
Beginning Net Position	14,222,925	14,222,925	-	-
Ending Net Position	$ 14,636,348	$ 14,025,673	$ 610,675	4

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues increased by $271,197, or 5 percent, in 2023 compared to 2022 as a result of modest price increases and increased banquet revenues. Nonoperating revenues increased by $99,316, or 9 percent, in 2023 compared to 2022 as a result of increased investment income, increased debt forgiveness on the Authority's line of credit, and a change in the timing of the distribution of tourism tax revenues.

Expenses

The Authority's operating expenses increased $1,214,879, or 28 percent, from 2022 primarily as a result of increased salaries and wages and associated benefits.

Budgetary Highlights

The Authority creates an annual operating budget, which includes proposed expenses and the 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 $253,795, or 5 percent, higher than budget due primarily to strong lift ticket sales.

Capital Assets

Capital Assets at Year-End

	FY 2023	FY 2022	Change Dollar	Change Percent (%)
Land and land improvements	$ 2,561,950	$ 2,556,044	$ 5,906	1
Equipment	12,574,973	11,706,728	868,245	7
Plant equipment	1,362,774	1,220,511	142,263	12
Buildings and structures	15,065,235	15,040,448	24,787	1
Furniture and fixtures	275,764	267,341	8,423	3
Other capital assets	1,103,478	1,103,478	-	-
Construction in progress	150,397	204,270	(53,873)	(26)
Subtotal	$ 33,094,571	$ 32,098,820	$ 995,751	3
Less: accumulated depreciation	(17,422,149)	(16,257,802)	(1,164,347)	(7)
Total Capital Assets, Net	$ 15,672,422	$ 15,841,018	$ (168,596)	(1)

The Authority's ongoing capital plan improvements are made with the long-term goals of the Spirit Mountain Master Plan in mind. As always, we continue to seek ways to increase operating revenues, streamline the operation, find efficiencies, and provide the best possible guest experience, in addition to ensuring the long-term financial sustainability of this community resource.

Debt Administration

Outstanding Debt Obligations

	FY 2023	FY 2022	Change Dollar	Change Percent (%)
Land and land improvements	$ 336,508	$ 521,002	$ (184,494)	(35)
Equipment	374,701	161,587	213,114	132
Total Debt	$ 711,209	$ 682,589	$ 28,620	4

During fiscal year 2023, the Authority's outstanding debt increased $28,620.

Economic and Other Factors

The Authority must consider many factors when setting the fiscal year budgets, including the unforeseeable impact of weather conditions, both winter and summer. To minimize uncertainty, the Authority budgets very conservatively: It sets realistic, achievable revenue targets and strives to anticipate expenses to minimize the likelihood that expenses will outweigh revenues in any given fiscal year.

The Authority continues to invest in deferred maintenance and other improvements, including but not limited to, acquiring a new point-of-sale system, upgrading IT infrastructure, enhancing snowmaking infrastructure, and enhancing operations in a myriad of smaller ways. Investment dollars come from operating revenues and tourism taxes appropriated by the City of Duluth.

Financial Contact

This financial report is designed to provide customers, creditors, and the public 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

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Exhibit 1

Statement of Net Position
April 30, 2023

Assets		
Current assets		
Cash and cash equivalents	$	2,270,084
Accounts receivable		258,099
Leases receivable – current		6,250
Prepaid insurance		112,662
Inventory		102,824
Total current assets	**$**	**2,749,919**
Noncurrent assets		
Leases receivable – long-term	$	566,928
Capital assets		
Non-depreciable		2,712,347
Depreciable		30,382,224
Less: accumulated depreciation		(17,422,149)
Total capital assets – net of accumulated depreciation	**$**	**15,672,422**
Total noncurrent assets	**$**	**16,239,350**
Total Assets	**$**	**18,989,269**
Deferred Outflows of Resources		
Deferred pension outflows	**$**	**801,976**
Liabilities		
Current liabilities		
Accounts payable	$	280,581
Due to City of Duluth		108,909
Due to other governments		44,108
Accrued salaries payable		66,312
Accrued vacation payable		118,852
Financed purchase payable – current		269,040
Unearned revenue		1,237,112
Total current liabilities	**$**	**2,124,914**
Noncurrent liabilities		
Financed purchase payable – long-term	$	442,169
Net pension liability		1,813,688
Total noncurrent liabilities	**$**	**2,255,857**
Total Liabilities	**$**	**4,380,771**

