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

YEARS ENDED APRIL 30, 2016 AND 2015

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 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 700 public pension funds; and

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

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

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

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

Years Ended April 30, 2016 and 2015

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

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Introductory Section

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

ORGANIZATION
APRIL 30, 2016

	Term Ending
Directors	
David Kohlhaas	June 30, 2017
Dan O'Neill	June 30, 2017
Erik Viken	June 30, 2018
Kathryn Ferguson	June 30, 2018
Elaine Hansen	June 30, 2017
Jane Gilbert-Howard	June 30, 2018
Cory Salmela	June 30, 2017
Todd Torvinen	June 30, 2017

Executive Director
Brandy Ream

Officers
Chair
David Kohlhaas

Vice Chair
Dan O'Neill

Secretary
Cory Salmela

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Financial Section

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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, Minnesota

Board of Directors
Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, Minnesota, as of and for the years ended April 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Spirit Mountain Recreation Area Authority as of April 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Spirit Mountain Recreation Area Authority's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, 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* in considering the Spirit Mountain Recreation Area Authority's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 accompanying Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements. The SEFA is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 15, 2016

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2016
(Unaudited)

This section presents management's analysis of the Authority's financial condition and activities for the fiscal year ended April 30, 2016. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- During fiscal year 2016, Spirit Mountain completed the Knowlton Creek Water Infrastructure project. This project removes Spirit Mountain from the City of Duluth water supply. Spirit Mountain will no longer be paying for water used for snowmaking.

- Fiscal year 2016 proved to be difficult in relationship to weather. We opened for the winter season in mid-December, with 50 percent of terrain available.

- Fiscal year 2016 ended early due to rain and warming in early March 2016.

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 historical cost 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 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 nine 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, snowboarding, and in fiscal year 2012, added in the Timber Twister Alpine Coaster was joined by the new year-round Timber Flyer Zip Line, a 9-hole miniature golf course, and a new snow tubing park, now branded as the Spirit Mountain Adventure Park. The Authority also hosts the world's largest on-snow Snocross race, the Duluth National, over Thanksgiving weekend. Summertime activities include special events, banquets, meetings, corporate events, mountain biking, and camping, with banquets becoming an even larger business for the Authority, with wedding receptions and corporate/other events. In the summer of 2012, the Authority installed a new four-place detachable lift to replace a similar lift and added a new chalet with a bar and restaurant and a new parking lot at the Grand Avenue entrance. During 2014, two mountain bike trails were constructed, which added lift access mountain biking to the list of summer attractions and further established Spirit Mountain as a year-round recreational facility. The Authority currently has eight mountain bike trails and a skills park.

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 2016	FY 2015	Change from 2015 to 2016: Dollar	Change from 2015 to 2016: Percent (%)	FY 2014*
Current and other assets	$ 780,050	$ 1,248,835	$ (468,785)	(38)	$ 598,349
Capital assets	19,748,423	14,388,502	5,359,921	37	13,674,738
Total Assets	$ 20,528,473	$ 15,637,337	$ 4,891,136	31	$ 14,273,087
Deferred outflows of resources					
Deferred pension outflows	$ 341,888	$ 278,000	$ 63,888	23	$ 98,251
Current liabilities	$ 2,298,383	$ 2,711,138	$ (412,755)	(15)	$ 1,828,870
Long-term liabilities	3,034,754	3,294,425	(259,671)	(8)	3,719,934
Total Liabilities	$ 5,333,137	$ 6,005,563	$ (672,426)	(11)	$ 5,548,304
Deferred inflows of resources					
Deferred pension inflows	$ 460,187	$ 401,086	$ 59,101	15	$ -
Net Position					
Net investment in capital assets	$ 17,938,270	$ 12,198,983	$ 5,739,287	47	$ 11,346,750
Unrestricted	(2,861,233)	(2,690,295)	(170,938)	6	(2,524,216)
Total Net Position	$ 15,077,037	$ 9,508,688	$ 5,568,349	59	$ 8,822,534

*For fiscal year 2015, a restatement of prior net position was required because of a change in accounting principle. This change is reflected in the 2014 column.

