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, 2008 AND 2007

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 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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

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

For the Years Ended April 30, 2008 and 2007

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

TABLE OF CONTENTS

	Reference	Page
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	11
Comparative Statement of Revenues, Expenses, and Changes in Net Assets	Exhibit B	13
Comparative Statement of Cash Flows	Exhibit C	14
Notes to the Financial Statements		15
Supplementary Information		
Comparative Statement of Operating Revenues	Schedule 1	30
Comparative Statement of Operating Expenses	Schedule 2	31
Statement of Capital Improvements	Schedule 3	32
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 4	33
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*		34

This page was left blank intentionally.

Introductory Section

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

ORGANIZATION
APRIL 30, 2008

	Term Ending
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
Neale Roth	June 30, 2009
Todd Torvinen	June 30, 2008

Executive Director
Renee Mattson

Officers
Chair
Lisa Augustine

Vice Chair
Ken Buehler

Secretary
Alan Johnson

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

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)

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, 2008 and 2007. 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, 2008 and 2007, 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 26, 2008, 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 26, 2008

MANAGEMENT’S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
APRIL 30, 2008
(Unaudited)

This section presents management's analysis of the Authority's financial condition and activities for the fiscal year ended April 30, 2008. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets increased $384,535, or 10 percent, compared to fiscal year 2007. The increase was due mainly to total liabilities decreasing 18 percent.

- Operating income increased $386,636, or 167 percent, compared to fiscal year 2007. The increase was due primarily to an increase in total operating revenues paired with a decrease in total operating expenses.

- 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's 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 presents 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 and camping.

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 2008	FY 2007	Change from 2007 to 2008 Dollar	Change from 2007 to 2008 Percent (%)	FY 2006
Current and other assets	$ 1,016,395	$ 967,613	$ 48,782	5	$ 1,279,463
Capital assets	4,748,089	4,774,525	(26,436)	(1)	4,822,217
Total Assets	$ 5,764,484	$ 5,742,138	$ 22,346	1	$ 6,101,680
Current liabilities	$ 744,606	$ 774,482	$ (29,876)	(4)	$ 766,216
Long-term liabilities	938,379	1,270,692	(332,313)	(26)	1,590,139
Total Liabilities	$ 1,682,985	$ 2,045,174	$ (362,189)	(18)	$ 2,356,355
Net Assets					
Invested	$ 3,567,912	$ 3,321,671	$ 246,241	7	$ 3,107,869
Restricted	518,134	320,820	197,314	62	330,714
Unrestricted	(4,547)	54,473	(59,020)	(108)	306,742
Total Net Assets	$ 4,081,499	$ 3,696,964	$ 384,535	10	$ 3,745,325

As can be seen from the table, net assets increased $384,535 to $4,081,499 in 2008, up from $3,696,964 in 2007.

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

	FY 2008	FY 2007	Change from 2007 to 2008 Dollar	Change from 2007 to 2008 Percent (%)	FY 2006
Operating revenues	$ 3,918,859	$ 3,681,803	$ 237,056	6	$ 3,925,609
Nonoperating revenues	291,494	256,052	35,442	14	246,181
Total Revenues	$ 4,210,353	$ 3,937,855	$ 272,498	7	$ 4,171,790
Operating expenses	$ 3,352,224	$ 3,498,646	$ (146,422)	(4)	$ 3,343,801
Nonoperating expenses	61,850	72,668	(10,818)	(15)	70,943
Depreciation/amortization	411,744	414,902	(3,158)	(1)	416,336
Total Expenses	$ 3,825,818	$ 3,986,216	$ (160,398)	(4)	$ 3,831,080
Changes in Net Assets	$ 384,535	$ (48,361)	$ 432,896	895	$ 340,710
Beginning Net Assets	3,696,964	3,745,325	(48,361)	(1)	3,404,615
Ending Net Assets	$ 4,081,499	$ 3,696,964	$ 384,535	10	$ 3,745,325

