

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**LAKE SUPERIOR CENTER AUTHORITY**  
**DULUTH, MINNESOTA**

FOR THE YEAR ENDED DECEMBER 31, 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.

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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**For the Year Ended December 31, 2007**



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

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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2007

Directors

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Elaine Hansen  
Betty Ramsland  
Robert Meier  
Vacant  
Vacant

Office

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Chair  
Member  
Member  
Member  
Member

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Lake Superior Center Authority

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and the major fund of the Lake Superior Center Authority as of and for the year ended December 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake Superior Center Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Lake Superior Center, d/b/a Great Lakes Aquarium at Lake Superior Center, the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Lake Superior Center, d/b/a Great Lakes Aquarium at Lake Superior Center, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and the major fund of the Lake Superior Center Authority as of and for the year ended December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Lake Superior Center Authority has not prepared a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Lake Superior Center Authority's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

May 26, 2009

## **BASIC FINANCIAL STATEMENTS**

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 1**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

	<b>Primary Government Governmental Activities</b>	<b>Discretely Presented Component Unit</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 430,819	\$ 80,992
Accounts receivable	-	6,491
Contributions receivable, current portion	-	19,450
Inventories	-	27,684
Due from component unit	138,787	-
<b>Noncurrent assets</b>		
Contributions receivable	-	20,000
<b>Capital assets</b>		
Non-depreciable	2,470,000	-
Depreciable, net	17,866,074	93,795
<b>Total Assets</b>	<b>\$ 20,905,680</b>	<b>\$ 248,412</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and other current liabilities	\$ 569,606	\$ 236,831
Accrued expenses	-	87,159
Due to primary government	-	138,787
Notes payable	-	400,000
<b>Total Liabilities</b>	<b>\$ 569,606</b>	<b>\$ 862,777</b>
<b>Net Assets</b>		
Invested in capital assets	\$ 20,336,074	\$ 93,795
Restricted	-	12,449
Unrestricted	-	(720,609)
<b>Total Net Assets</b>	<b>\$ 20,336,074</b>	<b>\$ (614,365)</b>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

*EXHIBIT 2*

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Primary Government</b>	<b>Discretely Presented Component Unit</b>
<b>Governmental Activities</b>		
<b>Great Lakes Aquarium expenses</b>		
Program services	\$ -	\$ 667,429
General and administrative	-	1,016,445
Professional services	164,453	-
Depreciation	1,446,125	-
Other	379,380	-
	<b>\$ 1,989,958</b>	<b>\$ 1,683,874</b>
<b>Program revenues</b>		
Charges for services	-	1,138,018
	<b>\$ (1,989,958)</b>	<b>\$ (545,856)</b>
<b>General revenues</b>		
Gifts and contributions	\$ 188,820	\$ 1,058,071
Investment income	5,013	-
Other income	350,000	237,761
	<b>\$ 543,833</b>	<b>\$ 1,295,832</b>
<b>Change in Net Assets</b>	<b>\$ (1,446,125)</b>	<b>\$ 749,976</b>
<b>Net Assets - Beginning</b>	<b>21,782,199</b>	<b>(1,364,341)</b>
<b>Net Assets - Ending</b>	<b>\$ 20,336,074</b>	<b>\$ (614,365)</b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUND**

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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GENERAL FUND  
DECEMBER 31, 2007**