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Exhibit 1
(Continued)

Statement of Net Position
April 30, 2023

Deferred Inflows of Resources		
Deferred lease inflows	$	562,188
Deferred pension inflows		211,938
Total Deferred Inflows of Resources	**$**	**774,126**
Net Position		
Net investment in capital assets	$	14,961,213
Unrestricted		(324,865)
Total Net Position	**$**	**14,636,348**

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

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Exhibit 2

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended April 30, 2023

Operating Revenues		
Sales	$	1,231,434
Less: cost of goods sold		(535,822)
Gross profit on sales	**$**	**695,612**
Charges for services		5,076,496
Miscellaneous		115,635
Total Operating Revenues	**$**	**5,887,743**
Operating Expenses		
Personal services	$	3,503,563
Supplies		346,214
Utilities		548,659
Other services and charges		1,110,799
Depreciation		1,171,627
Total Operating Expenses	**$**	**6,680,862**
Operating Income (Loss)	**$**	**(793,119)**
Nonoperating Revenues (Expenses)		
Earnings on investments	$	46,530
Tourism tax		732,369
Forgiveness of due to primary government		465,110
Interest expense		(37,467)
Total Nonoperating Revenues (Expenses)	**$**	**1,206,542**
Changes in Net Position	**$**	**413,423**
Net Position – May 1		**14,222,925**
Net Position – April 30	**$**	**14,636,348**

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

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Exhibit 3

Statement of Cash Flows
For the Year Ended April 30, 2023

Cash Flows from Operating Activities		
Cash received from customers	$	6,188,164
Cash paid to suppliers		(2,516,816)
Cash paid to employees		(3,434,223)
Other cash received		61,660
Net cash provided by (used in) operating activities	**$**	**298,785**
Cash Flows from Noncapital Financing Activities		
Repayment on line of credit	**$**	**(100,000)**
Cash Flows from Capital and Related Financing Activities		
Proceeds from financed purchases	$	360,000
City of Duluth hotel/motel taxes		732,369
Financed purchase payments		(369,088)
Acquisition and construction of capital assets		(1,003,030)
Lease payments received (including $37,530 of interest)		42,985
Net cash provided by (used in) capital and related financing activities	**$**	**(236,764)**
Cash Flows from Investing Activities		
Interest on investments	**$**	**46,530**
Net Increase (Decrease) in Cash and Cash Equivalents	**$**	**8,551**
Cash and Cash Equivalents – May 1		**2,261,533**
Cash and Cash Equivalents – April 30	**$**	**2,270,084**

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

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Exhibit 3
(Continued)

Statement of Cash Flows
For the Year Ended April 30, 2023

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	**$**	**(793,119)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Lease revenue		(53,975)
Depreciation		1,171,627
Change in assets and liabilities		
Decrease (increase) in receivables		(120,477)
Decrease (increase) in prepaid insurance		(52,511)
Decrease (increase) in inventory		(34,593)
Decrease (increase) in deferred pension inflows		(789,143)
Increase (decrease) in payables		111,782
Increase (decrease) in accrued salaries payable		18,782
Increase (decrease) in accrued vacation payable		4,737
Increase (decrease) in deferred pension outflows		(197,232)
Increase (decrease) in net pension liability		1,032,196
Increase (decrease) in unearned revenue		711
Net Cash Provided by (Used in) Operating Activities	**$**	**298,785**
Noncash Financing Activities		
Line of credit balance forgiven by primary government	$	465,000

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

Note 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.

