

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

FOR THE YEARS ENDED APRIL 30, 2007 AND 2006

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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

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

For the Years Ended April 30, 2007 and 2006



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

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

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Comparative Statement of Net Assets	Exhibit A	10
Comparative Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit B	12
Comparative Statement of Cash Flows	Exhibit C	13
Notes to the Financial Statements		14
Supplementary Information		
Comparative Statement of Operating Revenues	Schedule 1	29
Comparative Statement of Operating Expenses	Schedule 2	30
Statement of Capital Improvements	Schedule 3	31
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 4	32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		34

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

ORGANIZATION
APRIL 30, 2007

	<u>Term Ending</u>
Directors	
Lisa Augustine	June 30, 2008
Ken Buehler	June 30, 2009
Alan Johnson	June 30, 2008
Will Munger	June 30, 2009
Nancy Nelson	June 30, 2009
Pauline Olsen	June 30, 2009
Todd Torvinen	June 30, 2008
 Executive Director	
Renee Mattson	
 Officers	
Chair	
Pauline Olsen	
Vice Chair	
Ken Buehler	
Secretary	
Alan Johnson	

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

We have audited the accompanying basic financial statements of the Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, as of and for the years ended April 30, 2007 and 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Spirit Mountain Recreation Area Authority as of April 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 15, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2007
(Unaudited)**

This section presents management's analysis of the Authority's financial condition and activities for the fiscal year ended April 30, 2007. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$48,361, or 1 percent, compared to fiscal year 2006. The decrease was due to total assets decreasing 6 percent with an offset in total liabilities decreasing 13 percent.
- Operating income decreased \$397,217, or 240 percent, compared to fiscal year 2006. The decrease was due primarily to a decrease in charges for services due to less than favorable weather conditions.
- The City of Duluth issued a \$1.647 million Gross Revenue Recreational Facility Bond in 2003 to refinance existing Authority debt. The bond is not a general obligation of the City and is payable from the Authority gross revenues. The City pledged tourism taxes in the amount of \$225,000 per year, effective January 1, 2004, as part of the gross revenues of the project. The tourism tax pledge by the City will allow the Authority to invest a minimum of \$225,000 in capital improvements on an annual basis over the life of the bond.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, bond resolutions, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector.

The financial statements include a statement of net assets; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of the Authority on a full accrual historical

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

The statement of cash flows present changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The financial statements were audited and adjusted, if material, during the independent external audit process.

SUMMARY OF ORGANIZATION AND BUSINESS

On May 18, 1973, the Minnesota State Legislature enacted the Laws, 1973, Chapter 327 (the "Act") creating the Spirit Mountain Recreation Area Authority. The mission of the Authority as defined in section one of the Act is as follows: The purpose of this Act is to facilitate the development of a land area with the following objectives: (1) the development of wide-range recreational facilities available to both local residents and tourists; (2) the aiding of the economy of northeastern Minnesota by encouraging private enterprise efforts in conjunction with the recreational facilities; and (3) the preservation of the environment in the area by a timely and intelligent plan of development. The Authority was created to have the power and duty to manage the property made up of the Area. The State Legislature itself conferred upon the Authority the power and responsibility for the operation and management of the Area. The Mayor of Duluth appoints seven community members to serve on the Board of Directors that oversees the Authority.

The main form of recreation provided to both local residents and visitors is skiing; alpine, nordic, and snowboarding. The Authority also hosts the world's largest Snocross race. Summertime activities include special events, mountain bike races, banquets, meetings, camping, and a Supper Club.

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

FINANCIAL ANALYSIS

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

Condensed Statement of Net Assets

	FY 2007	FY 2006	Change from 2006 to 2007		FY 2005
			Dollar	Percent (%)	
Current and other assets	\$ 967,613	\$ 1,279,463	\$ (311,850)	(24)	\$ 1,166,708
Capital assets	<u>4,774,525</u>	<u>4,822,217</u>	<u>(47,692)</u>	(1)	<u>4,787,844</u>
Total Assets	\$ 5,742,138	\$ 6,101,680	\$ (359,542)	(6)	\$ 5,954,552
Current liabilities	\$ 774,482	\$ 766,216	\$ 8,266	1	\$ 788,947
Long-term liabilities	<u>1,270,692</u>	<u>1,590,139</u>	<u>(319,447)</u>	(20)	<u>1,760,990</u>
Total Liabilities	\$ 2,045,174	\$ 2,356,355	\$ (311,181)	(13)	\$ 2,549,937
Net Assets					
Invested	\$ 3,321,671	\$ 3,107,869	\$ 213,802	7	\$ 2,963,292
Restricted	320,820	330,714	(9,894)	(3)	279,480
Unrestricted	<u>54,473</u>	<u>306,742</u>	<u>(252,269)</u>	(82)	<u>161,843</u>
Total Net Assets	<u>\$ 3,696,964</u>	<u>\$ 3,745,325</u>	<u>\$ (48,361)</u>	(1)	<u>\$ 3,404,615</u>

As can be seen from the table, net assets decreased \$48,361 to \$3,696,964 in 2007, down from \$3,745,325 in 2006. Unrestricted net assets decreased \$252,269, or 82 percent, from 2006. The decrease in net assets is due primarily to the decrease in current assets offset by the decreases in total liabilities.