<u>Assets</u>		
Cash	\$	301,604
Restricted cash		129,215
<b>Total Assets</b>	<b>\$</b>	<b><u>430,819</u></b>
<b><u>Liabilities and Fund Balance</u></b>		
<b>Liabilities</b>		
Accounts payable	\$	569,606
<b>Fund Balance</b>		
Unreserved		
Undesignated		(138,787)
<b>Total Liabilities and Fund Balance</b>	<b>\$</b>	<b><u>430,819</u></b>
<b>Reconciliation to the government-wide statement of net assets - governmental activities</b>		
<b>Fund Balance at December 31</b>	<b>\$</b>	<b>(138,787)</b>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.		
		20,336,074
Other assets not available to pay for the current period expenditures are not reported in the General Fund.		
Due from component unit		
		138,787
<b>Net Assets at December 31 - Governmental Activities</b>	<b>\$</b>	<b><u>20,336,074</u></b>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 4**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Revenues</b>	
Gifts and contributions	\$ 92,520
Investment income	5,013
Miscellaneous	350,000
<b>Total Revenues</b>	<b>\$ 447,533</b>
<b>Expenditures</b>	
Professional services	\$ 164,453
Legal settlements	400,303
<b>Total Expenditures</b>	<b>\$ 564,756</b>
<b>Change in Fund Balance</b>	<b>\$ (117,223)</b>
<b>Fund Balance - January 1</b>	<b>(21,564)</b>
<b>Fund Balance - December 31</b>	<b>\$ (138,787)</b>
 <b>Reconciliation to the government-wide statement of activities - governmental activities</b>	
<b>Net change in fund balance for the year ended December 31</b>	<b>\$ (117,223)</b>
 Amounts reported for governmental activities in the statement of activities are different because:	
General Fund reports capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	(1,446,125)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the General Fund	
Decrease in due from component unit	(179,077)
Write-off of prior year payable (reported as a current-year contribution)	96,300
Lawsuit settlement - expensed in statement of activities in prior year and in the General Fund in the current year	200,000
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (1,446,125)</b>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2007**

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1. Summary of Significant Accounting Policies

The Lake Superior Center Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

A. Financial Reporting Entity

The Lake Superior Center Authority was created by State of Minnesota Laws 1990, ch. 535, as a public corporation to accept and use gifts and grants from governmental and nongovernmental entities to build a freshwater education facility (Great Lakes Aquarium). The law provides that if the Authority dissolves, its wholly-owned assets become state property.

Minnesota Laws 1996, ch. 463, states, in part, that all land, buildings, and capital assets must be owned by the Authority. Also, the law does not allow the state to use general funds to support the facility's operation and requires the City of Duluth to secure money from nonstate sources to pay the operating costs, if necessary. The facility which opened July 29, 2000, combines a museum format with environmental education and an aquarium on the downtown Duluth harbor. The Authority is governed by five directors: one is the Commissioner of the Department of Natural Resources, and four are appointed by the Governor.

The Authority entered into a management agreement with Lake Superior Center doing business as Great Lakes Aquarium at Lake Superior Center (the Center), a private nonprofit organization, to operate the facility. The Center was established April 1991 to offer public education programs to increase awareness of Lake Superior, in particular, and other large bodies of fresh water, in general. The Center is governed by a Board of Directors consisting of self-appointed members along with the Mayor from the City of Duluth and two City of Duluth Councilors. The City of Duluth Finance Director has represented the City as a nonvoting member.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

During the design and construction phase from June 1996 until January 2001, the Authority Board served as ex officio members of the Center’s Board in order to reduce duplication of meetings and to increase communication between the two boards. The Authority was responsible for constructing the facility. A project manager was hired to oversee the project, and an architectural firm was hired to design the facility. After completion of the design, a construction management firm, along with many subcontractors, was hired, and construction began in January 1999.

The facility was constructed primarily with State of Minnesota, City of Duluth, Duluth Economic Development Authority (DEDA), and private funding together with a land donation from the Duluth Improvement Trust. Construction funds were disbursed through a paying agent upon approval of the construction claims by the Authority and the Center.

The accounting policies of the Authority conform to GAAP. For financial reporting purposes, the Authority has included all assets and funds for which the Authority is financially accountable. The Authority is considered a legally separate entity and not a component unit of either the State of Minnesota or the City of Duluth.

Discretely Presented Component Unit

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the following component unit of the Authority is discretely presented:

<u>Component Unit</u>	<u>Component Unit is Part of the Reporting Entity Because</u>	<u>Separate Financial Statements May be Obtained at</u>
Lake Superior Center, d/b/a Great Lakes Aquarium at Lake Superior Center	The Center is included because of the nature of its relationship with the Authority.	Lake Superior Center Great Lakes Aquarium 353 Harbor Drive Duluth, Minnesota 55802

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall Authority government.