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 Annual Comprehensive Financial Report because of the significance of its operations and financial relationships with the City.

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.

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.

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

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.

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.

Capital Assets

Purchased or constructed capital assets are stated at cost. Donated capital assets are recorded at acquisition value on the date of donation. The Authority's policy is to capitalize assets with a useful life of at least three years and a minimum cost of $500. Depreciation of capital assets is determined using the straight-line method.

Estimated Useful Lives of Capital Assets

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

Accrued Vacation Payable

Full-time employees covered by the Minnesota Arrowhead District Council 96 collective bargaining agreement are granted from ten to 21 days of vacation per year depending on their years of service. 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 24 days may be carried forward to the subsequent year.

Unearned Revenue

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets 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 for the net present value of leases that mature beyond one year, amortized to revenue on a straight-line basis over the lease terms. The Authority also reports deferred inflows of resources associated with the defined benefit pension plan.

Pension Plan

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

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.

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.

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 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.

Change in Accounting Principles

During the year ended April 30, 2023, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) No. 87, *Leases*, which establishes criteria for accounting and financial reporting for leases. The implementation of this statement resulted in changing the presentation of the financial statements by increasing the beginning balances of leases receivable and deferred inflows of resources by $579,096.

Note 2 – Detailed Notes

Budget

The Authority adopts an annual budget which is approved by the Duluth City Council.

Budget-to-Actual Comparison for the Year Ending April 30, 2023

	Budget	Actual	Variance
Operating Revenues			
Sales	$ 1,192,998	$ 1,231,434	$ 38,436
Less: cost of goods sold	(445,188)	(535,822)	(90,634)
Gross profit on sales	$ 747,810	$ 695,612	$ (52,198)
Charges for services	4,703,822	5,076,496	372,674
Miscellaneous	182,316	115,635	(66,681)
Total Operating Revenues	$ 5,633,948	$ 5,887,743	$ 253,795
Operating Expenses			
Personal services	$ 3,780,346	$ 3,503,563	$ 276,783
Supplies	349,224	346,214	3,010
Utilities	493,803	548,659	(54,856)
Other services and charges	942,727	1,110,799	(168,072)
Depreciation	1,119,000	1,171,627	(52,627)
Total Operating Expenses	$ 6,685,100	$ 6,680,862	$ 4,238
Operating Income (Loss)	$ (1,051,152)	$ (793,119)	$ 258,033
Nonoperating Revenues (Expenses)			
Earnings on investments	$ 3,600	$ 46,530	$ 42,930
Tourism tax	585,700	732,369	146,669
Forgiveness of due to primary government	300,000	465,110	165,110
Interest expense	(35,400)	(37,467)	(2,067)
Total Nonoperating Revenues (Expenses)	$ 853,900	$ 1,206,542	$ 352,642
Change in Net Position	$ (197,252)	$ 413,423	$ 610,675

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 GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, are disclosed on an entity-wide basis in the City of Duluth's Annual Comprehensive Financial Report. The Authority is a component unit of the City of Duluth.

Cash and Cash Equivalents for the Year Ended April 30, 2023

Cash and investments pooled with the City of Duluth	$ 2,228,305
Petty cash and change funds	41,779
Total Cash and Cash Equivalents	$ 2,270,084

Capital Assets

A summary of the changes in capital assets for the year ended April 30, 2023, follows:

