

**LAKE SUPERIOR CENTER
D/B/A GREAT LAKES AQUARIUM AT
LAKE SUPERIOR CENTER
DULUTH, MINNESOTA**

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

LAKE SUPERIOR CENTER
D/B/A GREAT LAKES AQUARIUM AT LAKE SUPERIOR CENTER
DULUTH, MINNESOTA

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DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

To The Board of Directors
Lake Superior Center
d/b/a Great Lakes Aquarium at Lake Superior Center
Duluth, Minnesota

We have audited the accompanying financial statements of Lake Superior Center, d/b/a Great Lakes Aquarium at Lake Superior Center, a nonprofit organization, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Superior Center, d/b/a Great Lakes Aquarium at Lake Superior Center as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

Duluth, Minnesota
May 24, 2016

LAKE SUPERIOR CENTER
D/B/A GREAT LAKES AQUARIUM AT LAKE SUPERIOR CENTER
DULUTH, MINNESOTA

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

<u>ASSETS</u>	<u>Unrestricted</u>
Current assets	
Cash	\$ 58,496
Accounts receivable	17,610
Pledges receivable	6,250
Inventory	13,425
Prepaid expenses	18,919
Total current assets	<u>114,700</u>
Property and equipment	
Construction in progress	93,974
Furniture and equipment	221,475
Building improvements	1,305,820
Less accumulated depreciation	(654,773)
Net property and equipment	<u>966,496</u>
Noncurrent assets	
Pledges receivable	<u>5,585</u>
Total assets	<u>\$ 1,086,781</u>
<u>LIABILITIES AND NET ASSETS</u>	
Current liabilities	
Accounts payable	\$ 111,726
Accrued expenses	149,873
Revolving loan	250,000
Note payable	150,000
Deferred revenue	75,339
Capital lease payable	4,206
Total current liabilities	<u>741,144</u>
Net assets	<u>345,637</u>
Total liabilities and net assets	<u>\$ 1,086,781</u>

See accompanying notes to financial statements.

LAKE SUPERIOR CENTER
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DULUTH, MINNESOTA

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

<u>ASSETS</u>	Unrestricted	Temporarily Restricted	Total
Current assets			
Cash	\$ 37,811	\$ 170,000	\$ 207,811
Accounts receivable	2,741		2,741
Pledges receivable	12,000		12,000
Inventory	12,862		12,862
Prepaid expenses	12,663		12,663
Total current assets	<u>78,077</u>	<u>170,000</u>	<u>248,077</u>
Property and equipment			
Construction in progress	52,699		52,699
Furniture and equipment	214,423		214,423
Building improvements	980,753		980,753
Less accumulated depreciation	(659,991)		(659,991)
Net property and equipment	<u>587,884</u>		<u>587,884</u>
Noncurrent assets			
Pledges receivable	5,470		5,470
Total assets	<u>\$ 671,431</u>	<u>\$ 170,000</u>	<u>\$ 841,431</u>
 <u>LIABILITIES AND NET ASSETS (DEFICIT)</u>			
Current liabilities			
Accounts payable	\$ 112,992	\$	\$ 112,992
Accrued expenses	106,049		106,049
Revolving loan	250,000		250,000
Note payable	150,000		150,000
Deferred revenue	72,579		72,579
Current portion capital lease payable	5,360		5,360
Total current liabilities	<u>696,980</u>		<u>696,980</u>
Long-term liabilities			
Capital lease payable	4,206		4,206
Total liabilities	<u>701,186</u>		<u>701,186</u>
Net assets (deficit)	<u>(29,755)</u>	<u>170,000</u>	<u>140,245</u>
Total liabilities and net assets (deficit)	<u>\$ 671,431</u>	<u>\$ 170,000</u>	<u>\$ 841,431</u>

See accompanying notes to financial statements.