In the government-wide statement of net assets, the governmental activities are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in three parts: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets. The Authority first utilizes restricted resources to finance qualifying activities.

The statement of activities demonstrates the degree to which the direct expenses of the Authority's governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the Authority's General Fund. The emphasis of the governmental fund financial statements is on major governmental funds, with each displayed as separate columns in the fund financial statements. The Authority only has one fund; therefore, it is presented as a major fund.

The Authority reports the following major governmental fund:

The General Fund is used to account for all activities.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Authority considers all revenues as available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred.

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.

D. Assets, Liabilities, and Net Assets

1. Restricted Cash

Restricted cash is held in the Authority's name by US Bank. The account was established in response to mechanics liens filed on the project.

2. Capital Assets

All capital assets are valued at historical cost, except for land donated for the project site. Land is valued at estimated fair value based on a real estate appraisal performed as of November 11, 1998. Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25
Building improvements	10
Furniture and equipment	3 - 10

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets (Continued)

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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. Stewardship, Compliance, and Accountability

Fund Balance Deficit

At December 31, 2007, the Authority had a deficit unreserved, undesignated fund balance of \$138,787. Any deficit is the responsibility of Lake Superior Center.

3. Detailed Notes

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2007, \$230,819 of the Authority's book balance of \$430,819 was exposed to custodial credit risk.

B. Receivables

Receivables as of December 31, 2007, including the applicable allowances for uncollectible accounts, all scheduled for collection during the subsequent year, are as follows:

Due From Component Unit	\$ 138,787
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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

3. Detailed Notes (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 2,470,000	\$ -	\$ -	\$ 2,470,000
Capital assets depreciated				
Buildings	\$ 28,428,012	\$ -	\$ -	\$ 28,428,012
Furniture and equipment	784,033	-	-	784,033
Total capital assets depreciated	\$ 29,212,045	\$ -	\$ -	\$ 29,212,045
Less: accumulated depreciation for				
Buildings	\$ 9,220,985	\$ 1,414,824	\$ -	\$ 10,635,809
Furniture and equipment	678,861	31,301	-	710,162
Total accumulated depreciation	\$ 9,899,846	\$ 1,446,125	\$ -	\$ 11,345,971
Total capital assets depreciated, net	\$ 19,312,199	\$ (1,446,125)	\$ -	\$ 17,866,074
Total Capital Assets	\$ 21,782,199	\$ (1,446,125)	\$ -	\$ 20,336,074

D. Project Funding Sources

Cumulative project costs and funding sources as of December 31, 2007, follow:

Start-up costs	\$ 581,075
Capital costs	
Land	\$ 2,470,000
Building construction and design	23,668,626
Exhibit construction and design	4,819,176
Furniture, equipment, and computers	647,253
Total capital costs	\$ 31,605,055
Total Project Costs	\$ 32,186,130



**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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3. Detailed Notes

D. Project Funding Sources (Continued)

Start-up costs are related to making the facility operational up to the date of opening and include certain Center staff costs.

Funding Sources	
State of Minnesota	\$ 16,000,000
DEDA Escrow	2,499,990
DEDA	286,000
City of Duluth G.O. Bonds dated July 15, 1996	2,414,652
City of Duluth G.O. Tax Increment Bonds dated May 1, 1999	4,462,610
City of Duluth G.O. Bonds dated December 1, 1999	2,290,786
Duluth Improvement Trust (donated land fair value)	2,470,000
Lake Superior Center	1,691,680
Miscellaneous	<u>70,412</u>
Total Funding Sources	<u>\$ 32,186,130</u>

The Authority is not obligated to pay any debt. The City of Duluth and the Center are responsible for the debt incurred related to the construction of the facility.