Changes in Capital Assets for the Year Ended April 30, 2023

	Balance May 1, 2022	Additions	Deductions	Balance April 30, 2023
Capital assets not depreciated				
Land and land improvements	$ 2,556,044	$ 5,906	$ -	$ 2,561,950
Construction in progress	204,270	12,550	66,423	150,397
Total capital assets not depreciated	$ 2,760,314	$ 18,456	$ 66,423	$ 2,712,347
Capital assets depreciated				
Buildings and structures	$ 15,040,448	$ 25,308	$ 521	$ 15,065,235
Equipment	12,927,239	1,015,591	5,083	13,937,747
Furniture and fixtures	267,342	10,098	1,676	275,764
Other capital assets	1,103,478	-	-	1,103,478
Total capital assets depreciated	$ 29,338,507	$ 1,050,997	$ 7,280	$ 30,382,224
Less: accumulated depreciation for				
Buildings and structures	$ 7,119,840	$ 496,082	$ 521	$ 7,615,401
Equipment	8,130,166	618,405	5,083	8,743,488
Furniture and fixtures	261,155	3,062	1,676	262,541
Other capital assets	746,641	54,078	-	800,719
Total accumulated depreciation	$ 16,257,802	$ 1,171,627	$ 7,280	$ 17,422,149
Total capital assets depreciated, net	$ 13,080,705	$ (120,630)	$ -	$ 12,960,075
Capital Assets, Net	$ 15,841,019	$ (102,174)	$ 66,423	$ 15,672,422

Leases Receivable

The following is a summary of the Authority's leases receivable as of April 30, 2023:

Leases Receivable as of April 30, 2023

	Receivable	Amounts Not Scheduled for Collection During the Subsequent Year
Mountain Villas	$ 573,178	$ 566,928

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. 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. As of May 1, 2022, the annual rental payment was $37,647. In September 2007, both parties agreed to extend the term of the agreement out to October 1, 2056.

As of April 30, 2023, the Authority reported leases receivable and deferred inflows of resources totaling $573,178 and $562,188, respectively. The leases receivable will be reduced as repayments are received. Principal and interest totaling $5,918 and $37,067, respectively, were received during the year ended April 30, 2023. Inflows of resources recognized during the year ended April 30, 2023, consisted of lease revenue of $16,908 and interest revenue of $37,067.

Vacation and Sick Leave

Unpaid vacation leave earned as of April 30, 2023, is $118,852, 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.

Due to City of Duluth

In fiscal year 2009, the City of Duluth extended the Authority a line of credit to assist in the management of cash flow within the budget approved. The Spirit Mountain Recreation Area Authority was allowed to draw upon the line of credit as needed to assist in the management of cash flows. The line of credit was maxed out at $1.2 million in fiscal year 2014.

At its May 10, 2021, Council meeting, the Duluth City Council authorized the forgiveness of up to $900,000 of the line of credit in exchange for Spirit Mountain making investments in capital improvements during calendar years 2021, 2022, and 2023. The Authority also must make a $100,000 cash repayment during each calendar year. The amount of forgiveness in any of the calendar years is limited to the amount paid towards capital improvements by the Authority or $500,000, whichever is less. As of April 30, 2023, $900,000 of the line of credit has been forgiven by the City of Duluth.

Amounts Due to the City of Duluth for the Year Ending April 30, 2023

General Fund – sales tax	$	8,909
General Fund – line of credit		100,000
Total	$	108,909

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.

Financed Purchase Obligations

The Authority acquired equipment through financed purchase arrangements.

Financed Purchases for the Year Ending April 30, 2023

Equipment	$	4,076,273
Less: accumulated depreciation		(2,140,798)
Net Financed Purchase Property	$	1,935,475

Minimum Future Payments on Financed Purchase Obligations For the Year Ending April 30, 2023

		Principal		Interest
2024	$	269,040	$	27,807
2025		227,159		16,066
2026		87,049		9,988
2027		87,356		4,841
2028		40,605		654
Total	$	711,209	$	59,356

Detail of Financed Purchase Obligations for the Year Ending April 30, 2023

A $2,340,150 financed purchase for the 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.	$	336,508
A $61,261 financed purchase of DSC radios, dated February 1, 2022, due in monthly payments through December 1, 2026, with interest at 7.50 percent.		46,421
A $360,000 financed purchase of a groomer, dated June 15, 2022, due in periodic installments through October 15, 2027, with interest at 5.50 percent.		328,280
Total	$	711,209
Current portion	$	269,040
Long-term portion		442,169
Total	$	711,209

Changes in Financed Purchase Obligations
For the Year Ending April 30, 2023

Balance, beginning of year	$	682,589
Additions		360,000
Reductions		(331,380)
Balance, end of year	$	711,209

Defined Benefit Pension Plan

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. These plans are 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 the 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.