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

	FY 2007	FY 2006	Change from 2005 to 2006		FY 2005
			Dollar	Percent (%)	
Operating revenues	\$ 3,681,803	\$ 3,925,609	\$ (243,806)	(6)	\$ 3,494,563
Nonoperating revenues	<u>256,052</u>	<u>246,181</u>	<u>9,871</u>	4	<u>231,626</u>
Total Revenues	\$ 3,937,855	\$ 4,171,790	\$ (233,935)	(6)	\$ 3,726,189

	FY 2007	FY 2006	Change from 2005 to 2006		FY 2005
			Dollar	Percent (%)	
Operating expenses	\$ 3,498,646	\$ 3,343,801	\$ 154,845	5	\$ 2,955,350
Nonoperating expenses	72,668	70,943	1,725	2	102,521
Depreciation/amortization	414,902	416,336	(1,434)	-	456,118
Total Expenses	\$ 3,986,216	\$ 3,831,080	\$ 155,136	4	\$ 3,513,989
Changes in Net Assets	\$ (48,361)	\$ 340,710	\$ (389,071)	(114)	\$ 212,200
Beginning Net Assets	3,745,325	3,404,615	340,710	10	3,192,415
Ending Net Assets	<u>\$ 3,696,964</u>	<u>\$ 3,745,325</u>	<u>\$ (48,361)</u>	<u>(1)</u>	<u>\$ 3,404,615</u>

**Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(2007 Budget and Actual)**

	Actual	Budget	Budget to Actual Variance	Budget % Variance
Operating revenues	\$ 3,681,803	\$ 3,559,272	\$ 122,531	3
Nonoperating revenues	256,052	235,327	20,725	9
Total Revenues	\$ 3,937,855	\$ 3,794,599	\$ 143,256	4
Operating expenses	\$ 3,498,646	\$ 3,234,828	\$ 263,818	8
Nonoperating expenses	72,668	76,187	(3,519)	(5)
Depreciation/amortization	414,902	440,983	(26,081)	(6)
Total Expenses	\$ 3,986,216	\$ 3,751,998	\$ 234,218	6
Changes in Net Assets	\$ (48,361)	\$ 42,601	\$ 90,962	214
Beginning Net Assets	3,745,325	3,745,325	-	-
Ending Net Assets	<u>\$ 3,696,964</u>	<u>\$ 3,787,926</u>	<u>\$ 90,962</u>	<u>3</u>

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues decreased to \$3.682 million in 2007, down \$243,806 from 2006. Nonoperating revenues increased four percent in 2007, up \$9,871 over 2006.

Expenses

The Authority's operating expenses increased five percent over 2006 due primarily to the increase in personnel costs, as well as significantly higher water costs for snowmaking operations and other increased utility expenses. Nonoperating expenses increased two percent from 2006 due primarily to an increase in interest expense.

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 exceeded budgeted revenues by \$122,531. The additional revenue was due to the strength of performance in season pass sales, enhanced food and beverage operations, and the campground.

Operating expenses exceeded budgeted operating expenses by eight percent, due primarily to personnel costs as well as increased water and utility costs. Nonoperating expenses were five percent below budget. The decrease is due primarily to a decrease in interest expense over budgeted interest expense.

CAPITAL ASSETS

	FY 2007	FY 2006	Change	
			Dollar	Percent (%)
Land	\$ 2,429,468	\$ 2,429,118	\$ 350	-
Equipment	6,333,355	6,202,926	130,429	2
Plant equipment	271,821	193,874	77,947	40
Building and improvements	3,703,424	3,574,120	129,304	4
Furniture and fixtures	194,928	194,928	-	-
Other capital assets	368,413	351,861	16,552	5
Work in progress	122,272	117,607	4,665	4
Subtotal	\$ 13,423,681	\$ 13,064,434	\$ 359,247	3
Less: accumulated depreciation	(8,649,156)	(8,242,217)	(406,939)	5
Net Property and Equipment	\$ 4,774,525	\$ 4,822,217	\$ (47,692)	(1)

By the end of fiscal year 2007, the Authority had invested \$13.424 million in capital assets. The decrease of \$47,692 in net property and equipment is due primarily to an increase in accumulated depreciation of assets.

The Authority's ongoing capital plan improvements include: continual upgrades to our snowmaking system and lift maintenance, improvements within the chalet to better serve our summer meeting and banquet business, remodeling of the Moosehead Saloon for use in the summer months as a Supper Club and use as an additional banquet space to meet increased demand, and continued upgrades to our computer sales system.