- \$16,000,000 State of Minnesota appropriations. The state appropriated \$2,000,000 in 1992, \$4,000,000 in 1994, and \$10,000,000 in 1996. These appropriations are grants to the Authority and will not be repaid to the state.
- \$2,500,000 DEDA escrow fund. This escrow fund was established with DEDA monies in 1993 as part of the financing for the project. Interest earnings on the escrow fund totaling \$864,107 were made available to the Center for its operational costs. The escrow fund principal balance of \$2,500,000 was used for construction of the facility. The amended and restated operating and revenue participation agreement dated March 15, 2004, eliminated any obligation of repayment by the Center.
- \$2,495,000 City of Duluth G.O. Bonds dated July 15, 1996. The City is obligated to repay these bonds.
- \$4,530,000 City of Duluth G.O. Tax Increment Bonds dated May 1, 1999. The bond payments are being funded with tax increments generated by DEDA Tax Increment Financing District #4. The amended and restated operating and revenue participation agreement dated March 15, 2004, eliminated any obligation of repayment by the Center.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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3. Detailed Notes

D. Project Funding Sources (Continued)

- \$2,475,000 City of Duluth G.O. Bonds dated December 1, 1999. Of the bonds, \$2,075,000 plus interest were to be repaid by the Center. However, the amended and restated operating and revenue participation agreement dated March 15, 2004, changed the Center's responsibility to that of a guarantor. The City is now obligated to repay these bonds.
- \$1,691,680 Lake Superior Center. The Center funded capital expenditures with donations and a line of credit from US Bank.
- \$286,000 DEDA. On December 11, 2001, DEDA authorized the payment of project cost overruns for which it was obligated to finance.

E. Due From Component Unit

The balances reported as due from component unit in the Statement of Net Assets is comprised of the following:

Fund Balance Deficit (see Note 2)	\$ 138,787
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F. Accounts Payable and Other Current Liabilities

Amounts owed by the Authority as of December 31, 2007:

Contract payables	\$ 75,153
Claim settlements	330,000
Professional services	164,453
Total Accounts Payable and Other Current Liabilities	\$ 569,606

4. Related Parties

The Authority entered into a management agreement, dated November 8, 1998, with Lake Superior Center, a private nonprofit organization, to operate and manage the project through December 31, 2023. The Authority has no employees and relies upon the Center to perform its administrative functions. Expenses incurred by the Center in performing the Authority's administrative functions are paid directly by the Center and are considered nonreimbursable expenses.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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4. Related Parties (Continued)

In conjunction with the management agreement, the Authority and Center jointly entered into agreements with others to construct and fund the project. The project is owned by the Authority. Project costs included reimbursements to the Center for construction-related expenses paid by the Center and start-up costs (costs related to making the facility operational up to the date of opening).

5. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and natural disasters. The management agreement with Lake Superior Center requires the Center to assume the entire risk of loss of the project. The Center purchases commercial insurance for all risks. Settlements of insurance claims have not exceeded coverage in any of the last three years.

6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, the Authority's discretely presented component unit has the following significant accounting policies.

Reporting Entity

The Lake Superior Center, d/b/a Great Lakes Aquarium at Lake Superior Center (Center), is a private, nonprofit organization that offers public education programs to increase awareness of Lake Superior, in particular, and other large bodies of fresh water, in general. The Center supported construction of a public education facility, which combines a museum format with environmental education and an aquarium on the downtown Duluth harbor. The Aquarium opened on July 29, 2000.

Contributions

Contributions received and unconditional promises to give are measured at their fair value and are reported as an increase in net assets. The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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6. Component Unit Disclosures

A. Summary of Significant Accounting Policies

Contributions (Continued)

When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Capital Assets

Equipment and building improvements are reported at cost or at estimated fair market value at the date of donation. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis.

<u>Assets</u>	<u>Years</u>
Building improvements	10
Furniture and equipment	5 - 7

Restricted Net Assets

Restricted net assets are contributions that have donor-imposed stipulations that can be fulfilled by certain actions of the Center. These are primarily contributions that are restricted for program expenditures and the freshwater aquarium project.

Membership Revenue

Revenue from memberships is recognized when received.