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.

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 a 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. 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. In the General Employees Plan, 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.

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 2022. The employer was required to contribute 7.50 percent of annual covered salary in 2022. The employee and employer rates did not change from 2021.

The Authority's contributions for the General Employees Plan for the year ended April 30, 2023, were $155,272. The contributions are equal to the statutorily required contributions as set by state statute.

Pension Costs

At April 30, 2023, the Authority reported a liability of $1,813,688 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022, the Authority's proportion was 0.0229 percent. It was 0.0183 percent measured as of June 30, 2021. The Authority recognized pension expense of $209,048 for its proportionate share of the General Employees Plan's pension expense.

Legislation requires the State of Minnesota to contribute $16 million to the General Employees Plan annually until September 15, 2031. The Authority recognized an additional $7,955 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

Employer's Share of the Net Pension Liability and the State's Related Liability
As of April 30, 2023

The Authority's proportionate share of the net pension liability	$	1,813,688
State of Minnesota's proportionate share of the net pension liability associated with the Authority		53,236
Total	$	1,866,924

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

Deferred Outflows of Resources and Deferred Inflows of Resources
As of April 30, 2023

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual economic experience	$	15,149	$	15,898
Changes in actuarial assumptions		330,508		7,667
Difference between projected and actual investment earnings		173,506		-
Changes in proportion		147,330		188,373
Contributions paid to PERA subsequent to the measurement date		135,483		-
Total	$	801,976	$	211,938

The $135,483 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Schedule of Amortization of
Deferred Outflows and Inflows of Resources
As of April 30, 2023

Year Ended April 30		Pension Expense Amount
2024	$	111,064
2025		141,756
2026		37,714
2027		164,021

Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Actuarial Assumptions for the Year Ended June 30, 2022

	General Employees Fund
Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	6.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table for the General Employees Plan, with slight adjustments. Cost-of-living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan per year through December 31, 2054, and 1.50 percent per year thereafter.

Actuarial assumptions used in the June 30, 2022, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. A review of inflation and investment assumptions dated July 12, 2022, was utilized.

The long-term expected rate of return on pension plan investments is 6.50 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.

Pension Plan Investment Target Allocation and Best Estimates of Geometric
Real Rates of Return for Each Major Asset Class

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	33.50%	5.10%
International equities	16.50%	5.30%
Fixed income	25.00%	0.75%
Private markets	25.00%	5.90%

Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent for the General Employees Plan in 2022, which remained consistent with 2021. 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.

Change in Actuarial Assumptions and Plan Provisions

The following change in actuarial assumptions occurred in 2022:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

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.

Sensitivity of the Employer's Proportionate Share of the
Net Pension Liability to Changes in the Discount Rate
As of April 30, 2023

	Proportionate Share of the General Employees Plan	
	Discount Rate	Net Pension Liability
1% Decrease	5.50%	$ 2,864,815
Current	6.50%	1,813,688
1% Increase	7.50%	951,601

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.

Note 3 – Risk Management

The Authority uses the League of Minnesota Cities (LMC) to insure against its obligation to provide benefits to employees pursuant to the Minnesota Workers' Compensation Act. The Authority also participates in the 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 and $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.

Required Supplementary Information

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, 2023

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the Spirit Mountain Recreation Area Authority (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.0229 %	$ 1,813,688	$ 53,236	$ 1,866,924	$ 1,727,794	104.97 %	76.67 %
2021	0.0183	781,492	23,917	805,409	1,207,871	64.70	87.00
2020	0.0238	1,426,919	43,940	1,470,859	1,670,505	85.42	79.06
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, 2023

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2023	$ 155,272	$ 155,272	$ -	$ 2,070,291	7.50 %
2022	122,350	122,350	-	1,631,338	7.50
2021	80,962	80,962	-	1,079,495	7.50
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.