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

	FY 2016	FY 2015	Change from 2015 to 2016 Dollar	Change from 2015 to 2016 Percent (%)	FY 2014
Operating revenues	$ 4,265,806	$ 4,316,070	$ (50,264)	(1)	$ 4,621,902
Nonoperating revenues	1,408,569	748,514	660,055	88	247,119
Contributions from City of Duluth	5,192,543	725,848	4,466,695	615	223,323
Total Revenues	$ 10,866,918	$ 5,790,432	$ 5,076,486	88	$ 5,092,344
Operating expenses	$ 4,191,494	$ 4,311,916	$ (120,422)	(3)	$ 4,603,344
Nonoperating expenses	75,285	84,386	(9,101)	(11)	116,082
Depreciation/amortization	1,031,790	707,976	323,814	46	835,897
Total Expenses	$ 5,298,569	$ 5,104,278	$ 194,291	4	$ 5,555,323
Change in Net Position	$ 5,568,349	$ 686,154	$ 4,882,195	712	$ (462,979)
Beginning Net Position	9,508,688	8,822,534*	686,154	8	10,907,589
Ending Net Position	$ 15,077,037	$ 9,508,688	$ 5,568,349	59	$ 10,444,610

*For fiscal year 2015, a restatement of prior year net position was required because of a change in accounting principle. This change is not reflected in the 2014 column.

Condensed Statement of Revenues, Expenses, and Change in Net Position (2016 Budget and Actual)

	Actual	Budget	Budget to Actual Variance	Budget % Variance
Operating revenues	$ 4,265,806	$ 4,709,016	$ (443,210)	(9)
Nonoperating revenues	1,408,569	97,136	1,311,433	1350
Contributions from City of Duluth	5,192,543	-	5,192,543	100
Total Revenues	$ 10,866,918	$ 4,806,152	$ 6,060,766	126
Operating expenses	$ 4,191,494	$ 4,076,795	$ (114,699)	(3)
Nonoperating expenses	75,285	92,892	17,607	19
Depreciation/amortization	1,031,790	797,520	(234,270)	(29)
Total Expenses	$ 5,298,569	$ 4,967,207	$ (331,362)	(7)
Change in Net Position	$ 5,568,349	$ (161,055)	$ 5,729,404	3557
Beginning Net Position	9,508,688	9,508,688	-	-
Ending Net Position	$ 15,077,037	$ 9,347,633	$ 5,729,404	61

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues decreased $50,264, or 1 percent, in 2016 compared to 2015. Nonoperating revenues and contributions increased by $5,126,750, or 348 percent, in 2016 compared to 2015 due to increased grant revenue and contributions from the City of Duluth received during 2016.

Expenses

The Authority's operating expenses decreased $120,422, or 3 percent, from 2016 due mainly to reduction in personal service costs.

Budgetary Highlights

The Authority creates an annual operating budget, which includes proposed expenses and means of financing them. Once management and the Board of Directors approve the budget, it is presented to the Duluth City Council for final approval. The Authority's operating budget remains in effect the entire year and is not revised. Management and the Board of Directors are presented detailed monthly financial statements. However, they are not reported on nor shown in the financial statement section of this report.

Operating revenues were $443,210, or 9 percent below, budget due mainly to season passes, daily lift tickets, and Grand Avenue Chalet sales being lower than anticipated.

CAPITAL ASSETS

			Change	
	FY 2016	FY 2015	Dollar	Percent (%)
Land and land improvements	$ 2,553,244	$ 2,553,244	$ -	-
Equipment	11,442,009	11,338,376	103,633	1
Plant equipment	958,481	894,197	64,284	7
Buildings and structures	14,908,536	7,966,219	6,942,317	87
Furniture and fixtures	259,831	256,675	3,156	1
Other capital assets	802,903	802,903	-	-
Construction in progress	509,885	1,252,661	(742,776)	(59)
Subtotal	$ 31,434,889	$ 25,064,275	$ 6,370,614	25
Less: accumulated depreciation	(11,686,466)	(10,675,773)	(1,010,693)	(9)
Total Capital Assets, Net	$ 19,748,423	$ 14,388,502	$ 5,359,921	37

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

Debt Administration

	FY 2016	FY 2015	Change Dollar	Change Percent (%)
Alpine Coaster lease	$ 1,551,723	$ 1,702,636	$ (150,913)	(9)
Groomer leases	237,789	330,940	(93,151)	(28)
Zip/Tube/Golf lease	20,641	155,943	(135,302)	(87)
Total Debt	$ 1,810,153	$ 2,189,519	$ (379,366)	(17)

During fiscal year 2016, the Authority's outstanding debt decreased $379,366.

ECONOMIC AND OTHER FACTORS

The Authority must consider many factors when setting the fiscal year budgets. Spirit Mountain is not immune from lessened consumer confidence and shrinking spending habits; additionally, weather challenges hamper the consumers' excitement for winter sporting activities. The entire pricing structure on tickets and season passes has been evaluated and restructured. We continue to offer an affordable season pass that has value to our operation. Our pricing for walk-up tickets was reviewed and changed as well. The Adventure Park is open seasonally, and we have had strong attendance during the winter season.