Debt Administration

	FY 2007	FY 2006	Change	
			Dollar	Percent (%)
Gas lease	\$ 51,231	\$ 74,614	\$ (23,383)	(31)
Groomer lease	233,802	305,116	(71,314)	(23)
Lease/leaseback (revenue bonds)	<u>1,167,820</u>	<u>1,334,618</u>	<u>(166,798)</u>	(12)
Total Debt	<u>\$ 1,452,853</u>	<u>\$ 1,714,348</u>	<u>\$ (261,495)</u>	(15)

At the end of fiscal year 2007, the Authority's outstanding debt decreased \$261,495 to \$1.453 million, down from \$1.714 million at the end of fiscal year 2006. The decrease in outstanding debt is due primarily to the payoff of the rental equipment lease.

ECONOMIC AND OTHER FACTORS

The Authority considers many factors when setting the fiscal year 2007 budget, rates and services. We aggressively target the Twin Cities market for both season pass holders and day skiers. In 2006, we partnered with Welch Village Ski Area to offer a joint season pass, an initiative that is both innovative and unmatched in the Midwest. Out of town skiers provide a benefit to Spirit Mountain as well as an economic benefit to the entire Duluth area as they lodge in hotels, dine in restaurants, shop, visit attractions and purchase other services benefiting the local economy. It is imperative we continue to set rates that enable Spirit Mountain to be competitive in our region and provide affordable recreation to winter enthusiasts. New and improved food and beverage outlets provide guests with more choices and easier access to services. The addition of women's specific skis in the rental department and high performance equipment is part of a long term strategy to provide additional revenue while catering to changing demographics. We actively promote and sell Spirit Mountain as a year-round venue, partnering with other entities to bring activities and special events to the facility. Our banquet and meeting business continues to grow through our assertive sales efforts and high customer satisfaction. The campground continues to flourish with yet another season of record revenues. The selection of a team to guide Spirit Mountain through an updated Master Plan process has sparked renewed interest from the community in the long-term success of the area.

FINANCIAL CONTACT

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

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A

**COMPARATIVE STATEMENT OF NET ASSETS
APRIL 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 403,330	\$ 802,530
Accounts receivable	57,918	18,757
Inventory	69,532	40,275
Prepaid items	49,074	34,112
Restricted assets		
Cash and cash equivalents - restricted for capital improvements	295,372	299,764
Cash and cash equivalents - restricted for special projects	8,525	5,950
Total current assets	<u>\$ 883,751</u>	<u>\$ 1,201,388</u>
Noncurrent assets		
Cash and cash equivalents - restricted for workers' compensation claims	\$ 25,000	\$ 25,000
Planning and development costs - net of accumulated amortization	54,387	47,624
Debt issuance costs - net of accumulated amortization	4,475	5,451
Total noncurrent assets, other than capital	<u>\$ 83,862</u>	<u>\$ 78,075</u>
Capital assets		
Capital assets	\$ 13,423,681	\$ 13,064,434
Less: allowance for depreciation	<u>(8,649,156)</u>	<u>(8,242,217)</u>
Total capital assets - net of accumulated depreciation	<u>\$ 4,774,525</u>	<u>\$ 4,822,217</u>
Total noncurrent assets	<u>\$ 4,858,387</u>	<u>\$ 4,900,292</u>
Total Assets	<u>\$ 5,742,138</u>	<u>\$ 6,101,680</u>

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

**EXHIBIT A
(Continued)**

**COMPARATIVE STATEMENT OF NET ASSETS
APRIL 30, 2007 AND 2006**

	2007	2006
Liabilities		
Current liabilities		
Accounts payable	\$ 124,734	\$ 90,315
Due to City of Duluth	136,500	137,333
Due to other governments	5,162	4,073
Accrued salaries payable	14,951	10,730
Accrued vacation payable	65,844	51,576
Accrued interest payable	23,165	26,849
Leases payable	98,288	93,426
Revenue bonds payable	174,388	166,798
Deferred revenue	131,450	185,116
Total current liabilities	\$ 774,482	\$ 766,216
Noncurrent liabilities		
Due to City of Duluth	\$ 90,515	\$ 136,015
Leases payable	186,745	286,304
Revenue bonds payable	993,432	1,167,820
Total noncurrent liabilities	\$ 1,270,692	\$ 1,590,139
Total Liabilities	\$ 2,045,174	\$ 2,356,355
Net Assets		
Invested in capital assets - net of related debt	\$ 3,321,671	\$ 3,107,869
Restricted for capital improvements	287,295	299,764
Restricted for workers' compensation claims	25,000	25,000
Restricted for special projects	8,525	5,950
Unrestricted	54,473	306,742
Total Net Assets	\$ 3,696,964	\$ 3,745,325

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

EXHIBIT B

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED APRIL 30, 2007 AND 2006**