The notes to the required supplementary information are an integral part of this schedule.

Note 1 – 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

2022

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/ Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

- The assumed spouse age difference was changed from two years older for females to one year older.

- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

<u>2019</u>

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

<u>2018</u>

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

- 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.

<u>2017</u>

- 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.

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

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

Supplementary Information

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Exhibit B-1

Schedule of Operating Revenues
For the Year Ended April 30, 2023

Sales		
Food	$	526,773
Liquor		323,336
Ski shop		135,668
Grand Avenue Chalet		245,657
Less: cost of goods sold		(535,822)
Net sales	**$**	**695,612**
Charges for Services		
Season passes	$	1,589,392
Daily lift tickets		1,661,342
Alpine Coaster		630,245
Ski school and snow sports		163,153
Ski rental		328,567
Snowboard rental		48,030
Locker rental		15,069
Nordic tickets and rental		11,109
Campground		272,889
Summer activities		356,700
Total charges for services	**$**	**5,076,496**
Miscellaneous		
Other revenues	**$**	**115,635**
Total Operating Revenues	**$**	**5,887,743**

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Exhibit B-2

Schedule of Operating Expenses
For the Year Ended April 30, 2023

Department		
Food and beverage	$	449,262
Rental		65,202
Ski shop		12,641
Campground		106,348
Parking and shuttle		32
Building and grounds		280,816
Skyline building maintenance		249,444
Ski school and snow sports center		65,648
Outside mountain operations		2,403,252
Nordic		5,742
Ski patrol		51,538
Sales and marketing		299,000
Office administration		1,024,737
Grand Avenue Chalet		246,519
Summer activities		54,721
Adventure Park		194,333
Total departmental costs	**$**	**5,509,235**
Depreciation		1,171,627
Total Operating Expenses	**$**	**6,680,862**

Management and Compliance Section

STATE OF MINNESOTA

Julie Blaha
State Auditor

Office of the State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

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, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 21, 2024.

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

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 identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 2023-001, that we consider to be a significant deficiency.

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Report on 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 the provisions of the contracting – bid laws and public indebtedness 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 2023-003 and 2023-004. 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 depositories of public funds and public investments, conflicts of interest, claims and disbursements, 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 Items

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

Spirit Mountain Recreation Area Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Spirit Mountain Recreation Area Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Recommendations and Corrective Action Plan. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

/s/Julie Blaha	*/s/Chad Struss*
Julie Blaha State Auditor	Chad Struss, CPA Deputy State Auditor

May 21, 2024

Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Schedule of Findings and Recommendations
For the Year Ended April 30, 2023

Section I – Financial Statement Findings

2023-001 **<u>Segregation of Duties – Cash Collections</u>**
Prior Year Finding Number: 2022-001
Year of Finding Origination: 2015
Type of Finding: Internal Control Over Financial Reporting
Severity of Deficiency: Significant Deficiency

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, management should ensure proper segregation of record-keeping, custody, and authorization functions. Where management decides segregation of duties may not be cost-effective, management should ensure compensating controls are in place.

Condition: The Authority lacks proper segregation of duties. The Authority has multiple locations where cash is collected. One employee may be responsible for collecting, holding, and recording receipts at individual collection points.

Context: Due to the limited number of personnel within the Authority, segregation of the functions at each collection point necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Spirit Mountain Recreation Area Authority; however, the Authority's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

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

Cause: The size of the 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: Concur

Section II – Other Findings and Recommendations

2023-002 **Enrollment in the Public Employees Retirement Association (PERA)**
Prior Year Finding Number: N/A
Year of Finding Origination: 2023
Type of Finding: Management Practice

Criteria: Public employees whose salary from one governmental subdivision exceeds $425 in any month who are not specifically excluded by Minn. Stat. § 353.01, subd. 2b, must participate as members of PERA with retirement coverage by the General Employees Retirement Plan. Membership begins on the first day of employment or on the first day that the eligibility criteria is met, whichever is later. Management is responsible for enrollment, maintaining employee data, and reporting it to PERA.