Advertising Costs

Advertising costs are expensed as incurred.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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6. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Center maintains its cash account in one commercial bank. The amounts on deposit exceeded the insurance limits of the Federal Deposit Insurance Corporation at times during the year. No losses have been experienced in such accounts.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements 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.

B. Detailed Notes

Receivables

Contributions receivable are valued at the present value of estimated future cash flows using a discount rate commensurate with the risks involved. Contributions receivable at December 31, 2007, net of allowances for uncollectible accounts, are as follows:

Amounts due in less than one year	\$ 100,872
Amounts due in subsequent years	20,000
Allowance for uncollectibles	<u>(81,422)</u>
Contributions Receivable - Net	<u>\$ 39,450</u>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

6. Component Unit Disclosures

B. Detailed Notes (Continued)

Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Buildings	\$ 342,373	\$ -	\$ -	\$ 342,373
Furniture and equipment	93,346	19,395	-	112,741
Total capital assets depreciated	\$ 435,719	\$ 19,395	\$ -	\$ 455,114
Less: accumulated depreciation for				
Buildings	\$ 242,758	\$ 28,618	\$ -	\$ 271,376
Furniture and equipment	87,439	2,504	-	89,943
Total accumulated depreciation	\$ 330,197	\$ 31,122	\$ -	\$ 361,319
Total Capital Assets Depreciated, Net	\$ 105,522	\$ (11,727)	\$ -	\$ 93,795

Notes Payable

Notes payable as of December 31, 2007, are as follows:

\$250,000 zero interest note payable, City of Duluth, due October 1, 2008	\$ 250,000
\$150,000 zero interest demand note payable, City of Duluth, collateralized by charitable pledges	150,000
Total Notes Payable	\$ 400,000

During 2007, \$603,864 in notes payable were forgiven by creditors. The loan forgiveness has been reported as part of general revenue gifts and contributions on the Statement of Activities.

**SUPPLEMENTAL INFORMATION**

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**GREAT LAKES AQUARIUM PROJECT CONSTRUCTION SUMMARY  
PROJECT COSTS  
AS OF DECEMBER 31, 2007**

<u>Work Performed</u>	<u>Contractor</u>	<u>Original Contract</u>	<u>Final Contract</u>
<b>Building Construction</b>			
Abatement	MAAc Metro	\$ 10,378	\$ 38,022
Demolition	Letourneau & Sons/Johnson-Wilson	115,000	122,592
Earthwork	Northland Construction	634,000	713,707
Pile foundations	L.H. Bolduc	642,900	733,856
Site utilities	Northland Construction	148,000	177,140
Landscaping	Hammerlund Nursery	289,185	239,889
Concrete	K.G. Marcy Construction	2,595,600	2,552,834
Masonry	Stretar Masonry	223,700	252,489
General and miscellaneous construction	Ray Rihluoma	1,758,888	1,151,037
Metals	Listul Industries/L.I.W.E.	1,484,814	1,501,601
Moisture protection	Waterproofing Experts	38,455	99,947
Roofing and wall panels	Interclad	799,000	835,063
Fireproofing	Swanson & Youngdale	396,800	25,400
Aluminum entrances and windows	ArPro	362,000	345,516
Structural glass wall	Superior Glass	132,785	147,839
Exhibit tank glazing	Reynolds Polymer	457,371	464,876
Gypsum board systems	DeWayne Young	625,000	679,329
Flooring	Abalan's	13,889	25,932
Painting and coatings	Northland Painting	130,000	183,126
Operable partitions	Mahin Walz	21,087	23,276
Sound and A/V systems	Impulse Group	287,784	291,805
Conveying systems	Schindler Elevator	199,200	207,130
Mechanical	Shannon's Plumbing & Heating	2,891,470	3,365,717
Electrical	Belknap Electric	815,471	1,355,455
<b>Project Design and Management</b>			
Construction manager	Adolfson & Peterson/Johnson-Wilson	1,250,880	2,077,733
Project manager	Koosman Project Management	771,210	847,850
Architect	Holt Hinshaw	1,778,701	1,973,301
Architect	Hammel, Green & Abrahamson	2,250,999	2,609,463
Testing	American Engineering	67,800	67,800
Special inspections	Krech and Ojard	32,025	32,025
<b>Exhibit Design and Construction</b>			
Exhibit design - husbandry	Aquatic Concepts	57,500	57,500
Exhibit satellite tanks	Aquatic Equipment	281,238	281,238
Exhibit rockwork	Custom Rock International	666,835	676,690
Exhibit design and construction	Deaton Museum Services	3,589,354	3,688,832
Exhibit wave tank	Gruppo Architectural Metals	150,500	150,500
<b>Furniture and Equipment</b>			
Computers and support	Connecting Point	-	-
Computers and support	CP Internet	-	-
Furniture and fixtures	Northern Business Products	-	-
Telephone system	Jayen of Duluth	-	-
<b>Other</b>			
Reimbursements	Lake Superior Center	-	-
Miscellaneous*	Various*	-	-
<b>Project Totals</b>			