	2007	2006
Operating Revenues		
Sales	\$ 885,150	\$ 825,540
Less: cost of goods sold	(352,656)	(341,411)
Gross profit on sales	\$ 532,494	\$ 484,129
Charges for services	3,093,538	3,389,628
Miscellaneous	55,771	51,852
Total Operating Revenues	\$ 3,681,803	\$ 3,925,609
Operating Expenses		
Personal services	\$ 1,997,529	\$ 1,937,680
Supplies	244,163	238,890
Utilities	391,555	322,901
Other services and charges	865,399	844,330
Amortization	7,963	20,787
Depreciation	406,939	395,549
Total Operating Expenses	\$ 3,913,548	\$ 3,760,137
Operating Income (Loss)	\$ (231,745)	\$ 165,472
Nonoperating Revenues (Expenses)		
Earnings on investments	\$ 22,371	\$ 12,467
Tourism tax	225,000	225,000
Gain (loss) on sale or disposition of capital assets - net	8,681	8,714
Interest expense	(72,668)	(70,943)
Total Nonoperating Revenues (Expenses)	\$ 183,384	\$ 175,238
Change in Net Assets	\$ (48,361)	\$ 340,710
Net Assets - May 1	3,745,325	3,404,615
Net Assets - April 30	\$ 3,696,964	\$ 3,745,325

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

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

EXHIBIT C

**COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED APRIL 30, 2007 AND 2006**

	2007	2006
Cash Flows from Operating Activities		
Cash received from customers	\$ 3,833,208	\$ 4,234,795
Cash paid to suppliers	(1,863,685)	(1,763,470)
Cash paid to employees	(1,979,040)	(1,944,173)
Other cash received	55,771	51,852
	\$ 46,254	\$ 579,004
Net cash provided by (used in) operating activities		
Cash Flows from Capital and Related Financing Activities		
Capital lease payments	\$ (110,396)	\$ (146,189)
Acquisition and construction of capital assets	(359,246)	(289,147)
	\$ (469,642)	\$ (435,336)
Net cash provided by (used in) capital and related financing activities		
Cash Flows from Investing Activities		
Interest on investments	\$ 22,371	\$ 12,467
	\$ 22,371	\$ 12,467
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (401,017)	\$ 156,135
Cash and Cash Equivalents - May 1	1,133,244	977,109
Cash and Cash Equivalents - April 30	\$ 732,227	\$ 1,133,244
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	\$ (231,745)	\$ 165,472
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	406,939	395,549
Amortization	7,963	20,787
Change in assets and liabilities		
Decrease (increase) in receivables	(39,161)	44,651
Decrease (increase) in inventory	(29,257)	4,717
Decrease (increase) in prepaid items	(14,962)	(12,519)
Increase (decrease) in accounts payable	(18,346)	(59,465)
Increase (decrease) in salaries payable	4,221	(6,798)
Increase (decrease) in vacation payable	14,268	305
Increase (decrease) in deferred revenue	(53,666)	26,305
	\$ 46,254	\$ 579,004
Net Cash Provided by (Used in) Operating Activities	\$ 46,254	\$ 579,004

**Noncash Investing, Capital, and Financing Activities
Fiscal Year Ended April 30, 2007**

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

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED APRIL 30, 2007 AND 2006**

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 seven 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 to generally accepted accounting principles.

A. Financial Reporting Entity

The Authority is a component unit of the City of Duluth reporting entity and, therefore, is included in the City's Comprehensive Annual Financial Report.

B. Fund Accounting

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Pursuant to Governmental Accounting Standards Board (GASB) Statement 20, the Authority has elected not to apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Assets

For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

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

Development costs, consisting of engineering, feasibility study, and interest costs during construction, have been recorded at cost and are being amortized over 40 years.

Monies restricted for the payment of capital improvements, special projects, and workers' compensation claims are accounted for as restricted assets. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and then unrestricted as needed.

Capital assets are stated at cost. Interest costs incurred during construction are not capitalized unless determined to be significant.

Depreciation of capital assets is determined using the straight-line method. The estimated useful lives of the assets are:

<u>Classification</u>	<u>Range</u>
Buildings and structures	5 to 40 years
Equipment	3 to 40 years
Furniture and fixtures	5 to 20 years
Other fixed assets	2 to 40 years

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

1. Summary of Significant Accounting Policies (Continued)

E. Trade-Offs

The Authority issues ski lift passes, rentals, lessons, etc., in exchange for other non-monetary assets or services, such as advertising and other promotional services. The value of the lift passes, rentals, or lessons is credited to the appropriate revenue account and debited to the appropriate expense account.