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

The banquet business continues to be a strong revenue source for Spirit Mountain. However, after a detailed analysis of our pricing structure, it was found that our pricing was not reflective of the cost of business, and we were not seeing the revenues Spirit Mountain had anticipated. With this stated, all pricing for banquets have been adjusted, and significant changes will come forth in 2017.

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

FINANCIAL CONTACT

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

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BASIC FINANCIAL STATEMENTS

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1

COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2016 AND 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 571,469	$ 333,927
Accounts receivable	2,328	78,250
Due from City of Duluth	47,367	564,787
Prepaid insurance	13,247	92,027
Inventory	75,941	89,049
Total current assets	**$ 710,352**	**$ 1,158,040**
Noncurrent assets		
Planning and development costs - net of accumulated amortization	**$ 69,698**	**$ 90,795**
Capital assets		
Non-depreciable	$ 3,063,129	$ 3,805,905
Depreciable	28,371,760	21,258,370
Less: accumulated depreciation	(11,686,466)	(10,675,773)
Total capital assets - net of accumulated depreciation	**$ 19,748,423**	**$ 14,388,502**
Total noncurrent assets	**$ 19,818,121**	**$ 14,479,297**
Total Assets	**$ 20,528,473**	**$ 15,637,337**
Deferred Outflows of Resources		
Deferred pension outflows	**$ 341,888**	**$ 278,000**
Liabilities		
Current liabilities		
Accounts payable	$ 118,681	$ 127,674
Contracts payable	47,367	512,347
Due to City of Duluth	1,207,035	1,205,932
Due to other governments	23,630	18,662
Accrued salaries payable	30,236	31,885
Accrued vacation payable	87,700	79,486
Accrued interest payable	5,187	6,294
Leases payable	273,147	379,504
Unearned revenue	505,400	349,354
Total current liabilities	**$ 2,298,383**	**$ 2,711,138**
Noncurrent liabilities		
Leases payable	$ 1,537,006	$ 1,810,015
Net pension liability	1,497,748	1,484,410
Total noncurrent liabilities	**$ 3,034,754**	**$ 3,294,425**
Total Liabilities	**$ 5,333,137**	**$ 6,005,563**

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

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 1
(Continued)

COMPARATIVE STATEMENT OF NET POSITION
APRIL 30, 2016 AND 2015

	2016	2015
Deferred Inflows of Resources		
Deferred pension inflows	**$ 460,187**	**$ 401,086**
Net Position		
Net investment in capital assets	$ 17,938,270	$ 12,198,983
Unrestricted	(2,861,233)	(2,690,295)
Total Net Position	**$ 15,077,037**	**$ 9,508,688**

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

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 2

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED APRIL 30, 2016 AND 2015

	2016	2015
Operating Revenues		
Sales	$ 1,242,917	$ 1,387,852
Less: cost of goods sold	(436,984)	(490,375)
Gross profit on sales	**$ 805,933**	**$ 897,477**
Charges for services	3,356,671	3,331,900
Miscellaneous	103,202	86,693
Total Operating Revenues	**$ 4,265,806**	**$ 4,316,070**
Operating Expenses		
Personal services	$ 2,476,999	$ 2,760,387
Supplies	279,167	229,851
Utilities	399,498	438,702
Other services and charges	1,035,830	882,976
Amortization	21,097	23,353
Depreciation	1,010,693	684,623
Total Operating Expenses	**$ 5,223,284**	**$ 5,019,892**
Operating Income (Loss)	**$ (957,478)**	**$ (703,822)**
Nonoperating Revenues (Expenses)		
Earnings on investments	$ -	$ 1,386
Grant revenue	962,869	271,428
Tourism tax	445,700	475,700
Interest expense	(75,285)	(84,386)
Total Nonoperating Revenues (Expenses)	**$ 1,333,284**	**$ 664,128**
Income (loss) before contributions	**$ 375,806**	**$ (39,694)**
Capital contributions from City of Duluth	5,192,543	725,848
Changes in Net Position	**$ 5,568,349**	**$ 686,154**
Net Position - May 1	**9,508,688**	**8,822,534**
Net Position - April 30	**$ 15,077,037**	**$ 9,508,688**