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(2008 Budget and Actual)

	Actual	Budget	Budget to Actual Variance	Budget % Variance
Operating revenues	$ 3,918,859	$ 3,701,900	$ 216,959	6
Nonoperating revenues	291,494	245,600	45,894	19
Total Revenues	$ 4,210,353	$ 3,947,500	$ 262,853	7
Operating expenses	$ 3,352,224	$ 3,390,680	$ (38,456)	(1)
Nonoperating expenses	61,850	60,304	1,546	3
Depreciation/amortization	411,744	414,000	(2,256)	(1)
Total Expenses	$ 3,825,818	$ 3,864,984	$ (39,166)	(1)
Changes in Net Assets	$ 384,535	$ 82,516	$ 302,019	366
Beginning Net Assets	3,696,964	3,696,964	-	-
Ending Net Assets	$ 4,081,499	$ 3,779,480	$ 302,019	8

Revenues

The Authority earns operating revenues in both winter and summer. Operating revenues increased to $3.919 million in 2008, up $237,056 from 2007. Nonoperating revenues increased 14 percent in 2008, up $35,442 over 2007.

Expenses

The Authority's operating expenses decreased 4 percent from 2007, due primarily to the decrease in personnel costs, as well as a decrease in utility expenses. Nonoperating expenses decreased 15 percent from 2007 due primarily to a decrease 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 $216,959. The additional revenue was due to the strength of performance in season pass sales, enhanced food and beverage operations, and the campground.

Operating expenses were $38,456 below budgeted operating expenses, due primarily to a decrease in personnel costs as well as a decrease in utility costs. Nonoperating expenses were up 3 percent compared to budget due primarily to an increase in actual interest expense.

CAPITAL ASSETS

			Change	
	FY 2008	FY 2007	Dollar	Percent (%)
Land	$ 2,446,545	$ 2,429,468	$ 17,077	1
Equipment	6,408,660	6,333,355	75,305	1
Plant equipment	297,901	271,821	26,080	10
Building and improvements	3,885,456	3,703,424	182,032	5
Furniture and fixtures	204,058	194,928	9,130	5
Other capital assets	368,413	368,413	-	-
Work in progress	189,130	122,272	66,858	55
Subtotal	$ 13,800,163	$ 13,423,681	$ 376,482	3
Less: accumulated depreciation	(9,052,074)	(8,649,156)	(402,918)	(5)
Net Property and Equipment	$ 4,748,089	$ 4,774,525	$ (26,436)	(1)

By the end of fiscal year 2008, the Authority had invested $13.8 million in capital assets. The decrease of $26,436 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, and remodeling/relocation of the Mountain Top Shop, Ski School check-in and primary ticket sales area for better traffic flow. We continue to upgrade our computer sales system and accounting system.

Debt Administration

	FY 2008	FY 2007	Change Dollar	Change Percent (%)
Gas lease	$ 26,154	$ 51,004	$ (24,850)	(49)
Groomer lease	160,590	234,029	(73,439)	(31)
Lease/leaseback (revenue bonds)	993,432	1,167,820	(174,388)	(15)
Total Debt	$ 1,180,176	$ 1,452,853	$ (272,676)	(19)

At the end of fiscal year 2008, the Authority's outstanding debt decreased $272,676 to $1.18 million, down from $1.452 million at the end of fiscal year 2007. The decrease in outstanding debt is due primarily to the gas lease expiring in fiscal year 2009.

ECONOMIC AND OTHER FACTORS

The Authority considers many factors when setting the fiscal year 2008 budget, rates and services. We aggressively target the Twin Cities market for both season pass holders and day skiers. In 2008, we are partnering with Giants Ridge Ski Area to promote a "Buy One, Get One" lift ticket offer and plan to develop a joint marketing campaign to further promote both areas in new markets. We also brought back a special season pass rate for college students to create a stronger market share with the large population of students at the local colleges and universities, though the offer is only good for college students taking 12 or more credits. We recognize consumer confidence is low and discretionary spending will be limited, so we are responding by keeping our prices competitive and being very cautious about any price increases.