F. Reclassifications

Several account balances were reclassified for the year ended April 30, 2006, as previously reported. These reclassifications were required for the comparability to the current year's financial statements and must be considered when comparing the financial statements of this report with those of prior reports.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Detailed Notes

A. Budget

The Authority adopts an annual budget which is approved by the Duluth City Council. A comparison of budget to actual for the years ended April 30, 2007 and 2006, follows:

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

2. Detailed Notes

A. Budget (Continued)

	2007		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Sales	\$ 791,470	\$ 885,150	\$ 93,680
Less: cost of goods sold	(304,056)	(352,656)	(48,600)
Gross profit on sales	\$ 487,414	\$ 532,494	\$ 45,080
Charges for services	3,050,356	3,093,538	43,182
Miscellaneous	21,502	55,771	34,269
Total Operating Revenues	\$ 3,559,272	\$ 3,681,803	\$ 122,531
Operating Expenses			
Personal services	\$ 1,795,555	\$ 1,997,529	\$ (201,974)
Supplies	232,622	244,163	(11,541)
Utilities	335,603	391,555	(55,952)
Other services and charges	871,048	865,399	5,649
Amortization	24,411	7,963	16,448
Depreciation	416,572	406,939	9,633
Total Operating Expenses	\$ 3,675,811	\$ 3,913,548	\$ (237,737)
Operating Income (Loss)	\$ (116,539)	\$ (231,745)	\$ (115,206)
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ 10,327	\$ 22,371	\$ 12,044
City of Duluth hotel-motel, food, and beverage tax	225,000	225,000	-
Gain (loss) on disposal of assets	-	8,681	8,681
Interest expense	(76,187)	(72,668)	3,519
Total Nonoperating Revenues (Expenses)	\$ 159,140	\$ 183,384	\$ 24,244
Change in Net Assets	\$ 42,601	\$ (48,361)	\$ 90,962

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

2. Detailed Notes

A. Budget (Continued)

	2006		Variance Favorable (Unfavorable)
	Budget	Actual	
Operating Revenues			
Sales	\$ 748,249	\$ 825,540	\$ 77,291
Less: cost of goods sold	(279,830)	(341,411)	(61,581)
Gross profit on sales	\$ 468,419	\$ 484,129	\$ 15,710
Charges for services	3,069,767	3,389,628	319,861
Miscellaneous	11,100	51,852	40,752
Total Operating Revenues	\$ 3,549,286	\$ 3,925,609	\$ 376,323
Operating Expenses			
Personal services	\$ 1,604,466	\$ 1,937,680	\$ (333,214)
Supplies	210,494	238,890	(28,396)
Utilities	328,459	322,901	5,558
Other services and charges	864,273	844,330	19,943
Amortization	24,410	20,787	3,623
Depreciation	416,572	395,549	21,023
Total Operating Expenses	\$ 3,448,674	3,760,137	(311,463)
Operating Income (Loss)	\$ 100,612	165,472	64,860
Nonoperating Revenues (Expenses)			
Earnings on investments	\$ 5,440	12,467	7,027
City of Duluth hotel-motel, food, and beverage tax	225,000	225,000	-
Gain (loss) on disposal of assets	-	8,714	8,714
Claims and judgments			
Interest expense	(82,410)	(70,943)	11,467
Total Nonoperating Revenues (Expenses)	\$ 148,030	175,238	27,208
Change in Net Assets	\$ 248,642	340,710	92,068

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

2. Detailed Notes (Continued)

B. Deposits

Minn. Laws 1973, ch. 327, designates the Treasurer of the City of Duluth as Treasurer of the Authority. Authority deposits are pooled with all other City deposits. Minn. Stat. §§ 118A.02 and 118A.04 authorize the City Treasurer 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.

Minn. Stat. §§ 118A.04 and 118A.05 authorize the types of investments available to the City Treasurer. Investments are stated at fair value.

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

Following is a summary of the Authority's cash:

	April 30	
	2007	2006
City Treasurer	\$ 85,212	\$ 681,687
Money market savings	640,590	444,268
Petty cash and change funds	6,425	7,289
Total Cash and Cash Equivalents	\$ 732,227	\$ 1,133,244
Current assets		
Unrestricted	\$ 403,330	\$ 802,530
Restricted for capital improvements	295,372	299,764
Restricted for special projects	8,525	5,950
Noncurrent assets		
Restricted for workers' compensation claims	25,000	25,000
Total Cash and Cash Equivalents	\$ 732,227	\$ 1,133,244