Condition: Eligible employees are not being properly enrolled into PERA by the Authority at time of hire.

Context: Pension information is entered by Authority staff into the PERA Employer Reporting and Information System (ERIS), which is a statewide pension retirement system for public employees.

Effect: Errors in pension plan enrollment increases the risk that PERA's net pension liability is misstated. Additionally, employees' benefits could be incorrectly calculated.

Cause: The Authority has experienced turnover in staff and had difficulty determining which employees are PERA eligible.

Additionally, in the Authority's employee handbook, it states, "All Union employees must work a total of 1040 hours or work for an entire year before contributing (whichever comes first) as long as they do not meet exclusion exemptions." This internal procedure does not align with statutory requirements or PERA's guidelines.

Recommendation: We recommend the Authority follow statutory requirements and PERA's guidelines for enrolling employees.

View of Responsible Official: Acknowledge

2023-003 **Contracting and Bidding Compliance**
Prior Year Finding Number: N/A
Year of Finding Origination: 2023
Type of Finding: Minnesota Legal Compliance

Criteria: Minnesota Statutes, Section 471.345, requires all construction contracts over $175,000 to be formally bid, using applicable public notice. Regarding splitting contracts to avoid formal bidding, the general rule is stated in McQuillin, The Law of Municipal Corporations § 29.38, which states: "Where a municipality is prohibited from letting contracts involving an expenditure of more than a specified sum without submitting the same to competitive bidding, it cannot divide the work and let it under several contracts, the amount for each falling below the amount required for competitive bidding." In Atty Gen. Op. 7-7-A-4 (Apr. 29, 1952), the Minnesota Attorney General cited this general rule and held that splitting a contract to avoid the requirements of competitive bidding is prohibited.

Minnesota Statutes, Section 574.26, subdivision 2, provides that if the value of a contract with a public body for the doing of any public work is $175,000 or more, the contract is not valid unless the contractor provides (1) a performance bond and (2) a payment bond.

Minnesota Statutes, Section 16C.285, states that for each construction contract in excess of $50,000, awarded pursuant to a lowest responsible bidder or best value process, the successful contractor must submit verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3.

Pursuant to Minnesota Statutes, Section 471.345, subd. 3, contracts estimated to exceed $175,000 must be made using sealed bids solicited by public notice by advertising for bids in a qualified legal newspaper or through the alternative dissemination of bids and requests as provided by Minn. Stat. § 331A.03.

Condition: During testing of compliance with contracting and bid laws, the following exceptions were noted:

- For the one construction contract in excess of $175,000 tested, the Spirit Mountain Recreation Area Authority could not provide evidence showing it received a performance bond or a payment bond. Additionally, the Authority did not obtain the responsible contractor certification. When the quotes received exceeded $175,000, the Authority split the contract to stay under the bidding threshold and awarded the project under two separate contracts.

- For the other contract tested that required sealed bids to be solicited by public notice, there was no affidavit of publication or evidence of advertisement of bids in a newspaper of general circulation.

Context: The Authority relied on a consultant to manage the construction project on its behalf. However, the Authority is ultimately responsible for verifying that all legal requirements relating to contracting and bidding have been met.

For the contract requiring sealed bids, the Authority contacted two vendors to obtain quotes from them for the purchase of a snow groomer. The contract awarded totaled $465,000.

Effect: Noncompliance with Minn. Stat. §§ 16C.285, 574.26, and 471.345.

Cause: The Authority staff were not aware the various contracting and bidding requirements applied or relied on the consultant to ensure the requirements were met.

Recommendation: We recommend the Authority implement procedures to ensure compliance with contracting and bidding requirements.