To keep ahead of our competition we have expanded our hours and will open for skiing every day starting on December 5. We have also invested in a new fleet of Head Rental Skis that will not only enhance our marketing strategy but will move guests much more efficiently through the rental process and allow us to lower our labor costs. We have partnered with Burton Snowboards for the coming season and will be one of only three Burton Learn to Ride centers in Minnesota. Being a Burton center gives us excellent exposure through their massive marketing efforts.

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. 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 Spirit Mountain Master Plan was unanimously approved by the Duluth City Council on August 25, 2008, and we continue to move forward with funding solutions and prioritizing the projects within the plan. We look forward to a great season and continued improvements to the facility.

FINANCIAL CONTACT

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

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A

COMPARATIVE STATEMENT OF NET ASSETS
APRIL 30, 2008 AND 2007

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 302,886	$ 403,330
Accounts receivable	33,322	57,918
Inventory	65,207	69,532
Prepaid items	46,810	49,074
Restricted assets		
Cash and cash equivalents - restricted for capital improvements	351,609	295,372
Cash and cash equivalents - restricted for special projects	8,525	8,525
Cash and cash equivalents - restricted for unemployment claims	133,000	-
Total current assets	**$ 941,359**	**$ 883,751**
Noncurrent assets		
Cash and cash equivalents - restricted for workers' compensation claims	$ 25,000	$ 25,000
Planning and development costs - net of accumulated amortization	46,538	54,387
Debt issuance costs - net of accumulated amortization	3,498	4,475
Total noncurrent assets, other than capital	**$ 75,036**	**$ 83,862**
Capital assets	$ 13,800,163	$ 13,423,681
Less: allowance for depreciation	(9,052,074)	(8,649,156)
Total capital assets - net of accumulated depreciation	**$ 4,748,089**	**$ 4,774,525**
Total noncurrent assets	**$ 4,823,125**	**$ 4,858,387**
Total Assets	**$ 5,764,484**	**$ 5,742,138**
Liabilities		
Current liabilities		
Accounts payable	$ 117,291	$ 124,734
Due to City of Duluth	92,302	136,500
Due to other governments	6,497	5,162
Accrued salaries payable	26,355	14,951
Accrued vacation payable	64,788	65,844
Accrued interest payable	19,849	23,165
Leases payable	104,488	98,288
Revenue bonds payable	182,324	174,388
Deferred revenue	130,712	131,450
Total current liabilities	**$ 744,606**	**$ 774,482**
Noncurrent liabilities		
Due to City of Duluth	$ 45,015	$ 90,515
Leases payable	82,256	186,745
Revenue bonds payable	811,108	993,432
Total noncurrent liabilities	**$ 938,379**	**$ 1,270,692**
Total Liabilities	**$ 1,682,985**	**$ 2,045,174**

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

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT A
(Continued)

COMPARATIVE STATEMENT OF NET ASSETS
APRIL 30, 2008 AND 2007

	2008	2007
Net Assets		
Invested in capital assets - net of related debt	$ 3,567,912	$ 3,321,671
Restricted for capital improvements	351,609	287,295
Restricted for workers' compensation claims	25,000	25,000
Restricted for special projects	8,525	8,525
Restricted for unemployment claims	133,000	-
Unrestricted	(4,547)	54,473
Total Net Assets	**$ 4,081,499**	**$ 3,696,964**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