**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, 2007 and 2006, follows:

	Balance May 1, 2006	Additions	Deductions	Reclassification	Balance April 30, 2007
Capital assets not depreciated					
Land and land improvements	\$ 2,429,118	\$ -	\$ -	\$ 350	\$ 2,429,468
Construction in progress	117,607	345,735	-	(341,070)	122,272
Total capital assets not depreciated	\$ 2,546,725	\$ 345,735	\$ -	\$ (340,720)	\$ 2,551,740
Capital assets depreciated					
Buildings and structures	\$ 3,574,120	\$ -	\$ -	\$ 129,304	\$ 3,703,424
Equipment	6,396,800	21,960	-	186,416	6,605,176
Furniture and fixtures	194,928	-	-	-	194,928
Other capital assets	351,861	16,552	-	-	368,413
Total capital assets depreciated	\$ 10,517,709	\$ 38,512	\$ -	\$ 315,720	\$ 10,871,941
Less: accumulated depreciation for					
Buildings and structures	\$ 2,135,102	\$ 153,639	\$ -	\$ -	\$ 2,288,741
Equipment	5,684,776	233,480	-	-	5,918,256
Furniture and fixtures	175,760	6,411	-	-	182,171
Other capital assets	246,579	13,409	-	-	259,988
Total accumulated depreciation	\$ 8,242,217	\$ 406,939	\$ -	\$ -	\$ 8,649,156
Total capital assets depreciated, net	\$ 2,275,492	\$ (368,427)	\$ -	\$ 315,720	\$ 2,222,785
Capital Assets, Net	\$ 4,822,217	\$ (22,692)	\$ -	\$ (25,000)*	\$ 4,774,525

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

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

2. Detailed Notes

C. Capital Assets (Continued)

	Balance May 1, 2005	Additions	Deductions	Reclassification	Balance April 30, 2006
Capital assets not depreciated					
Land and land improvements	\$ 2,429,118	\$ -	\$ -	\$ -	\$ 2,429,118
Construction in progress	100,746	242,190	-	(225,329)	117,607
Total capital assets not depreciated	\$ 2,529,864	\$ 242,190	\$ -	\$ (225,329)	\$ 2,546,725
Capital assets depreciated					
Buildings and structures	\$ 3,465,395	\$ -	\$ 68,012	\$ 176,737	\$ 3,574,120
Equipment	6,898,754	239,019	789,565	48,592	6,396,800
Furniture and fixtures	197,013	4,999	7,084	-	194,928
Other capital assets	378,298	-	26,437	-	351,861
Total capital assets depreciated	\$ 10,939,460	\$ 244,018	\$ 891,098	\$ 225,329	\$ 10,517,709
Less: accumulated depreciation for					
Buildings and structures	\$ 2,055,135	\$ 140,325	\$ 60,358	\$ -	\$ 2,135,102
Equipment	6,191,325	234,883	741,432	-	5,684,776
Furniture and fixtures	176,552	6,292	7,084	-	175,760
Other capital assets	258,468	14,049	25,938	-	246,579
Total accumulated depreciation	\$ 8,681,480	\$ 395,549	\$ 834,812	\$ -	\$ 8,242,217
Total capital assets depreciated, net	\$ 2,257,980	\$ (151,531)	\$ 56,286	\$ 225,329	\$ 2,275,492
Capital Assets, Net	\$ 4,787,844	\$ 90,659	\$ 56,286	\$ -	\$ 4,822,217

D. Vacation, Sick Leave, and Compensatory Time

Full-time employees are granted from 10 to 20 days of vacation per year depending on their years of service. Maximum amounts of vacation time that can be accumulated depend on which union bargaining unit is representing the employee. Sick leave is accumulated at the rate of 30 days per year up to a maximum of 120 days for those employees covered by the Minnesota Arrowhead District Council 96.

Staff personnel are granted from one to four weeks of vacation per year depending on their years of service. Staff may carry forward no more than the amount that was earned in the year. Staff personnel are granted 30 days of sick leave per year.

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

2. Detailed Notes

D. Vacation, Sick Leave, and Compensatory Time (Continued)

Unpaid vacation pay earned as of April 30, 2007 and 2006, is \$65,844 and \$51,576, respectively, and is recognized as a liability in the financial statements.

Sick leave is recorded as an expense when paid. The contingent liability for unused sick leave is not recognized in the financial statements.

E. Due to City of Duluth

The amounts due to the City at April 30, 2007 and 2006, follows:

	2007	2006
General Fund - cost allocation plan	\$ 99,836	\$ 54,665
General Fund - sales tax	1,371	1,282
Self-Insurance Fund - insurance premiums	125,808	217,401
Total	\$ 227,015	\$ 273,348

In 2005, the City of Duluth and Spirit Mountain agreed on a repayment schedule. Of the \$227,015 owed to the City, \$136,500 is expected to be repaid within the next year. Payments will be made through 2010. A summary of the noncurrent payments by year due follows:

Year Ended April 30		
2009		\$ 45,500
2010		45,015
Total		\$ 90,515

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

2. Detailed Notes (Continued)

F. Long-Term Debt

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

	2007
Bonds Payable - May 1	\$ 1,334,618
Payments	(166,798)
Bonds Payable - April 30	\$ 1,167,820
Amount Due Within One Year	\$ 174,388

Bonds payable comprise the following issue:

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

The annual requirements to service the debt follow:

Fiscal Year Ended April 30	Principal	Interest
2008	\$ 174,388	\$ 50,612
2009	182,324	42,676
2010	190,620	34,379
2011	199,295	25,705
2012	208,365	16,636
2013	212,828	7,154
Total	\$ 1,167,820	\$ 177,162