\*Various work performed under contracts less than \$45,000.



Schedule 1

<u>Total Costs</u>	<u>Costs Allocated by Type</u>			
	<u>Building</u>	<u>Exhibits</u>	<u>Furniture and Equipment</u>	<u>Start-Up</u>
\$ 38,022	\$ 38,022	\$ -	\$ -	\$ -
122,592	122,592	-	-	-
713,707	713,707	-	-	-
733,856	733,856	-	-	-
177,140	177,140	-	-	-
240,139	240,139	-	-	-
2,879,138	2,879,138	-	-	-
258,364	258,364	-	-	-
1,151,037	1,151,037	-	-	-
1,556,598	1,556,598	-	-	-
99,947	99,947	-	-	-
835,063	835,063	-	-	-
25,400	25,400	-	-	-
325,090	325,090	-	-	-
147,839	147,839	-	-	-
464,876	464,876	-	-	-
679,329	679,329	-	-	-
25,932	25,932	-	-	-
183,126	183,126	-	-	-
23,276	23,276	-	-	-
291,805	291,805	-	-	-
207,131	207,131	-	-	-
3,365,717	3,365,717	-	-	-
1,359,393	1,359,393	-	-	-
2,057,990	2,057,990	-	-	-
908,834	908,834	-	-	-
1,798,783	1,798,783	-	-	-
2,519,705	2,519,705	-	-	-
80,271	80,271	-	-	-
54,473	54,473	-	-	-
80,496	80,496	-	-	-
281,129	-	281,129	-	-
679,390	-	679,390	-	-
3,671,927	-	3,671,927	-	-
112,875	-	112,875	-	-
62,957	-	-	62,957	-
121,499	-	-	121,499	-
61,212	-	-	61,212	-
55,116	-	-	55,116	-
755,675	49,572	39,290	189,862	476,951
509,281	213,985	34,565	156,607	104,124
<b><u>\$ 29,716,130</u></b>	<b><u>\$ 23,668,626</u></b>	<b><u>\$ 4,819,176</u></b>	<b><u>\$ 647,253</u></b>	<b><u>\$ 581,075</u></b>

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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 2**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**I. FINANCIAL STATEMENTS AUDIT**

**INTERNAL CONTROL**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

06-1 **Financial Statement Preparation**

Management is responsible for establishing and maintaining internal control. This responsibility includes internal control over the fair presentation of the financial statements and related notes.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Authority. This decision was based on the fact that the Authority does not have any staff and the cost benefits of using our expertise.

We recommend that management be mindful of its relationship with the external auditors and continue to review, approve, and take full responsibility for the financial statements, including notes, prepared by the external auditors.