EXHIBIT B

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED APRIL 30, 2008 AND 2007

	2008	2007
Operating Revenues		
Sales	$ 920,404	$ 885,150
Less: cost of goods sold	(354,175)	(352,656)
Gross profit on sales	**$ 566,229**	**$ 532,494**
Charges for services	3,295,230	3,093,538
Miscellaneous	57,400	55,771
Total Operating Revenues	**$ 3,918,859**	**$ 3,681,803**
Operating Expenses		
Personal services	$ 1,913,830	$ 1,997,529
Supplies	263,397	244,163
Utilities	351,964	391,555
Other services and charges	823,033	865,399
Amortization	8,826	7,963
Depreciation	402,918	406,939
Total Operating Expenses	**$ 3,763,968**	**$ 3,913,548**
Operating Income (Loss)	**$ 154,891**	**$ (231,745)**
Nonoperating Revenues (Expenses)		
Earnings on investments	$ 16,494	$ 22,371
Tourism tax	275,000	225,000
Gain (loss) on sale or disposition of capital assets - net	-	8,681
Interest expense	(61,850)	(72,668)
Total Nonoperating Revenues (Expenses)	**$ 229,644**	**$ 183,384**
Change in Net Assets	**$ 384,535**	**$ (48,361)**
Net Assets - May 1	**3,696,964**	**3,745,325**
Net Assets - April 30	**$ 4,081,499**	**$ 3,696,964**

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, 2008 AND 2007

	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	$ 4,186,299	$ 3,833,208
Cash paid to suppliers	(1,824,816)	(1,863,685)
Cash paid to employees	(1,903,482)	(1,979,040)
Other cash received	57,400	55,771
Net cash provided by (used in) operating activities	**$ 515,401**	**$ 46,254**
Cash Flows from Capital and Related Financing Activities		
Capital lease payments	$ (66,620)	$ (110,396)
Acquisition and construction of capital assets	(376,482)	(359,246)
Net cash provided by (used in) capital and related financing activities	**$ (443,102)**	**$ (469,642)**
Cash Flows from Investing Activities		
Interest on investments	**$ 16,494**	**$ 22,371**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 88,793**	**$ (401,017)**
Cash and Cash Equivalents - May 1	**732,227**	**1,133,244**
Cash and Cash Equivalents - April 30	**$ 821,020**	**$ 732,227**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Net operating income (loss)	**$ 154,891**	**$ (231,745)**
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	402,918	406,939
Amortization	8,826	7,963
Change in assets and liabilities		
Decrease (increase) in receivables	24,596	(39,161)
Decrease (increase) in inventory	4,325	(29,257)
Decrease (increase) in prepaid items	2,264	(14,962)
Increase (decrease) in accounts payable	(92,029)	(18,346)
Increase (decrease) in salaries payable	11,404	4,221
Increase (decrease) in vacation payable	(1,056)	14,268
Increase (decrease) in deferred revenue	(738)	(53,666)
Net Cash Provided by (Used in) Operating Activities	**$ 515,401**	**$ 46,254**

Noncash Investing, Capital, and Financing Activities - Fiscal Year Ended April 30, 2008

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.

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.

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:

Classification	Range
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

1. <u>Summary of Significant Accounting Policies</u> (Continued)

E. <u>Trade-Offs</u>

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. <u>Use of Estimates</u>

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. <u>Detailed Notes</u>

A. <u>Budget</u>

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, 2008 and 2007, follows:

	2008		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Sales	$ 835,470	$ 920,404	$ 84,934
Less: cost of goods sold	(305,429)	(354,175)	(48,746)
Gross profit on sales	$ 530,041	$ 566,229	$ 36,188
Charges for services	3,143,345	3,295,230	151,885
Miscellaneous	28,514	57,400	28,886
Total Operating Revenues	$ 3,701,900	$ 3,918,859	$ 216,959