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

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT 3

COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers	$ 4,900,917	$ 4,101,106
Cash paid to suppliers	(2,131,874)	(1,161,801)
Cash paid to employees	(2,461,883)	(2,758,453)
Other cash received	103,202	86,693
Net cash provided by (used in) operating activities	**$ 410,362**	**$ 267,545**
Cash Flows from Capital and Related Financing Activities		
Capital grants	$ 962,869	$ 271,428
Capital contributions from City of Duluth	5,192,543	725,848
City of Duluth hotel/motel taxes	445,700	475,700
Capital lease payments	(455,758)	(426,129)
Acquisition and construction of capital assets	(6,318,174)	(1,196,387)
Net cash provided by (used in) capital and related financing activities	**$ (172,820)**	**$ (149,540)**
Cash Flows from Investing Activities		
Interest on investments	**$ -**	**$ 1,386**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 237,542**	**$ 119,391**
Cash and Cash Equivalents - May 1	**333,927**	**214,536**
Cash and Cash Equivalents - April 30	**$ 571,469**	**$ 333,927**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	**$ (957,478)**	**$ (703,822)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,010,693	684,623
Amortization	21,097	23,353
Change in assets and liabilities		
Decrease (increase) in receivables	75,922	(500,805)
Decrease (increase) in prepaid insurance	78,780	(92,027)
Decrease (increase) in inventory	13,108	38,384
Increase (decrease) in payables	(2,922)	822,094
Increase (decrease) in accrued salaries payable	(1,649)	26,821
Increase (decrease) in accrued vacation payable	8,214	(10,307)
Increase (decrease) in deferred pension obligation outflows	(63,888)	(179,749)
Increase (decrease) in deferred pension obligation inflows	59,101	401,086
Increase (decrease) in pension liability	13,338	(235,917)
Increase (decrease) in unearned revenue	156,046	(6,189)
Net Cash Provided by (Used in) Operating Activities	**$ 410,362**	**$ 267,545**
Noncash Investing, Capital, and Financing Activities		
Capital assets acquired under lease purchase agreements	$ -	$ 202,200

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

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 generally accepted accounting principles.

A. Financial Reporting Entity

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

B. Fund Accounting

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

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

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

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Authority uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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

1. Cash and Cash Equivalents

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

2. Inventories

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

3. Capital Assets

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:

Classification	Range
Buildings and structures	5 to 40 years
Equipment	3 to 40 years
Furniture and fixtures	5 to 20 years
Other capital assets	2 to 40 years

4. Unearned Revenue

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

1. Summary of Significant Accounting Policies

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

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Currently, the Authority has one item, deferred pension outflows, that qualifies for reporting in this category. This amount consists of pension plan contributions paid subsequent to the measurement date, differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, and differences between expected and actual economic experience.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, deferred pension inflows, that qualifies for reporting in this category. This amount consists of differences between expected and actual pension plan economic experience, pension plan changes in proportionate share, and differences between projected and actual earnings on pension plan investments.

6. Pension Plan

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

1. Summary of Significant Accounting Policies

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

      7. Classification of Net Position

         Net position is classified in the following categories:

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

         Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or constitutional provisions or enabling legislation.

         Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

   E. Trade-Offs

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

   F. Use of Estimates

      The preparation of financial statements in conformity with 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, 2016 and 2015 follows:

	2016		
	Budget	Actual	Variance
Operating Revenues			
Sales	$ 965,317	$ 1,242,917	$ 277,600
Less: cost of goods sold	(528,272)	(436,984)	91,288
Gross profit on sales	$ 437,045	$ 805,933	$ 368,888
Charges for services	4,271,971	3,356,671	(915,300)
Miscellaneous	-	103,202	103,202
Total Operating Revenues	$ 4,709,016	$ 4,265,806	$ (443,210)
Operating Expenses			
Personal services	$ 2,680,086	$ 2,476,999	$ 203,087
Supplies	446,947	279,167	167,780
Utilities	374,000	399,498	(25,498)
Other services and charges	575,762	1,035,830	(460,068)
Amortization	22,320	21,097	1,223
Depreciation	775,200	1,010,693	(235,493)
Total Operating Expenses	$ 4,874,315	$ 5,223,284	$ (348,969)
Operating Income (Loss)	$ (165,299)	$ (957,478)	$ (792,179)
Nonoperating Revenues (Expenses)			
Grant revenue	$ -	$ 962,869	$ 962,869
Tourism tax	97,136	445,700	348,564
Interest expense	(92,892)	(75,285)	17,607
Total Nonoperating Revenues (Expenses)	$ 4,244	$ 1,333,284	$ 1,329,040
Income (loss) before contributions	$ (161,055)	$ 375,806	$ 536,861
Capital contributions from City of Duluth	-	5,192,543	5,192,543
Change in Net Position	$ (161,055)	$ 5,568,349	$ 5,729,404