**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, 2007:

Type of Property		
Building improvements	\$	210,020
Equipment		445,739
Less: accumulated amortization		(402,136)
Net Capital Lease Property	\$	253,623

Minimum future lease payments follow:

Fiscal Year Ended April 30	Principal	Interest
2008	\$ 99,560	\$ 13,288
2009	104,488	8,359
2010	80,985	3,185
Total	\$ 285,033	\$ 24,832

Capitalized lease obligations at April 30, 2007, consist of the following leases:

A \$210,000 lease purchase for gas conversion equipment, dated April 30, 1999; due in variable semi-annual installments through February 2009, with interest at 5.25 percent.	\$ 51,004
A \$381,410 lease purchase to refinance the 2003 lease, to replace one groomer and retain the other groomer, dated August 1, 2005, due in periodic installments during the ski season through April 2010, with interest at 4.78 percent.	234,029
Total	\$ 285,033
Current portion	\$ 98,288
Long-term portion	186,745
Total	\$ 285,033

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

2. Detailed Notes (Continued)

H. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for fiscal year 2007 is \$4,252 and \$2,040 for fiscal year 2006. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2007, are \$4,252 due in fiscal year 2008.

I. Mountain Villas Agreements

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

In October 1989, the Authority entered into another agreement with the Mountain Villas Owner's Association, Inc., to manage the 15 rental housing units owned by the Association. The agreement provides payment to the Authority of an annual base management fee of \$24,000 plus 10 percent of gross sales.

3. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. The Authority participates in the City of Duluth Internal Service Funds to insure against its obligation to provide benefits to employees pursuant to the Minnesota Workers' Compensation Act and to insure against general liability claims, except the liability claims arising by reason of selling, serving, or furnishing alcoholic beverages. The Authority purchases commercial insurance for all risks of loss not covered by the City's Internal Service Fund. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

For claims arising from the Workers' Compensation Act, insured through the City of Duluth Self-Insurance Internal Service Fund, the Authority retains responsibility for attorney fees on contested claims. In addition, the Authority is required to escrow \$25,000 as a reserve

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

3. Risk Management (Continued)

fund to pay excess workers' compensation claims and costs that exceed the agreed-upon value of plan participation with the City. No liability has been recognized in the financial statements for excess workers' compensation claims and costs.

For general liability claims, insured through the City of Duluth Self-Insurance Internal Service Fund, the Authority retains responsibility for paying the first \$50,000 of each loss resulting from each occurrence. The maximum coverage provided by the City was \$300,000 per claimant; \$1,000,000 per occurrence. The estimated liability of the Authority for general liability claims, where coverage is not provided by the City, is accrued if the Authority's attorney determines settlement is probable, based on a case-by-case evaluation. The attorney has indicated there are \$42,500 in claims that may become losses to the Authority.

4. Defeased Debt

On March 31, 2003, the City of Duluth issued a Gross Revenue Recreational Facility Bond, with an interest rate of 4.5 percent, to refund the Authority's refinancing lease, having an interest rate of 4.85 percent. The \$1,646,750 Gross Revenue Recreation Facility Bond was issued at par. The proceeds, together with Authority funds of \$53,527, were used to refund a \$1,646,750 refinancing lease with accrued interest of \$53,527.

As a result of the refunding, the Authority increased its total debt service requirement by \$312,471, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$106,360.

As part of the agreement to issue the Gross Revenue Recreational Facility Bond, the City of Duluth pledged tourism taxes in the amount of \$225,000 per year to pay principal and interest on the bond.

5. Pension Plans

A. Plan Description

All full-time and certain part-time employees of the Spirit Mountain Recreation Area Authority are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

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

5. Pension Plans

A. Plan Description (Continued)

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

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

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

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

5. Pension Plans (Continued)

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.50 percent, respectively, of their annual covered salary in 2006. Contribution rates in the Coordinated Plan increased in 2007 to 5.75 percent. The Authority is required to contribute the following percentages of annual covered payroll:

In 2006	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.00
In 2007	
Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	6.25

The Authority's contributions for the years ending April 30, 2007, 2006, and 2005, were \$56,823, \$53,925, and \$46,307 respectively, equal to the contractually required contributions for each year as set by state statute.