2. Detailed Notes

A. Budget (Continued)

	2008		
	Budget	Actual	Variance Favorable (Unfavorable)
Operating Expenses			
Personal services	$ 1,923,960	$ 1,913,830	$ 10,130
Supplies	262,703	263,397	(694)
Utilities	366,588	351,964	14,624
Other services and charges	837,429	823,033	14,396
Amortization	6,000	8,826	(2,826)
Depreciation	408,000	402,918	5,082
Total Operating Expenses	$ 3,804,680	$ 3,763,968	$ 40,712
Operating Income (Loss)	$ (102,780)	$ 154,891	$ 257,671
Nonoperating Revenues (Expenses)			
Earnings on investments	$ 20,600	$ 16,494	$ (4,106)
City of Duluth hotel-motel, food, and beverage tax	225,000	275,000	50,000
Interest expense	(60,304)	(61,850)	(1,546)
Total Nonoperating Revenues (Expenses)	$ 185,296	$ 229,644	$ 44,348
Change in Net Assets	$ 82,516	$ 384,535	$ 302,019

	2007		
	Budget	Actual	Variance Favorable (Unfavorable)
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

2. Detailed Notes

A. Budget (Continued)

	2007		
	Budget	Actual	Variance Favorable (Unfavorable)
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

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.

2. Detailed Notes

B. Deposits (Continued)

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	
	2008	2007
City Treasurer	$ 232,422	$ 85,212
Money market savings	579,943	640,590
Petty cash and change funds	8,655	6,425
Total Cash and Cash Equivalents	$ 821,020	$ 732,227
Current assets		
Unrestricted	$ 302,886	$ 403,330
Restricted for capital improvements	351,609	295,372
Restricted for special projects	8,525	8,525
Restricted for unemployment claims	133,000	-
Noncurrent assets		
Restricted for workers' compensation claims	25,000	25,000
Total Cash and Cash Equivalents	$ 821,020	$ 732,227

2. Detailed Notes (Continued)

C. Capital Assets

A summary of the changes in capital assets for the years ended April 30, 2008 and 2007, follows:

	Balance May 1, 2007	Additions	Deductions	Reclassification	Balance April 30, 2008
Capital assets not depreciated					
Land and land improvements	$ 2,429,468	$ -	$ -	$ 17,077	$ 2,446,545
Construction in progress	122,272	376,482	-	(309,624)	189,130
Total capital assets not depreciated	$ 2,551,740	$ 376,482	$ -	$ (292,547)	$ 2,635,675
Capital assets depreciated					
Buildings and structures	$ 3,703,424	$ -	$ -	$ 182,032	$ 3,885,456
Equipment	6,605,176	-	-	101,385	6,706,561
Furniture and fixtures	194,928	-	-	9,130	204,058
Other capital assets	368,413	-	-	-	368,413
Total capital assets depreciated	$ 10,871,941	$ -	$ -	$ 292,547	$ 11,164,488
Less: accumulated depreciation for					
Buildings and structures	$ 2,288,741	$ 166,593	$ -	$ -	$ 2,455,334
Equipment	5,918,256	214,179	-	-	6,132,435
Furniture and fixtures	182,171	7,313	-	-	189,484
Other capital assets	259,988	14,833	-	-	274,821
Total accumulated depreciation	$ 8,649,156	$ 402,918	$ -	$ -	$ 9,052,074
Total capital assets depreciated, Net	$ 2,222,785	$ (402,918)	$ -	$ 292,547	$ 2,112,414
Capital Assets, Net	$ 4,774,525	$ (26,436)	$ -	$ -	$ 4,748,089

2. Detailed Notes

C. Capital Assets (Continued)

	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.

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.

2. Detailed Notes

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

Unpaid vacation pay earned as of April 30, 2008 and 2007, is $64,788 and $65,844, 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, 2008 and 2007, follow:

	2008	2007
General Fund - cost allocation plan	$ 56,656	$ 99,836
General Fund - sales tax	2,173	1,371
Self-Insurance Fund - insurance premiums	78,488	125,808
Total	$ 137,317	$ 227,015

In 2005, the City of Duluth and Spirit Mountain agreed on a repayment schedule. Of the $137,317 owed to the City, $92,302 is expected to be repaid within the next year. Payment of $45,015 will be made in 2010.