2. Detailed Notes

A. Budget (Continued)

	2015		
	Budget	Actual	Variance
Operating Revenues			
Sales	$ 915,150	$ 1,387,852	$ 472,702
Less: cost of goods sold	(538,437)	(490,375)	48,062
Gross profit on sales	$ 376,713	$ 897,477	$ 520,764
Charges for services	5,030,743	3,331,900	(1,698,843)
Miscellaneous	36,900	86,693	49,793
Total Operating Revenues	$ 5,444,356	$ 4,316,070	$ (1,128,286)
Operating Expenses			
Personal services	$ 3,001,256	$ 2,760,387	$ 240,869
Supplies	344,851	229,851	115,000
Utilities	499,373	438,702	60,671
Other services and charges	911,782	882,976	28,806
Amortization	23,700	23,353	347
Depreciation	624,000	684,623	(60,623)
Total Operating Expenses	$ 5,404,962	$ 5,019,892	$ 385,070
Operating Income (Loss)	$ 39,394	$ (703,822)	$ (743,216)
Nonoperating Revenues (Expenses)			
Earnings on investments	$ -	$ 1,386	$ 1,386
Grant revenue	-	271,428	271,428
Tourism tax	145,704	475,700	329,996
Interest expense	(119,677)	(84,386)	35,291
Total Nonoperating Revenues (Expenses)	$ 26,027	$ 664,128	$ 638,101
Income (loss) before contributions	$ 65,421	$ (39,694)	$ (105,115)
Capital contributions from City of Duluth	-	725,848	725,848
Change in Net Position	$ 65,421	$ 686,154	$ 620,733

2. Detailed Notes (Continued)

B. Deposits

The Treasurer of the City of Duluth is designated by Minn. Laws 1973, ch. 327, as Treasurer of the Authority. Authority deposits are pooled with all other City deposits. The City Treasurer is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash and to invest in certificates of deposit in financial institutions designated by the Duluth City Council. Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral.

The types of investments available to the City Treasurer are detailed in Minn. Stat. §§ 118A.04 and 118A.05. 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	
	2016	2015
City Treasurer	$ 529,224	$ 306,682
Petty cash and change funds	42,245	27,245
Total Cash and Cash Equivalents	$ 571,469	$ 333,927

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended April 30, 2016 and 2015, follows:

	Balance May 1, 2015	Additions	Deductions	Balance April 30, 2016
Capital assets not depreciated				
Land and land improvements	$ 2,553,244	$ -	$ -	$ 2,553,244
Construction in progress	1,252,661	6,192,324	6,935,100	509,885
Total capital assets not depreciated	$ 3,805,905	$ 6,192,324	$ 6,935,100	$ 3,063,129
Capital assets depreciated				
Buildings and structures	$ 7,966,219	$ 6,942,317	$ -	$ 14,908,536
Equipment	12,232,573	167,917	-	12,400,490
Furniture and fixtures	256,675	3,156	-	259,831
Other capital assets	802,903	-	-	802,903
Total capital assets depreciated	$ 21,258,370	$ 7,113,390	$ -	$ 28,371,760
Less: accumulated depreciation for				
Buildings and structures	$ 3,755,651	$ 537,369	$ -	$ 4,293,020
Equipment	6,148,071	439,449	-	6,587,520
Furniture and fixtures	250,324	4,333	-	254,657
Other capital assets	521,727	29,542	-	551,269
Total accumulated depreciation	$ 10,675,773	$ 1,010,693	$ -	$ 11,686,466
Total capital assets depreciated, net	$ 10,582,597	$ 6,102,697	$ -	$ 16,685,294
Capital Assets, Net	$ 14,388,502	$ 12,295,021	$ 6,935,100	$ 19,748,423

2. Detailed Notes

C. Capital Assets (Continued)

	Balance May 1, 2014	Additions	Deductions	Balance April 30, 2015
Capital assets not depreciated				
Land and land improvements	$ 2,544,192	$ 9,052	$ -	$ 2,553,244
Construction in progress	315,707	936,954	-	1,252,661
Total capital assets not depreciated	$ 2,859,899	$ 946,006	$ -	$ 3,805,905
Capital assets depreciated				
Buildings and structures	$ 7,952,404	$ 13,815	$ -	$ 7,966,219
Equipment	12,042,738	438,566	248,731	12,232,573
Furniture and fixtures	256,675	-	-	256,675
Other capital assets	802,903	-	-	802,903
Total capital assets depreciated	$ 21,054,720	$ 452,381	$ 248,731	$ 21,258,370
Less: accumulated depreciation for				
Buildings and structures	$ 3,529,496	$ 226,155	$ -	$ 3,755,651
Equipment	5,985,619	411,183	248,731	6,148,071
Furniture and fixtures	244,376	5,948	-	250,324
Other capital assets	480,390	41,337	-	521,727
Total accumulated depreciation	$ 10,239,881	$ 684,623	$ 248,731	$ 10,675,773
Total capital assets depreciated, net	$ 10,814,839	$ (232,242)	$ -	$ 10,582,597
Capital Assets, Net	$ 13,674,738	$ 713,764	$ -	$ 14,388,502

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.