**Client's Response:**

*The Board is aware of its responsibility, and the Audit Committee of the Board does review the statements that are prepared by the external auditors when they become available.*

## II. OTHER FINDINGS AND RECOMMENDATIONS

### A. MINNESOTA LEGAL COMPLIANCE

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 01-8 Collateral Requirements

An escrow account was established in 2001 to secure certain mechanics liens filed on the project. The account balance as of December 31, 2007, was \$129,215. In 2007, the Authority also opened a money market account at a different bank. This account had a balance of \$301,604 as of December 31, 2007. These accounts are in the Authority's name and are reported in the Authority's financial statements. Minn. Stat. ch. 118A, Deposit and Investment of Local Public Funds, requires all Authority deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage be secured by requiring the financial institution to furnish collateral or a corporate surety bond. The FDIC coverage for each account is limited to \$100,000. The Authority has not requested the financial institutions to furnish either collateral or a corporate surety bond for the deposits in excess of \$100,000. Therefore, as of December 31, 2007, \$230,819 is considered unsecured and not in compliance with the law.

We recommend the Authority review the requirements of Minn. Stat. ch. 118A and request the financial institutions to furnish collateral or a corporate surety bond for the deposits in excess of FDIC coverage.

#### Client's Response:

*These accounts have been part of ongoing lawsuits for several years that were resolved in 2008. The balance of the money market account at December 31, 2008, was \$45,507.98, and the escrow account was closed during 2008.*

##### 06-2 Annual Report

The Authority is required, by Minn. Stat. § 85B.06, to submit an annual report by February 1 of each year. This report is to be filed with various senate and house chairs and the governor. Minn. Stat. § 85B.06 requires that the report be made to the legislature as required by Minn. Stat. § 3.195. This includes filing the report with the Legislative Reference Library.

The Authority has not filed its 2006 or 2007 annual reports with the Legislative Reference Library.

We recommend that the Authority file its annual reports within the time frame specified by Minn. Stat. § 85B.06, and file the 2006 and 2007 reports and future annual reports with the Legislative Reference Library.

Client's Response:

*The February 1 timeline is cumbersome as the LSCA has not had year-end financials prepared by that date. It is the intent of the Board to report annually as close to the February 1 deadline as possible and will continue to file reports with the Legislative Reference Library. Significant changes occurred during 2007 that may enable access to year-end financial information in a more timely manner.*

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-4 Construction Manager Contract Payments

The management fee paid to the construction manager was based on construction costs that included costs related to the compensation of the construction manager. The variable portion of the management fee paid to the construction manager was based on construction costs that included costs of \$226,475 for the construction manager's extended services and \$249,480 of the construction manager's personnel costs.

Article 5 of the construction manager contract states, in part, "If any portion of the Construction Manager's compensation is based upon a percentage of Construction Cost, for the purpose of determining such portion, shall not include the compensation of the Construction Manager or Construction Manager's consultants." Including the construction manager's extended services and personnel costs in the construction cost used for fee calculation purposes resulted in an additional \$13,800 paid to the construction manager.

**Schedule 2**  
***(Continued)***

We recommend the Lake Superior Center Authority review the construction manager's contract and recalculate the management fee based on the definition of construction costs detailed in Article 5 of the contract.

**Client's Response:**

*This contract and payment has been resolved.*





REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

Board of Directors  
Lake Superior Center Authority

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, and the major fund of the Lake Superior Center Authority as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Lake Superior Center Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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. This Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance does not include the Lake Superior Center, d/b/a Great Lakes Aquarium at Lake Superior Center, which was audited by other auditors.

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 over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting 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. However, we identified a deficiency described in the accompanying Schedule of Findings and Recommendations as item 06-1 to be a significant deficiency in internal control over financial reporting.

### Minnesota Legal Compliance

We have audited the financial statements of the governmental activities, the discretely presented component unit, and the major fund of the Lake Superior Center Authority as of and for the year ended December 31, 2007, which collectively comprise the Authority's basic financial statements. 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, except for the following categories which do not apply to the Lake Superior Center Authority: contracting and bidding, the investment section of deposits and investments, public indebtedness, and claims and disbursements.

The results of our tests indicate that, for the items tested, the Lake Superior Center Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 01-8 and 06-2.

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

The Lake Superior Center Authority's written responses to the significant deficiency, legal compliance, and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Lake Superior Center Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Lake Superior Center Authority and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

May 26, 2009

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR