

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's 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 Years Ended December 31, 2003 and 2004**



**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, 2004

Directors

Cindy Marshall Hayden  
Robert M. Carlson  
John D. Guenther  
Elaine Hansen  
Betty Ramsland

Office

Chair  
Member  
Member  
Member  
Member

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PATRICIA ANDERSON  
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 years ended December 31, 2003 and 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 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 years ended December 31, 2003 and 2004, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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As discussed in Note 1 to the basic financial statements, the Lake Superior Center Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended, No. 38 *Certain Financial Statement Note Disclosures*, and No. 39 *Determining Whether Certain Organizations Are Component Units* as of and for the years ended December 31, 2003 and 2004. These statements resulted in a change in the format and content of the basic financial statements.

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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: April 13, 2005

## **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, 2003 AND 2004**

	December 31, 2003		December 31, 2004	
	Primary Governmental Activities	Discretely Presented Component Unit	Primary Governmental Activities	Discretely Presented Component Unit
<b>Assets</b>				
<b>Current assets</b>				
Cash	\$ -	\$ 154,841	\$ -	\$ 132,747
Accounts receivable	-	8,229	-	7,085
Contributions receivable, current portion	-	282,972	-	89,399
Inventories	-	93,331	-	45,751
Prepaid expenses	-	48,988	-	13,183
Due from component unit	149,658	-	151,753	-
<b>Noncurrent assets</b>				
Restricted cash	125,340	-	126,184	-
Contributions receivable	-	96,828	-	43,546
<b>Capital assets</b>				
Non-depreciable	2,470,000	-	2,470,000	-
Depreciable, net	23,627,678	200,130	22,114,945	170,111
<b>Total Assets</b>	<b>\$ 26,372,676</b>	<b>\$ 885,319</b>	<b>\$ 24,862,882</b>	<b>\$ 501,822</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	\$ -	\$ 124,703	\$ -	\$ 277,793
Accrued expenses	-	106,693	-	84,035
Contracts payable	186,010	-	186,010	-
Due to primary government	-	72,688	-	151,753
Current maturities of long-term obligations	-	850,062	-	864,001
<b>Noncurrent liabilities</b>				
Accounts payable	88,988	-	91,927	-
<b>Total Liabilities</b>	<b>\$ 88,988</b>	<b>\$ 1,154,146</b>	<b>\$ 277,937</b>	<b>\$ 1,377,582</b>
<b>Net Assets</b>				
Invested in capital assets	\$ 26,097,678	\$ 200,130	\$ 24,584,945	\$ 170,111
Restricted	-	500,925	-	383,913
Unrestricted	-	(969,882)	-	(1,429,784)
<b>Total Net Assets</b>	<b>\$ 26,097,678</b>	<b>\$ (268,827)</b>	<b>\$ 24,584,945</b>	<b>\$ (875,760)</b>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004**

	Year Ended December 31, 2003		Year Ended December 31, 2004	
	Primary Government	Discretely Presented Component Unit	Primary Government	Discretely Presented Component Unit
<b>Governmental Activities</b>				
<b>Great Lakes Aquarium expenses</b>				
Program services	\$ -	\$ 717,878	\$ -	\$ 678,617
General and administrative	-	687,454	-	1,007,705
Fund raising	-	2,713	-	3,030
Depreciation	1,531,953	-	1,512,733	-
Other	6,845	3,986	2,939	79,651
<b>Total expenses</b>	<b>\$ 1,538,798</b>	<b>\$ 1,412,031</b>	<b>\$ 1,515,672</b>	<b>\$ 1,769,003</b>
<b>Program revenues</b>				
Charges for services	-	956,397	-	1,065,301
Operating grants and contributions	(5,174)	-	2,095	-
<b>Net program expenses</b>	<b>\$ (1,543,972)</b>	<b>\$ (455,634)</b>	<b>\$ (1,513,577)</b>	<b>\$ (703,702)</b>
<b>General revenues</b>				
Gifts and contributions	\$ -	\$ 497,440	\$ -	\$ 65,557
Investment income	1,405	240	844	-
Other income	10,614	43,810	-	31,212
<b>Total general revenues</b>	<b>\$ 12,019</b>	<b>\$ 541,490</b>	<b>\$ 844</b>	<b>\$ 96,769</b>
<b>Long-term obligations forgiven</b>	<b>\$ -</b>	<b>\$ 7,703,944</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Net Assets</b>	<b>\$ (1,531,953)</b>	<b>\$ 7,789,800</b>	<b>\$ (1,512,733)</b>	<b>\$ (606,933)</b>
<b>Net Assets - Beginning</b>	<b>27,629,631</b>	<b>(8,058,627)</b>	<b>26,097,678</b>	<b>(268,827)</b>
<b>Net Assets - Ending</b>	<b>\$ 26,097,678</b>	<b>\$ (268,827)</b>	<b>\$ 24,584,945</b>	<b>\$ (875,760)</b>

**FUND FINANCIAL STATEMENTS**

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**GOVERNMENTAL FUNDS**

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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 3**

**BALANCE SHEET  
GENERAL FUND  
DECEMBER 31, 2003 AND 2004**

	2003	2004
<b><u>Assets</u></b>		
Cash	\$ 125,340	\$ 126,184
<b><u>Liabilities and Fund Balance</u></b>		
<b>Liabilities</b>		
Contracts payable	\$ 186,010	\$ 186,010
<b>Fund Balance</b>		
Unreserved		
Undesignated	(60,670)	(59,826)
<b>Total Liabilities and Fund Balance</b>	<b>\$ 125,340</b>	<b>\$ 126,184</b>
Reconciliation to the government-wide statement of net assets - governmental activities		
Fund Balance at December 31	\$ (60,670)	\$ (59,826)
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.	26,097,678	24,584,945
Other assets not available to pay for the current-period expenditures are not reported in the General Fund.		
Due from component unit	149,658	151,753
Liabilities not expected to be paid in the current period are not reported in the General Fund.		
Accounts payable	(88,988)	(91,927)
<b>Net Assets at December 31 - Governmental Activities</b>	<b>\$ 26,097,678</b>	<b>\$ 24,584,945</b>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**EXHIBIT 4**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004**

	2003	2004
<b>Revenues</b>		
Other	\$ 10,614	\$ -
Investment income	1,405	844
<b>Total Revenues</b>	<b>\$ 12,019</b>	<b>\$ 844</b>
<b>Expenditures</b>	-	-
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 12,019</b>	<b>\$ 844</b>
<b>Fund Balance - January 1</b>	<b>(72,689)</b>	<b>(60,670)</b>
<b>Fund Balance - December 31</b>	<b>\$ (60,670)</b>	<b>\$ (59,826)</b>
Reconciliation to the government-wide statement of activities - governmental activities		
Net change in fund balance for the year ended December 31	\$ 12,019	\$ 844
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.	(1,531,953)	(1,512,733)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the General Fund.	(5,174)	2,095
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.	(6,845)	(2,939)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (1,531,953)</b>	<b>\$ (1,512,733)</b>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

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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) for the years ended December 31, 2003 and December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations).

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. Statement 34 resulted in changes in the financial statements of the Authority to include government-wide financial statements prepared using full accrual accounting for all of the Authority's activities.

That and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has elected to implement all provisions of the statement in the current year.

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 non-governmental 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 non-state 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.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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, 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 generally accepted accounting principles. 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.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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

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 that are 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

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Revenues that are 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. In prior years, Authority activities were accounted for in a capital projects fund and consisted of the construction and equipping of the Great Lakes Aquarium. Construction activities are now complete.

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 to be *available* if they are collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets

1. Restricted Cash

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 is 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

3. Contracts Payable

Contracts payable includes retainage held on contracts and unpaid invoices.

4. 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

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets

4. Use of Estimates (Continued)

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.

The negative 2003 grant revenue of \$5,174 from Lake Superior Center is an adjustment to the previous year's grant revenue estimate. The previous year's grant revenue was based upon the Center paying construction costs not funded by other grant sources.

E. Calculation of Beginning Net Assets

In 2003, the Authority implemented the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The beginning net assets for the governmental funds were calculated as follows:

Beginning Fund Balance - January 1, 2003	\$ (72,689)
Add	
Capital assets, net	27,629,631
Due from component unit	154,832
Deduct	
Accounts payable	<u>(82,143)</u>
Beginning Net Assets - January 1, 2003	<u>\$ 27,629,631</u>



**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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2. Stewardship, Compliance, and Accountability

Fund Balance Deficit

At December 31, 2003 and 2004, the Authority had a deficit unreserved, undesignated fund balance of \$60,670 and \$59,826, respectively. The Authority has filed claims against contractor bonds that are expected to provide funds to eliminate the deficit. In addition, the Authority has commenced litigation that may provide a source of funds. Ultimately, any remaining deficit related to construction of the project is the responsibility of Lake Superior Center.

3. Detailed Notes

A. Deposits

At December 31, 2003 and 2004, the Authority's deposits had a carrying value of \$125,440 and \$126,184, respectively. Minnesota statutes require that all deposits be covered by insurance, surety bond, or collateral. The bank balances were as follows:

	December 31, 2003	December 31, 2004
Amount insured by the FDIC	\$ 100,000	\$ 100,000
Uncollateralized	25,340	26,184
Total Bank Balance	\$ 125,340	\$ 126,184

B. Receivables

Receivables as of December 31, 2003 and 2004, including the applicable allowances for uncollectible accounts, are as follows:

	December 31, 2003	December 31, 2004
Due from component unit	\$ 149,658	\$ 151,753
Amounts not scheduled for collection during subsequent year	\$ 149,658	\$ 151,753

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

3. Detailed Notes (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not depreciated				
Land	\$ 2,470,000	\$ -	\$ -	\$ 2,470,000
Capital assets, depreciated				
Buildings	\$ 28,310,012	\$ -	\$ -	\$ 28,310,012
Furniture and equipment	784,033	-	-	784,033
Total capital assets, depreciated	\$ 29,094,045	\$ -	\$ -	\$ 29,094,045
Less: accumulated depreciation for				
Buildings	\$ 3,549,374	\$ 1,419,750	\$ -	\$ 4,969,124
Furniture and equipment	385,040	112,203	-	497,243
Total accumulated depreciation	\$ 3,934,414	\$ 1,531,953	\$ -	\$ 5,466,367
Total capital assets, depreciated, net	\$ 25,159,631	\$ (1,531,953)	\$ -	\$ 23,627,678
Total Capital Assets	<u>\$ 27,629,631</u>	<u>\$ (1,531,953)</u>	<u>\$ -</u>	<u>\$ 26,097,678</u>

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not depreciated				
Land	\$ 2,470,000	\$ -	\$ -	\$ 2,470,000
Capital assets, depreciated				
Buildings	\$ 28,310,012	\$ -	\$ -	\$ 28,310,012
Furniture and equipment	784,033	-	-	784,033
Total capital assets, depreciated	\$ 29,094,045	\$ -	\$ -	\$ 29,094,045
Less: accumulated depreciation for				
Buildings	\$ 4,969,124	\$ 1,419,750	\$ -	\$ 6,388,874
Furniture and equipment	497,243	92,983	-	590,226
Total accumulated depreciation	\$ 5,446,367	\$ 1,512,733	\$ -	\$ 6,979,100
Total capital assets, depreciated, net	\$ 23,627,678	\$ (1,512,733)	\$ -	\$ 22,114,945
Total Capital Assets	<u>\$ 26,097,678</u>	<u>\$ (1,512,733)</u>	<u>\$ -</u>	<u>\$ 24,584,945</u>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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3. Detailed Notes (Continued)

D. Project Funding Sources

Cumulative project costs and funding sources as of December 31, 2004, 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

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
Duluth Economic Development Authority Escrow	2,499,990
Duluth Economic Development Authority	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	10,586
Fund balance deficit (unfunded)	59,826
Total Funding Sources	\$ 32,186,130

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.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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3. Detailed Notes

D. Project Funding Sources (Continued)

- \$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.
- \$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:

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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3. Detailed Notes

E. Due From Component Unit (Continued)

	<u>2003</u>	<u>2004</u>
Fund balance deficit (see Note 2)	\$ 60,670	\$ 59,826
Non-reimbursable expenses (see Note 5)	<u>88,988</u>	<u>91,927</u>
Total	<u>\$ 149,658</u>	<u>\$ 151,753</u>

The balance reported as due to primary government in the Statement of Net Assets at December 31, 2003, \$72,688, does not agree with balance reported as due from component unit due to timing differences.

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 non-reimbursable expenses.

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). As of December 31, 2004, cumulative reimbursements made to the Center were \$755,675.

5. Contingencies

Mechanics liens have been filed on the project. An escrow account was established in response to the liens and is reported as an asset in the financial statements. The escrow account balance at December 31, 2004, was \$126,184. Retainage of \$74,697 has been withheld on contracts associated with the liens. Contractors are owed \$111,313 for work performed. These amounts are reported in the financial statements as the \$186,010 contracts payable as of December 31, 2004.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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5. Contingencies (Continued)

Legal counsel services owed at December 31, 2004, are \$91,927. These services are considered a non-reimbursable expense that will be paid by Lake Superior Center on behalf of the Authority (see Note 4 above). This amount is reported as a liability on the Statement of Net Assets.

A judgment was filed on February 22, 2005, making the Authority liable for certain court costs relating to a legal action concerning the design of Great Lakes Aquarium. Costs totaling \$499,557 have been submitted to the courts for approval. The courts will ultimately decide the amount of costs that are reasonable and that will be assessed against the Authority. A hearing to determine the court costs is scheduled for May 3, 2005.

6. 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.

7. 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.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

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. 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 in the statement of activity 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 of 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.

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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7. Component Unit Disclosures

A. Summary of Significant Accounting Policies (Continued)

Membership Revenue

Revenue from memberships is recognized when received.

Advertising Costs

Advertising costs are expensed as incurred.

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, net of allowances for uncollectible accounts, are as follows:

	<u>2003</u>	<u>2004</u>
Amounts due in less than one year	\$ 282,972	\$ 210,572
Amounts due in subsequent years	171,828	122,373
Allowance for uncollectibles	<u>(75,000)</u>	<u>(200,000)</u>
Contributions receivable - net	<u>\$ 379,800</u>	<u>\$ 132,945</u>

Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:



**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

7. Component Unit Disclosures

B. Detailed Notes

Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, depreciated				
Buildings	\$ 342,373	\$ -	\$ -	\$ 342,373
Furniture and equipment	89,246	-	-	89,246
<b>Total capital assets, depreciated</b>	<b>\$ 431,619</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 431,619</b>
Less: accumulated depreciation for				
Buildings	\$ 128,285	\$ 28,619	\$ -	\$ 156,904
Furniture and equipment	69,834	4,751	-	74,585
<b>Total accumulated depreciation</b>	<b>\$ 198,119</b>	<b>\$ 33,370</b>	<b>\$ -</b>	<b>\$ 231,489</b>
<b>Total Capital Assets, Depreciated, Net</b>	<b>\$ 233,500</b>	<b>\$ (33,370)</b>	<b>\$ -</b>	<b>\$ 200,130</b>

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, depreciated				
Buildings	\$ 342,373	\$ -	\$ -	\$ 342,373
Furniture and equipment	89,246	4,100	-	93,346
<b>Total capital assets, depreciated</b>	<b>\$ 431,619</b>	<b>\$ 4,100</b>	<b>\$ -</b>	<b>\$ 435,719</b>
Less: accumulated depreciation for				
Buildings	\$ 156,904	\$ 28,618	\$ -	\$ 185,522
Furniture and equipment	74,585	5,501	-	80,086
<b>Total accumulated depreciation</b>	<b>\$ 231,489</b>	<b>\$ 34,119</b>	<b>\$ -</b>	<b>\$ 265,608</b>
<b>Total Capital Assets, Depreciated, Net</b>	<b>\$ 200,130</b>	<b>\$ (30,019)</b>	<b>\$ -</b>	<b>\$ 170,111</b>

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

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7. Component Unit Disclosures

B. Detailed Notes (Continued)

Long-Term Obligations

The Center has been unable to generate adequate operating revenue to fund its long-term obligations. The Center, the City of Duluth, and DEDA have entered into an Amended and Restated Operating & Revenue Participation Agreement, dated March 15, 2004. Under the terms of the agreement, DEDA has agreed that it no longer has any interest in the facility through the certificates and/or participations. The \$4,816,000 Bond Share certificates and related accrued administration fee of \$681,929 were removed from the Center's liabilities. In addition, the City of Duluth has identified a primary source for its bonds and through the Amended and Restated Operating & Revenue Participation Agreement has changed the Center's responsibility to that of a guarantor. If the funding source does not continue to provide adequate amounts to service the debt, the Center will be required to provide the funding necessary. The liabilities removed from the Center's balance sheet in 2003 included the \$2,075,000 note balance and accrued interest of \$131,015.

Long-term obligations forgiven	
Bond share certificates	\$ 4,816,000
Accrued administration fee	681,929
Note balance	2,075,000
Accrued note interest	131,015
	<hr/>
Total	\$ 7,703,944
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**SUPPLEMENTAL INFORMATION**

**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**GREAT LAKES AQUARIUM PROJECT CONSTRUCTION SUMMARY  
PROJECT COSTS  
AS OF DECEMBER 31, 2004**

Work Performed	Contractor	Original Contract
<b>Building Construction</b>		
Abatement	MAAc Metro	\$ 10,378
Demolition	Letourneau & Sons/Johnson-Wilson	115,000
Earthwork	Northland Construction	634,000
Pile foundations	L.H. Bolduc	642,900
Site utilities	Northland Construction	148,000
Landscaping	Hammerlund Nursery	289,185
Concrete	K.G. Marcy Construction	2,595,600
Masonry	Stretar Masonry	223,700
General and miscellaneous construction	Ray Rihluoma	1,758,888
Metals	Listul Industries/L.I.W.E.	1,484,814
Moisture protection	Waterproofing Experts	38,455
Roofing and wall panels	Interclad	799,000
Fireproofing	Swanson & Youngdale	396,800
Aluminum entrances and windows	ArPro	362,000
Structural glass wall	Superior Glass	132,785
Exhibit tank glazing	Reynolds Polymer	457,371
Gypsum board systems	DeWayne Young	625,000
Flooring	Abalan's	13,889
Painting and coatings	Northland Painting	130,000
Operable partitions	Mahin Walz	21,087
Sound and A/V systems	Impulse Group	287,784
Conveying systems	Schindler Elevator	199,200
Mechanical	Shannon's Plumbing & Heating	2,891,470
Electrical	Belknap Electric	815,471
<b>Project Design and Management</b>		
Construction manager	Adolfson & Peterson/Johnson-Wilson	1,250,880
Project manager	Koosman Project Management	771,210
Architect	Holt Hinshaw	1,778,701
Architect	Hammel, Green & Abrahamson	2,250,999
Testing	American Engineering	67,800
Special inspections	Krech and Ojard	32,025
<b>Exhibit Design and Construction</b>		
Exhibit design - husbandry	Aquatic Concepts	57,500
Exhibit satellite tanks	Aquatic Equipment	281,238
Exhibit rockwork	Custom Rock International	666,835
Exhibit design and construction	Deaton Museum Services	3,589,354
Exhibit wave tank	Gruppo Architectural Metals	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**

Final Contract	Total Costs	Costs Allocated by Type			
		Building	Exhibits	Furniture and Equipment	Start-Up
\$ 38,022	\$ 38,022	\$ 38,022	\$ -	\$ -	\$ -
122,592	122,592	122,592	-	-	-
713,707	713,707	713,707	-	-	-
733,856	733,856	733,856	-	-	-
177,140	177,140	177,140	-	-	-
239,889	240,139	240,139	-	-	-
2,552,834	2,879,138	2,879,138	-	-	-
252,489	258,364	258,364	-	-	-
1,151,037	1,151,037	1,151,037	-	-	-
1,501,601	1,556,598	1,556,598	-	-	-
99,947	99,947	99,947	-	-	-
835,063	835,063	835,063	-	-	-
25,400	25,400	25,400	-	-	-
345,516	325,090	325,090	-	-	-
147,839	147,839	147,839	-	-	-
464,876	464,876	464,876	-	-	-
679,329	679,329	679,329	-	-	-
25,932	25,932	25,932	-	-	-
183,126	183,126	183,126	-	-	-
23,276	23,276	23,276	-	-	-
291,805	291,805	291,805	-	-	-
207,130	207,131	207,131	-	-	-
3,365,717	3,365,717	3,365,717	-	-	-
1,355,455	1,359,393	1,359,393	-	-	-
2,077,733	2,057,990	2,057,990	-	-	-
847,850	908,834	908,834	-	-	-
1,973,301	1,798,783	1,798,783	-	-	-
2,609,463	2,519,705	2,519,705	-	-	-
67,800	80,271	80,271	-	-	-
32,025	54,473	54,473	-	-	-
57,500	80,496	80,496	-	-	-
281,238	281,129	-	281,129	-	-
676,690	679,390	-	679,390	-	-
3,688,832	3,671,927	-	3,671,927	-	-
150,500	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>\$ 29,716,130</b>	<b>\$ 23,668,626</b>	<b>\$ 4,819,176</b>	<b>\$ 647,253</b>	<b>\$ 581,075</b>

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**LAKE SUPERIOR CENTER AUTHORITY  
DULUTH, MINNESOTA**

**Schedule 2**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

**I. FINANCIAL STATEMENTS AUDIT--INTERNAL CONTROL**

INTERNAL CONTROL

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.

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

Client's Response:

*The Authority agrees with this recommendation and has brought this issue to the attention of the Construction Manager and plans to recalculate the fees as recommended, however, all action continues to be delayed pending resolution of all construction litigation.*

**PREVIOUSLY REPORTED ITEMS RESOLVED**

**Authority Records (01-1)**

Original source documents and other records related to the construction of the project were not retained as part of the Authority's official records at the Authority's office.

**Resolution**

Construction activities have been completed. Certain construction records are in the possession of the project manager and will not be returned until construction-related litigation is complete.

**Fixed Asset Records (01-2)**

The Authority did not have a record-keeping system for its capital assets.

**Resolution**

A capital asset inventory has been completed, including the calculation of depreciation estimates to comply with GASB Statement 34 requirements.

**Authority Administrative Costs**

Certain administrative costs of the Authority were not being reported in its financial statements because the Authority has no funding and its expenses were being paid directly by the Lake Superior Center, resulting in an incomplete presentation.

**Resolution**

All expenses of the Authority are reported in its financial statements, either as Authority expenses or expenses of its discretely presented component unit, the Lake Superior Center.

**II. OTHER FINDINGS AND RECOMMENDATIONS**

**MINNESOTA LEGAL COMPLIANCE**

**PREVIOUSLY REPORTED ITEM 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, 2004, was \$126,184. The account is in the Authority's name and is reported, together with accrued interest, in the Authority's financial statements. Minn. Stat. ch. 118A, Deposit and Investment of Local Public

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

Funds, requires all Authority deposits in excess of FDIC coverage be secured by requiring the financial institution to furnish collateral or a corporate surety bond. The FDIC coverage for the escrow account is limited to \$100,000. The Authority has not requested the financial institution to furnish either collateral or a corporate surety bond for the deposit in excess of \$100,000. Therefore, \$26,184 plus accrued interest, 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 institution to furnish collateral or a corporate surety bond for the deposits in excess of FDIC coverage.

**Client's Response:**

*The Authority agrees with the recommendation on deposit amounts and will take steps at the next Annual Meeting to ensure that this account is split between two different banks so it does not exceed FDIC insurance limits.*

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PATRICIA ANDERSON  
STATE AUDITOR

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

Board of Directors  
Lake Superior Center Authority

We have audited the financial statements of the Lake Superior Center Authority as of and for the years ended December 31, 2003 and 2004, and have issued our report thereon dated April 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Internal Control Over Financial Reporting

The management of the Lake Superior Center Authority is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Lake Superior Center Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant

deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Recommendations as item 01-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

### Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories 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 item 01-8.

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

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: April 13, 2005