F. Long-Term Debt

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

	2008	2007
Bonds Payable - May 1	$ 1,167,820	$ 1,334,618
Payments	(174,388)	(166,798)
Bonds Payable - April 30	$ 993,432	$ 1,167,820
Amount Due Within One Year	$ 182,324	$ 174,388

2. Detailed Notes

F. Long-Term Debt (Continued)

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
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	$ 993,432	$ 126,550

G. Capitalized Lease Obligations

Capitalized lease obligations consist of the following at April 30, 2008:

Type of Property	
Building improvements	$ 210,020
Equipment	445,739
Less: accumulated amortization	(512,286)
Net Capital Lease Property	$ 143,473

2. Detailed Notes

G. Capitalized Lease Obligations (Continued)

Minimum future lease payments follow:

Fiscal Year Ended April 30	Principal	Interest
2009	$ 104,488	$ 8,359
2010	82,256	3,185
Total	$ 186,744	$ 11,544

Capitalized lease obligations at April 30, 2008, 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.	$ 26,154
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.	160,590
Total	$ 186,744
Current portion	$ 104,488
Long-term portion	82,256
Total	$ 186,744

H. Operating Lease

The Authority is obligated under an operating lease for office equipment. Lease expense for fiscal year 2008 is $4,252 and $4,252 for fiscal year 2007. The future minimum rental payments, which are not reported as liabilities in the financial statements at April 30, 2008, are $4,252 due in fiscal year 2009.

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 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 Fund 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 escrows $25,000 as a reserve 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.

3. Risk Management (Continued)

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 $40,000 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 - Defined Benefit Plans

A. Plan Description

All full-time and certain part-time employees of the Spirit Mountain Recreation Area Authority are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the 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.

5. Pension Plans - Defined Benefit 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.

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 defined 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.

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.

5. Pension Plans - Defined Benefit 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. 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 5.75 percent, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.00 percent.

The Authority is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employees Retirement Fund		
Basic Plan members	11.78%	11.78%
Coordinated Plan members	6.25	6.50

The Authority's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund were:

2008	2007	2006
$ 59,839	$ 56,823	$ 53,925

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

Schedule 1

COMPARATIVE STATEMENT OF OPERATING REVENUES
YEARS ENDED APRIL 30, 2008 AND 2007

	2008	2007
Sales		
Food	$ 531,819	$ 519,734
Liquor	235,423	221,697
Ski shop	153,162	143,719
Less: cost of goods sold	(354,175)	(352,656)
Net sales	**$ 566,229**	**$ 532,494**
Charges for services		
Season pass	$ 1,248,298	$ 1,303,865
Daily lift tickets	1,148,336	989,465
Ski school and snow sports	130,619	112,193
Ski rental	274,991	230,179
Snowboard rental	108,919	89,204
Locker rental	28,616	31,801
Nordic tickets and rental	20,057	13,894
Snocross	91,590	104,909
Campground	119,892	97,177
Summer events	-	2,888
Mountain villa management fee	95,226	92,980
Marketing revenue	28,686	24,983
Total charges for services	**$ 3,295,230**	**$ 3,093,538**
Miscellaneous		
Other revenues	**$ 57,400**	**$ 55,771**
Total Operating Revenues	**$ 3,918,859**	**$ 3,681,803**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

Schedule 2

COMPARATIVE STATEMENT OF OPERATING EXPENSES
YEARS ENDED APRIL 30, 2008 AND 2007

	2008	2007
Department		
Food and beverage	$ 268,374	$ 328,284
Housekeeping	76,283	63,147
Rental	62,168	92,771
Ski shop	28,027	21,479
Campground	72,824	49,884
Parking and lockers	18,496	13,976
Building and grounds	236,891	253,647
Snocross	116,762	96,456
Summer events	-	485
Ski school and snow sports center	101,402	104,530
Outside mountain operations	1,101,715	1,069,933
Nordic	15,103	13,996
Ski patrol	9,905	8,651
Sales and marketing	443,500	509,029
Office administration	755,300	831,127
Mountain villas	45,474	41,251
Total departmental costs	**$ 3,352,224**	**$ 3,498,646**
Amortization	8,826	7,963
Depreciation	402,918	406,939
Total Operating Expenses	**$ 3,763,968**	**$ 3,913,548**