LAKE SUPERIOR CENTER
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DULUTH, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions and memberships	\$ 189,538	\$	\$ 189,538
Tourism tax operation support	452,004		452,004
Admissions revenue	1,302,211		1,302,211
Grants	14,600		14,600
Parking income	146,045		146,045
Gift shop and concessions, net of direct costs of \$114,185	111,036		111,036
Other income	51,903		51,903
Total support and revenue	<u>2,267,337</u>		<u>2,267,337</u>
Net assets released from restriction	<u>170,000</u>	<u>(170,000)</u>	
Expenses			
Programs			
Education	277,833		277,833
Curatorial	499,876		499,876
Operations	937,976		937,976
Supporting services			
General and administrative	324,127		324,127
Fundraising	22,133		22,133
Total expenses	<u>2,061,945</u>		<u>2,061,945</u>
Change in net assets	375,392	(170,000)	205,392
Net assets (deficit), beginning of year	<u>(29,755)</u>	<u>170,000</u>	<u>140,245</u>
Net assets, end of year	<u>\$ 345,637</u>	<u>\$</u>	<u>\$ 345,637</u>

See accompanying notes to financial statements.

LAKE SUPERIOR CENTER
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DULUTH, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Contributions and memberships	\$ 222,847	\$ 95,000	\$ 317,847
Tourism tax operation support	350,000		350,000
Admissions revenue	1,121,279		1,121,279
Grants	92,544		92,544
Parking income	133,266		133,266
Gift shop and concessions, net of direct costs of \$105,592	102,876		102,876
Other income	30,045		30,045
Total support and revenue	<u>2,052,857</u>	<u>95,000</u>	<u>2,147,857</u>
Net assets released from restriction			
Expenses			
Program			
Education	234,512		234,512
Curatorial	459,962		459,962
Operations	894,592		894,592
Supporting services			
General and administrative	240,475		240,475
Fundraising	17,180		17,180
Total expenses	<u>1,846,721</u>		<u>1,846,721</u>
Change in net assets	206,136	95,000	301,136
Net assets (deficit), beginning of year	<u>(235,891)</u>	<u>75,000</u>	<u>(160,891)</u>
Net assets (deficit), end of year	<u>\$ (29,755)</u>	<u>\$ 170,000</u>	<u>\$ 140,245</u>

See accompanying notes to financial statements.

LAKE SUPERIOR CENTER
D/B/A GREAT LAKES AQUARIUM AT LAKE SUPERIOR CENTER
DULUTH, MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Program Services			Total Program Services	Supporting Services		Total
	Education	Curatorial	Operations		General and Administrative	Fundraising	
Salaries	\$ 209,826	\$ 267,408	\$ 343,499	\$ 820,733	\$ 86,439	\$ 9,798	\$ 916,970
Employee benefits	34,001	66,477	61,102	161,580	16,194		177,774
Payroll taxes	15,845	18,657	24,401	58,903	7,217	720	66,840
Total salaries and related costs	259,672	352,542	429,002	1,041,216	109,850	10,518	1,161,584
Professional fees			2,590	2,590	13,474		16,064
Insurance		21,833	21,832	43,665	10,916		54,581
Marketing	12,103		16,136	28,239	12,102	11,615	51,956
Office expense		8,323	8,323	16,646	4,162		20,808
Bank and credit cards fees		15,057	15,057	30,114	3,345		33,459
Contracted services					17,471		17,471
Dues and subscriptions					3,451		3,451
Travel and lodging	795	423	35	1,253	702		1,955
Program expense	5,263	26,314	21,052	52,629			52,629
Curatorial supplies		75,384		75,384			75,384
Utilities			296,062	296,062			296,062
Repairs and maintenance			101,462	101,462			101,462
Operational supplies			19,622	19,622			19,622
Licenses and permits			6,803	6,803			6,803
Total expenses before depreciation	277,833	499,876	937,976	1,715,685	175,473	22,133	1,913,291
Depreciation expense					148,654		148,654
Total functional expenses	\$ 277,833	\$ 499,876	\$ 937,976	\$ 1,715,685	\$ 324,127	\$ 22,133	\$ 2,061,945

See accompanying notes to financial statements.

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DULUTH, MINNESOTA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Program Services			Total Program Services	Supporting Services		Total
	Education	Curatorial	Operations		General and Administrative	Fundraising	
Salaries	\$ 184,554	\$ 248,554	\$ 329,220	\$ 762,328	\$ 71,078	\$ 9,495	\$ 842,901
Employee benefits	18,686	43,569	58,110	120,365	9,704		130,069
Payroll taxes	14,546	19,084	24,405	58,035	6,346	705	65,086
Total salaries and related costs	217,786	311,207	411,735	940,728	87,128	10,200	1,038,056
Professional fees			1,140	1,140	12,209		13,349
Insurance		22,936	22,936	45,872	11,468		57,340
Marketing	11,281		15,041	26,322	11,281	6,980	44,583
Office expense		8,392	8,392	16,784	4,196		20,980
Bank and credit cards fees		12,590	12,590	25,180	2,798		27,978
Bad debt			147	147			147
Contracted services					13,224		13,224
Dues and subscriptions					3,621		3,621
Travel and lodging		583		583	275		858
Program expense	4,972	24,861	19,888	49,721			49,721
Curatorial supplies	473	79,393		79,866			79,866
Utilities			284,511	284,511			284,511
Repairs and maintenance			97,622	97,622			97,622
Operational supplies			14,361	14,361			14,361
Licenses and permits			6,229	6,229			6,229
Total expenses before depreciation	234,512	459,962	894,592	1,589,066	146,200	17,180	1,752,446
Depreciation expense					94,275		94,275
Total functional expenses	\$ 234,512	\$ 459,962	\$ 894,592	\$ 1,589,066	\$ 240,475	\$ 17,180	\$ 1,846,721

See accompanying notes to financial statements.

LAKE SUPERIOR CENTER
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DULUTH, MINNESOTA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Changes in net assets	\$ 205,392	\$ 301,136
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	148,654	94,275
Loss on disposal of building, furniture and equipment	360	
Change in net present value of pledges receivable	(115)	(1,293)
Changes in assets and liabilities		
(Increase) decrease in		
Accounts receivable	(14,869)	775
Pledges receivable	5,750	25,650
Inventory	(563)	(3,160)
Prepaid expenses	(6,256)	5,249
Increase in		
Accounts payable	(1,266)	(8,855)
Accrued expenses	43,824	(362)
Deferred revenue	2,760	15,295
Net cash provided by operating activities	<u>383,671</u>	<u>428,710</u>
Cash flows from capital and related financing activities		
Purchase of building, furniture and equipment	(433,652)	(317,842)
Construction in progress	(93,974)	(52,699)
Capital lease payments	(5,360)	(5,088)
Net cash used in capital and related financing activities	<u>(532,986)</u>	<u>(375,629)</u>
Net increase (decrease) in cash	(149,315)	53,081
Cash, beginning of year	<u>207,811</u>	<u>154,730</u>
Cash, end of year	<u>\$ 58,496</u>	<u>\$ 207,811</u>
Supplementary disclosures		
Interest paid	\$ 370	\$ 495

See accompanying notes to financial statements.

LAKE SUPERIOR CENTER
D/B/A GREAT LAKES AQUARIUM AT LAKE SUPERIOR CENTER
DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Lake Superior Center d/b/a Great Lakes Aquarium at Lake Superior Center (the "Center") is a 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 combines a museum format with environmental education in an aquarium on the Duluth harbor.

The Lake Superior Center Authority (Authority) was created by the State of Minnesota as a public corporation to accept and use gifts and grants from governmental and nongovernmental entities to build a facility to house a freshwater aquarium. The Aquarium opened on July 29, 2000. The Authority entered into an agreement with the Lake Superior Center to manage and operate the facility. The land and building is owned by the Authority. No amounts have been recorded in these financial statements for the use of the land and building by the Center.

A summary of the Center's significant accounting policies follows:

Basis of Presentation - Under accounting standards, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those funds presently available for use by or on behalf of the Center including amounts available for general and administrative expenses. Temporarily restricted net assets are contributions that have donor imposed stipulations that can be fulfilled by certain actions of the Center. Permanently restricted net assets are used to account for resources required by the donor to be maintained in perpetuity by the Center. The Center had no permanently restricted net assets at December 31, 2015 or 2014.

Financial Reporting - The financial statements of Center have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States and, accordingly, reflect all significant receivables, payables, and other liabilities.

Cash - Cash consists of checking and savings accounts.

Inventory - The Center's gift shop has inventories that consist of clothing, children's toys, and books. Inventory is stated at the lower of cost or market determined by the first-in, first-out method.

Accounts Receivable - Accounts receivable consists of facility rental fees and is reported at the amount management expects to collect on balances outstanding at year-end. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the accounts receivable. Management considered the accounts receivable at December 31, 2015 and 2014 to be collectible and considered an amount in the allowance account to be immaterial.

LAKE SUPERIOR CENTER
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DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges receivable - Contributions and grants are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. At December 31, 2015 and 2014, long-term promises to give are recorded at their net present value, using a discount rate of 2.0 percent each year. At December 31, 2015 and 2014, promises to give are shown net of the discount of \$415 and \$530, respectively.

Promises to give are unconditional and are due at December 31 as follows:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 6,250	\$ 12,000
Receivable in one to five years	<u>5,585</u>	<u>5,470</u>
Total	<u>\$ 11,835</u>	<u>\$ 17,470</u>

Property and Equipment - 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. Construction in progress represents costs incurred to date for the Unsalted Seas Exhibit.

	<u>Useful Lives</u>
Furniture and equipment	3 - 10 yrs.
Building improvements	3 - 10 yrs.

Total depreciation expense for the years ended December 31, 2015 and 2014 was \$148,654 and \$94,275, respectively.

Deferred revenue - Income from revenue not yet earned is deferred and recognized over the period to which the revenue and other support relate.

Collection of Sales Taxes - Taxes collected from customers is remitted to governmental authorities on a net basis, sales taxes are excluded from both net sales and cost of sales.

Donated services and materials - Donated services and materials are reflected in the Statement of Activities at their estimated fair value. At December 31, 2015 and 2014, the Center received \$1,200 and \$0, respectively, of donated services and materials.

Functional Expenses - Expenses incurred for a specific function are assigned directly to that function by management. Expenses, which affect more than one specific function, are allocated among the functions in a manner to reflect a fair breakdown of expense by function.

Advertising costs - Advertising costs are expensed as incurred.

LAKE SUPERIOR CENTER
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DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

Subsequent Events - In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through May 24, 2016, the date the financial statements were available to be issued.

NOTE 2 REVOLVING LOAN PAYABLE

	<u>2015</u>	<u>2014</u>
\$250,000 zero interest revolving loan payable, unsecured, City of Duluth, due October 1 of each year, renewed annually.	<u>\$ 250,000</u>	<u>\$ 250,000</u>

NOTE 3 NOTE PAYABLE

	<u>2015</u>	<u>2014</u>
\$150,000 zero interest demand note payable, unsecured, City of Duluth.	<u>\$ 150,000</u>	<u>\$ 150,000</u>

NOTE 4 CAPITAL LEASE

The Center financed equipment by the means of a capital lease. The equipment has been recorded at a cost of \$25,186 and was fully amortized at December 31, 2015. Amortization expense is included in depreciation expense.

Future minimum lease payments are scheduled as follows:

<u>Year Ending December 31,</u>	<u>Capital Lease</u>
2016	\$ 4,297
Less amount representing interest	<u>(91)</u>
Present value of minimum lease payments	<u>\$ 4,206</u>

LAKE SUPERIOR CENTER
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DULUTH, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(Continued)

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

<u>Contributor</u>	<u>Restricted for</u>	<u>2015</u>	<u>2014</u>
Minnesota Power	Education classrooms	\$	\$ 125,000
Maurices	Education classrooms		5,000
Overman Trust	Education classrooms		5,000
Weesner Foundation	Education classrooms		25,000
Pachel Foundation	Education classrooms		5,000
Holiday Stores	Education classrooms		5,000
	Total	<u>\$</u>	<u>\$ 170,000</u>

NOTE 6 RETIREMENT PLAN

The Center has a 401(k) retirement savings plan available to employees who are over the age of 21, have been employed by the center for a minimum of 6 months, and have worked at least 1,000 hours per year on an annualized basis. The plan allows employees to designate a portion of their salaries as contributions to the plan with an employer match of up to 3 percent of an employee's eligible pay. The Center's contributions to the plan totaled \$17,663 and \$12,239 in 2015 and 2014, respectively.

NOTE 7 INCOME TAXES

The Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar laws of the State of Minnesota. The Center's tax years prior to 2012 are no longer open for examination by the IRS.

NOTE 8 TOURISM TAX

Annually the City of Duluth budgets amounts to be contributed to the Center for operating support from tourism tax funds. The Center received tourism tax revenue in the amount of \$452,004 and \$350,000, for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 CONTINGENCY

If the Center is unsuccessful in its management and operation of the facility as defined in its agreement with the City of Duluth, then the City is required to take over possession, control, management, and operation of the facility.