View of Responsible Official: Acknowledge

2023-004 **<u>Unauthorized Debt Obligation</u>**
Prior Year Finding Number: N/A
Year of Finding Origination: 2023
Type of Finding: Minnesota Legal Compliance

Criteria: The Spirit Mountain Recreation Area Authority was established by 1973 Minn. Laws, ch. 327. The Authority is authorized by 1973 Minn. Laws, ch. 327, Sec. 7 and Sec. 8, to issue revenue bonds or general obligation bonds subject to the provisions of Minn. Stat. §§ 475.54 to 475.56 with the approval of the City Council of the City of Duluth. Neither the Authority's enabling act, nor Minn. Stat. ch. 475, provides the Spirit Mountain Recreation Area Authority with the legal authority to obtain a commercial loan from a lender.

Condition: On June 15, 2022, the Authority entered into an agreement with Frandsen Bank and Trust for a $360,000 business loan.

Context: At its April 19, 2022, meeting, the Board of Directors of the Spirit Mountain Recreation Area Authority approved the purchase of a snow groomer with financing of the purchase to come from a business loan from a local bank.

Effect: The Spirit Mountain Recreation Area Authority has no authority to enter into a business loan and, by doing so, is in noncompliance with Minn. Stat. ch. 475.

Cause: The Spirit Mountain Recreation Area Authority was interested in obtaining a new snow groomer for its operations and obtained a business loan from a local bank to finance the purchase, unaware of the limitations in the Authority's legal authority.

Recommendation: We recommend the Spirit Mountain Recreation Area Authority remove itself from the unauthorized debt obligation and refrain from entering into unauthorized debt obligations in the future.

View of Responsible Official: Acknowledge

Representation of the Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Corrective Action Plan
For the Year Ended April 30, 2023

Finding Number: 2023-001
Finding Title: Segregation of Duties – Cash Collections

Name of Contact Person Responsible for Corrective Action:

Ann Glumac, 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, the Spirit Mountain Recreation Area Authority understands the risk and is willing to assume the responsibility.

Finding Number: 2023-002
Finding Title: Enrollment in the Public Employees Retirement Association (PERA)

Name of Contact Person Responsible for Corrective Action:

Tyaunna Sorenson, HR Manager

Corrective Action Planned:

Evaluate current controls for ensuring the correct enrollment and ensure all active employees are in proper enrollment status. Further evaluation of hiring status, full time eligibility, onboarding, approval process, etc. Establish workflow for initial hiring status (benefits eligible, probation, not eligible, etc.). Publish official hiring / onboarding workflow that is appropriate for seasonal staff, full time salaried, hourly union, etc.

Anticipated Completion Date:

September 30, 2024

Finding Number: 2023-003
Finding Title: Contracting and Bidding Compliance

Name of Contact Person Responsible for Corrective Action:

Ann Glumac, Executive Director

Corrective Action Planned:

The Authority has obtained guidance on public purchasing requirements from the League of Minnesota Cities (information memo Competitive Bidding Requirements in Cities) and from the City of Duluth Purchasing Department to enhance its understanding of requirements for contracts and bidding. These documents will be the foundation of a revised purchasing policy and procedure that will guide all future contracts and bidding to ensure they are consistent with requirements.

Anticipated Completion Date:

September 30, 2024

Finding Number: 2023-004
Finding Title: Unauthorized Debt Obligation

Name of Contact Person Responsible for Corrective Action:

Ann Glumac, Executive Director

Corrective Action Planned:

The Authority has obtained guidance on public purchasing requirements from the League of Minnesota Cities (information memo Competitive Bidding Requirements in Cities) and from the City of Duluth Purchasing Department to enhance its understanding of requirements for contracts and bidding. These documents will be the foundation of a revised purchasing policy and procedure that will guide all future contracts and bidding to ensure they are consistent with requirements.

Anticipated Completion Date:

September 30, 2024

Representation of the
Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Summary Schedule of Prior Audit Findings
For the Year Ended April 30, 2023

Finding Number: 2022-001
Year of Finding Origination: 2015
Finding Title: Segregation of Duties – Cash Collections

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.

Corrective action taken was not significantly different than the action previously reported.