Unpaid vacation pay earned as of April 30, 2016 and 2015, is $87,700 and $79,486, respectively, and is recognized as a liability in the financial statements.

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

2. Detailed Notes (Continued)

E. Due to City of Duluth

The amounts due to the City at April 30, 2016 and 2015, follow:

	2016	2015
General Fund - sales tax	$ 7,035	$ 5,932
General Fund - line of credit	1,200,000	1,200,000
Total	$ 1,207,035	$ 1,205,932

The City of Duluth extends the Authority a line of credit each year to assist in the management of cash flow within the budget approved. The Spirit Mountain Recreation Area Authority is allowed to draw upon the line of credit as needed to assist in the management of cash flows. The amounts withdrawn need to be repaid in full at least once per calendar year.

F. Pledge Agreement with City of Duluth

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

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

2. Detailed Notes (Continued)

G. Capitalized Lease Obligations

Capitalized lease obligations consist of the following at April 30, 2016 and 2015:

Type of Property	2016	2015
Equipment	$ 3,453,731	$ 3,453,731
Less: accumulated amortization	(1,136,398)	(922,539)
Net Capital Lease Property	$ 2,317,333	$ 2,531,192

Minimum future lease payments follow:

Fiscal Year Ended April 30, 2016	Principal	Interest
2017	$ 273,147	$ 67,732
2018	230,215	58,139
2019	207,455	49,893
2020	200,763	41,805
2021	178,917	34,290
2022 - 2025	719,656	61,019
Total	$ 1,810,153	$ 312,878

Fiscal Year Ended April 30, 2015	Principal	Interest
2016	$ 379,504	$ 80,674
2017	271,977	67,732
2018	228,785	58,139
2019	207,455	49,893
2020	200,830	41,805
2021 - 2025	900,968	95,309
Total	$ 2,189,519	$ 393,552

2. Detailed Notes

G. Capitalized Lease Obligations (Continued)

Capitalized lease obligations at April 30, 2016 and 2015, consist of the following leases:

	2016	2015
A $2,340,150 lease purchase for purchase, design, and installation of an Alpine Coaster and construction of a ticket/concession building and parking lot, dated January 26, 2010, due in periodic installments commencing September 1, 2010, through February 1, 2025, with interest at 3.96 percent.	$ 1,551,723	$ 1,702,636
A $600,000 lease purchase for purchase, design, and installation of a zip line, tubing hill, and mini golf course, dated June 1, 2011, due in periodic installments commencing October 1, 2011, through June 1, 2016, with interest at 4.05 percent.	20,641	155,943
A $266,519 lease purchase for a groomer, dated October 15, 2012, due in periodic installments through October 1, 2017, with interest at 3.50 percent.	86,170	141,185
A $202,200 lease purchase for a groomer, dated December 23, 2014, due in periodic installments through December 23, 2019, with interest at 3.50 percent.	151,619	189,755
Total	$ 1,810,153	$ 2,189,519
Current portion	$ 273,147	$ 379,504
Long-term portion	1,537,006	1,810,015
Total	$ 1,810,153	$ 2,189,519

H. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for each of fiscal years 2016 and 2015 is $5,335. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2016, and April 30, 2015, are $5,335 due in fiscal years 2017 and 2016.

2. Detailed Notes (Continued)

I. Mountain Villas Agreements

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

In 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 ten percent of gross sales.

J. Contract Commitment

The Authority was in the process of constructing a new water line at year-end April 30, 2015. As of that date, the Authority had contract commitments with the project of $5,706,852. As of year-end April 30, 2016, the Authority had no contract commitments.

3. Risk Management

The Authority uses State Fund Mutual (SFM) to insure against its obligation to provide benefits to employees pursuant to the Minnesota Workers' Compensation Act. The Authority participates in the City of Duluth Internal Service Fund 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. 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.

4. Defined Benefit Pension Plan

A. Plan Description

All full-time and certain part-time employees of the Spirit Mountain Recreation Area Authority are covered by defined benefit pension plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General 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. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

B. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit

4. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

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 remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under 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 General Employees Retirement Fund members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

C. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary for the year ended April 30, 2016.

During the current year, the Authority was required to contribute the following percentages of annual covered salary:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.50

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

The Authority’s contributions for the General Employees Retirement Fund for the years ended April 30, 2016 and 2015, were $115,982 and $104,147, respectively. The contributions are equal to the contractually required contributions as set by state statute.

4. Defined Benefit Pension Plans (Continued)

D. Pension Costs

At April 30, 2016 and 2015, the Authority reported a liability of $1,497,748 and $1,484,410, respectively, for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, 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, 2014, through June 30, 2015, and July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Authority's proportion was 0.0289 percent. It was 0.0316 percent measured as of June 30, 2014. At year-end April 30, 2016 and 2015, the Authority recognized pension expense of $209,622 and $104,147, respectively, for its proportionate share of the General Employees Retirement Fund's pension expense.