SPIRIT MOUNTAIN RECREATION AREA AUTHORITY
DULUTH, MINNESOTA

Schedule 3

STATEMENT OF CAPITAL IMPROVEMENTS
YEAR ENDED APRIL 30, 2008

	Repair and Replacement Account Capital Improvements	Non-Repair and Replacement Account Capital Improvements	Total
Construction in Progress			
Elevator upgrade	$ 53,132	$ -	$ 53,132
C-Lift enclosure	22,168	-	22,168
Bulldozer replacement (groomer to own)	34,589	3,691	38,280
Competition hill improvement	10,000	7,077	17,077
Roof replacement	4,103	-	4,103
Signage	24,028	-	24,028
Computer upgrades	9,072	-	9,072
Architectural fees	2,853	-	2,853
C-Lift brake	2,832	15,620	18,452
FY08 snowmobiles	-	14,110	14,110
Replacement plow	-	5,378	5,378
Snowmaking hose	-	5,750	5,750
Lift building improvements	-	8,611	8,611
Blinds	-	3,060	3,060
Chalet exterior painting	9,433	200	9,633
Groomer - 2007	-	53	53
Ski school renovate - 2007	-	318	318
Master Plan consulting	-	47,700	47,700
Bar furniture - 2007	-	2,805	2,805
Café remodel	30,276	778	31,054
Storage closets	-	691	691
Emergency lighting	-	1,510	1,510
Replace four phone cards	-	2,725	2,725
Sidewalk blacktop overlay	-	3,328	3,328
High performance rental	459	308	767
Chalet interior painting	547	-	547
Handicap parking lot	1,481	-	1,481
FY08 tables/chairs	5,713	-	5,713
Rental equipment - 2007	-	23,355	23,355
Triple seat pads	-	6,608	6,608
Café fire exit door	-	689	689
Prep kitchen stair treads	-	5,320	5,320
Fireside doors and wall	-	545	545
Riding lawn mower - 2007	-	2,840	2,840
Display cases	-	2,726	2,726
Total Construction in Progress	**$ 210,686**	**$ 165,796**	**$ 376,482**

Repair and Replacement Account Summary

Net Assets - restricted for capital improvements at April 30, 2007	**$ 287,295**
2008 repair and replacement account deposits	275,000
Repair and replacement account capital improvements	(210,686)
Net Assets - restricted for capital improvements at April 30, 2008	**$ 351,609**

This page was left blank intentionally.

This page was left blank intentionally.

Schedule 4

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED APRIL 30, 2008

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

Internal Control/Segregation of Duties (97-1)

Material adjustments were proposed to convert the Authority's financial records to the financial statements as reported. We also recommended the Authority be constantly aware of segregating the accounting functions necessary to ensure adequate internal accounting control and that management implement oversight procedures and monitor those procedures to ensure that the Authority's internal control policies and procedures are effective and followed by staff.

Resolution

Material adjustments were not proposed to the Authority for the current audit.

The Authority also implemented oversight procedures on the processing and posting of journal entries. Journal entries made by the accounts receivable clerk or the accounts payable clerk are reviewed and approved by the Finance Director, and journal entries made by the Finance Director are explained to and approved by the Executive Director.

This page was left blank intentionally.

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*

Mayor and City Council
City of Duluth

Board of Directors
Spirit Mountain Recreation Area Authority

We have audited the basic 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, 2008, and have issued our report thereon dated November 26, 2008. 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.

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.

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 the 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. 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.

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 Spirit Mountain Recreation Area 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 26, 2008