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SUPPLEMENTARY INFORMATION

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

Schedule 1

**COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED APRIL 30, 2007 AND 2006**

	2007	2006
Sales		
Food	\$ 519,734	\$ 472,968
Liquor	221,697	205,412
Ski shop	143,719	147,160
Less: cost of goods sold	(352,656)	(341,411)
Net sales	\$ 532,494	\$ 484,129
Charges for Services		
Season pass	\$ 1,303,865	\$ 1,229,236
Daily lift tickets	989,465	1,303,552
Ski school and snow sports	112,193	128,918
Ski rental	230,179	287,735
Snowboard rental	89,204	103,983
Locker rental	31,801	29,077
Nordic tickets and rental	13,894	18,693
Snocross	104,909	67,605
Campground	97,177	82,361
Summer events	2,888	19,649
Mountain villa management fee	92,980	90,663
Marketing revenue	24,983	28,156
Total charges for services	\$ 3,093,538	\$ 3,389,628
Miscellaneous		
Other revenues	\$ 55,771	\$ 51,852
Total Operating Revenues	\$ 3,681,803	\$ 3,925,609

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

Schedule 2

**COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2007 AND 2006**

	2007	2006
Department		
Food and beverage	\$ 328,284	\$ 217,082
Housekeeping	63,147	65,314
Rental	92,771	75,500
Ski shop	21,479	30,226
Campground	49,884	56,804
Parking and lockers	13,976	31,090
Building and grounds	253,647	207,863
Snocross	96,456	96,342
Summer events	485	41,419
Ski school and snow sports center	104,530	135,452
Outside mountain operations	1,069,933	968,879
Nordic	13,996	22,582
Ski patrol	8,651	9,899
Sales and marketing	509,029	473,350
Office administration	831,127	871,812
Mountain villas	41,251	40,187
Total departmental costs	\$ 3,498,646	\$ 3,343,801
Amortization	7,963	20,787
Depreciation	406,939	395,549
Total Operating Expenses	\$ 3,913,548	\$ 3,760,137

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

Schedule 3

**STATEMENT OF CAPITAL IMPROVEMENTS
YEAR ENDED APRIL 30, 2007**

	Repair and Replacement Account Capital Improvements	Non-Repair and Replacement Account Capital Improvements	Total
Construction in Progress			
Air-conditioning - Moosehead Saloon	\$ 26,373	\$ -	\$ 26,373
High performance rental equipment	15,525	-	15,525
Replace chalet sound system	296	-	296
Cross country rental equipment	3,000	284	3,284
SMI Super Polecats snomaking guns	23,781	-	23,781
Snowmaking tractor	32,000	8,500	40,500
Replacement drive for express w/install	32,483	-	32,483
Maintenance road gravel	1,000	1,787	2,787
Express load cell upgrade	-	84	84
B-Lift drive enclosure replacement	17,202	-	17,202
Computer upgrades	14,405	2,309	16,714
Moosehead carpet	8,345	-	8,345
Moosehead paint	21,220	-	21,220
Moosehead entrance and stairs floor covering	10,000	7	10,007
Handi parking and lot repair	450	-	450
New wall on north end in Fireside and floor	4,381	-	4,381
Moosehead remodel	2,738	3,503	6,241
Snowmobile	-	7,277	7,277
Architectural fees	3,279	10,542	13,821
2006 Honda 4-wheeler	-	5,190	5,190
Chev	-	3,995	3,995
Motorola radios	-	3,104	3,104
Group sales remodel	-	6,340	6,340
Elevator upgrade	20,991	56,851	77,842
Entrance sign upgrade	-	2,138	2,138
Annual landscaping	-	350	350
New phone system	-	17,964	17,964
New signage	-	16,553	16,553
	\$ 237,469	\$ 146,778	\$ 384,247

Repair and Replacement Account Summary

Net Assets - restricted for capital improvements at April 30, 2006		\$ 299,764
2007 repair and replacement account deposits		225,000
Repair and replacement account capital improvements		(237,469)
Net Assets - restricted for capital improvements at April 30, 2007		\$ 287,295

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

Schedule 4

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED APRIL 30, 2007**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Spirit Mountain Recreation Area Authority and its staffing limit the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

During our audit, we proposed material adjustments to convert the Authority's financial records to the financial statements as reported. These adjustments increased prepaid items, capital assets, accrued vacation payable, and personal services expense; and decreased supplies expense, utilities expense, and other services and charges expense.

We recommend the Board of Directors 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 continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The Authority's Board and Management are committed to solving the internal control issue related to the segregation of duties in the finance office created by limited staff. Based on suggestions from the Auditor, the Executive Director will review all journal entries to provide the oversight necessary to eliminate this issue. Journal entry and supporting documentation will be reviewed and signed off on by the Executive Director, and journal entry and supporting documentation will be filed for the Auditor.

Management makes every attempt to ensure accuracy of financial statements as well as financial transactions. Management is aware of the reclassification of the material audit adjustments from expenses to depreciable assets with respect to following the Spirit Mountain Capital Asset policy. Management will continue to strive for accurate financial transactions and adjustments prior to transactions being adjusted during audit as well as ensuring accounting policies are followed.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

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

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

We have audited the financial statements of the Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, as of and for the year ended April 30, 2007, and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Spirit Mountain Recreation Area Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 97-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Spirit Mountain Recreation Area Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 97-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Spirit Mountain Recreation Area Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, the Spirit Mountain Recreation Area Authority complied with the material terms and conditions of applicable legal provisions.

Spirit Mountain Recreation Area Authority's written response to the material weakness finding identified in our audit has not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 15, 2007