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

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 15,187	$ 75,512	$ 22,781	$ -
Changes in actuarial assumptions	91,977	-	152,983	-
Difference between projected and actual investment earnings	141,785	275,112	-	401,086
Changes in proportion	-	109,563	-	-
Contributions paid to PERA subsequent to the measurement date	92,939	-	102,236	-
Total	$ 341,888	$ 460,187	$ 278,000	$ 401,086

4. Defined Benefit Pension Plan

D. Pension Costs (Continued)

The $92,939 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, 2017. At April 30, 2015, $102,236 was reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date and was recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

As of April 30, 2016:

Year Ended April 30	Pension Expense Amount
2017	$ (64,368)
2018	(64,368)
2019	(117,950)
2020	35,448

As of April 30, 2015:

Year Ended April 30	Pension Expense Amount
2016	$ (41,684)
2017	(41,684)
2018	(41,684)
2019	(100,270)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, and June 30, 2014, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.75 percent per year
Active member payroll growth	3.50 percent per year
Investment rate of return	7.90 percent

4. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter. The assumption used for the June 30, 2014, valuation included cost of living benefit increases for retirees to be 1.0 percent effective every January 1 through 2030 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50

4. Defined Benefit Pension Plan (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. 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 pension plan's fiduciary net position 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.

G. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
Proportionate share of the General Employees Retirement Fund net pension liability as of June 30, 2015	$ 2,354,992	$ 1,497,748	$ 789,796
Proportionate share of the General Employees Retirement Fund net pension liability as of June 30, 2014	2,392,928	1,484,410	736,913

H. Pension Plan Fiduciary Net Position

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

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REQUIRED SUPPLEMENTARY INFORMATION

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A-1

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
GENERAL EMPLOYEES RETIREMENT FUND
APRIL 30, 2016

Measurement Date	Employer's Proportion of Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0316%	$ 1,484,410	$ 1,737,780	85.42%	78.75%
2015	0.0289	1,497,748	1,670,387	89.66	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The amounts presented for each fiscal year were determined June 30 of the previous year.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A-2

SCHEDULE OF CONTRIBUTIONS
GENERAL EMPLOYEES RETIREMENT FUND
APRIL 30, 2016

Fiscal Year Ending	Statutorily Required Contributions (a)	Contributions in Relation to Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2015	$ 127,523	$ 104,147	$ (23,376)	$ 1,737,780	5.99%
2016	115,982	115,982	-	1,546,427	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The amounts presented for each fiscal year were determined April 30 of the previous year.

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED APRIL 30, 2016

Changes in Significant Plan Provision, Actuarial Methods, and Assumption

General Employees Retirement Fund

For Coordinated plan members, employee contributions increased from 6.25 percent in 2014 to 6.50 percent in 2015. Employer contributions for coordinated plan members increased from 7.25 percent in 2014 to 7.50 percent in 2015.

For the June 30, 2015 valuation the cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter. The assumption used for the June 30, 2014 valuation included cost of living benefit increases for retirees to be 1.0 percent effective every January 1st through 2030 and 2.5 percent thereafter.

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SUPPLEMENTARY INFORMATION

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT B-1

COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED APRIL 30, 2016 AND 2015

	2016	2015
Sales		
Food	$ 506,953	$ 515,637
Liquor	271,969	262,949
Ski shop	108,583	107,004
Grand Avenue Chalet	355,412	502,262
Less: cost of goods sold	(436,984)	(490,375)
Net sales	**$ 805,933**	**$ 897,477**
Charges for Services		
Season pass	$ 787,985	$ 844,166
Daily lift tickets	804,311	806,095
Alpine Coaster	818,548	813,682
Ski school and snow sports	118,255	127,191
Ski rental	215,792	184,977
Snowboard rental	46,215	52,087
Locker rental	19,784	14,294
Nordic tickets and rental	895	459
Snocross	179,424	159,551
Campground	161,292	136,011
Mountain Villas management fee	105,618	105,127
Marketing revenue	8,675	12,950
Summer activities	89,877	75,310
Total charges for services	**$ 3,356,671**	**$ 3,331,900**
Miscellaneous		
Other revenues	**$ 103,202**	**$ 86,693**
Total Operating Revenues	**$ 4,265,806**	**$ 4,316,070**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT B-2

COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2016 AND 2015

	2016	2015
Department		
Food and beverage	$ 385,946	$ 369,637
Housekeeping	46,031	151,641
Rental	45,998	48,589
Ski shop	41,682	31,512
Campground	60,212	65,161
Parking and shuttle	4,221	3,367
Building and grounds	319,237	334,741
Snocross	111,719	172,842
Ski school and snow sports center	105,240	110,276
Child care	753	-
Outside mountain operations	1,112,437	1,203,267
Nordic	7,607	3,030
Ski patrol	6,879	9,201
Sales and marketing	297,131	358,210
Office administration	1,142,200	831,196
Mountain Villas	46,825	47,700
Grand Avenue Chalet	185,911	262,414
Summer activities	16,132	65,565
Adventure Park	255,333	243,567
Total departmental costs	**$ 4,191,494**	**$ 4,311,916**
Amortization	21,097	23,353
Depreciation	1,010,693	684,623
Total Operating Expenses	**$ 5,223,284**	**$ 5,019,892**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT C-1

STATEMENT OF CAPITAL IMPROVEMENTS
YEAR ENDED APRIL 30, 2016

	Repair and Replacement Account Capital Improvements	Non-Repair and Replacement Account Capital Improvements	Total
Capital Improvements			
Computer equipment	$ -	$ 24,741	$ 24,741
Water project development	-	6,177,069	6,177,069
Welder	-	4,590	4,590
Chairs	-	3,156	3,156
Mower	-	1,900	1,900
Truck plow	-	2,498	2,498
Skidsteer track belts	-	5,073	5,073
Snowmobile	-	15,072	15,072
Radios	-	8,964	8,964
PB600 cleats	-	20,312	20,312
Pump and motor	-	12,910	12,910
Skis/poles	-	26,980	26,980
Maintenance shop lights	-	3,680	3,680
Vehicles	-	38,259	38,259
Fence	-	3,640	3,640
Camera	-	998	998
Parks	-	561	561
Bridge	15,255	-	15,255
Freezer	3,275	-	3,275
Skyline ventilation	1,681	-	1,681
Total Capital Improvements	**$ 20,211**	**$ 6,350,403**	**$ 6,370,614**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT D-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED APRIL 30, 2016

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-through Grant Numbers	Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Direct				
Soil and Water Conservation	10.902		$ 200,000	$ -
U.S. Department of the Interior				
Direct				
Great Lakes Restoration	15.662		567,700	-
U.S. Department of Homeland Security				
Passed through Minnesota Department of Transportation				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4069DRMNP0000001	195,169	-
Total Federal Awards			**$ 962,869**	**$ -**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED APRIL 30, 2016

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Spirit Mountain Recreation Area Authority. The Authority's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Spirit Mountain Recreation Area Authority under programs of the federal government for the year ended April 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Spirit Mountain Recreation Area Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Spirit Mountain Recreation Area Authority.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Spirit Mountain Recreation Area Authority has elected to not use the ten percent de minimus indirect cost rate allowed under the Uniform Guidance.

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Management and Compliance Section

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SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED APRIL 30, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **No**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **No**

The major federal program is:

Great Lakes Restoration	CFDA No. 15.662

The threshold for distinguishing between Types A and B programs was $750,000.

The Spirit Mountain Recreation Area Authority qualified as a low-risk auditee? **No**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2015-001

Segregation of Duties

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

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

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

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

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

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Directors and management be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Directors and management continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

Spirit Mountain continues to monitor and assess all procedures and protocols for segregation of duties. We are currently reviewing all training materials and procedures. From this review we will determine if and what changes need to be made. All staff persons will be completing an updated training session to not only review updated procedures but to be reminded of our current procedures.

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments (2015-002)

During our previous audit, material audit adjustments were necessary to properly report the Authority's financial statements.

Resolution

No material audit adjustments were identified during the current audit.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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

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

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

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Spirit Mountain Recreation Area Authority
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Spirit Mountain Recreation Area Authority, a component unit of the City of Duluth, Minnesota, as of and for the year ended April 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 15, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the Spirit Mountain Recreation Area Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions.* However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

Spirit Mountain Recreation Area Authority's Response to Finding

The Spirit Mountain Recreation Area Authority's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. 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 Other Political Subdivisions* 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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 15, 2016

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
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 COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Mayor and City Council
City of Duluth, Minnesota

Board of Directors
Spirit Mountain Recreation Area Authority
Duluth, Minnesota

Report on Compliance for the Major Federal Program

We have audited the Spirit Mountain Recreation Area Authority's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended April 30, 2016. The Spirit Mountain Recreation Area Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the Spirit Mountain Recreation Area Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of

compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Spirit Mountain Recreation Area Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance with those requirements.

Opinion on the Major Federal Program
In our opinion, the Spirit Mountain Recreation Area Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended April 30, 2016.

Report on Internal Control Over Compliance

Management of the Spirit Mountain Recreation Area Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

December 15, 2016