Duluth Seaway Port Authority Duluth, Minnesota

Financial and Compliance Report
March 31, 2020

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Contents

RSM US LLP

Independent Auditor's Report

Board of Commissioners
Duluth Seaway Port Authority

Report on the Financial Statements
We have audited the accompanying financial statements of Duluth Seaway Port Authority, as of and for the years ended March 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Duluth Seaway Port Authority's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Duluth Seaway Port Authority as of March 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Duluth Seaway Port Authority's basic financial statements. The supplementary information, as listed in the table of contents, including the combining statement of revenues and expenses and schedules of departmental revenues and expenses, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

RSM US LLP

Duluth, Minnesota
June 19, 2020

Required Supplementary Information

Management's Discussion and Analysis (MD&A)

This section of Duluth Seaway Port Authority's (the Authority) annual financial report presents a discussion and analysis of the Authority's financial performance during the years ended March 31, 2020 and 2019. Please read this discussion and analysis in conjunction with the Authority's financial statements.

Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information mandated by generally accepted accounting principles. Certain comparative information between the current year and prior year is required to be presented in the MD&A.

Financial Highlights

2020

The Authority's net position increased $2,645,445 (5%), from $56,318,311 in 2019 to $58,963,756 in 2020. This increase was made up of operating loss of $640,926, and nonoperating income, capital grants and contributed capital of $3,286,371.

The Authority's operating revenues increased 18% to $4,368,404. This increase results primarily from an increase in rental revenue for the Administration Department. Operating expenses increased to $5,009,330 (4%) primarily from an increase in depreciation expense for the Administration Department. Operating loss for 2020 is $640,926 compared to $1,108,936 in 2019.

2019

The Authority's net position increased $225,352 (0%), from $56,092,959 in 2018 to $56,318,311 in 2019. This increase was made up of operating loss of $1,108,936, and nonoperating income of $1,334,288.

The Authority's operating revenues increased 11% to $3,697,656. This increase results primarily from an increase in rental revenue for the Administration Department. Operating expenses decreased to $4,806,592 (9%) primarily from a decrease in consulting, employee benefits and bad-debt expense for the Administration Department. Operating loss for 2019 is $1,108,936 compared to $1,940,590 in 2018.

2018

The Authority's net position decreased $168,183 (0%), from $56,261,142 in 2017 to $56,092,959 in 2018. This decrease was made up of operating loss of $1,940,590, nonoperating income of $1,078,629 and capital grants of $693,778.

The Authority's operating revenues decreased 10% to $3,317,854. This decrease results primarily from a decrease in rental revenue for the Administration Department. Operating expenses increased to $5,258,444 (14%) primarily from an increase in depreciation expense for the Administration and Marine Terminal departments. Operating loss for 2018 is $1,940,590 compared to $927,784 in 2017.

Overview of the Financial Statements
This discussion and analysis serves as an introduction to the Authority's basic financial statements, which consist of two components: 1) Statements of Net Position, Revenues, Expenses and Changes in Net Position and Cash Flows and 2) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

- The basic financial statements provide information about the Authority's financial status.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

Basic Financial Statements
The financial statements are designed to give users details of the Authority's finances, in a manner similar to that of a private-sector business. The statements of net position present information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position over time may serve as a useful indicator of whether the Authority's financial position is improving or deteriorating. The statements of revenues, expenses and changes in net position show how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event that caused the change occurs, regardless of the timing of the related cash flows.

Notes to Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information
In addition to the basic financial statements and accompanying notes, this report also contains the combining statements referred to earlier. These statements follow the notes to the financial statements.

Financial Analysis
As noted earlier, over time, net position may serve as a useful indicator of the Authority's financial position. The largest portion of the Authority's net position, 82% in 2020 and 79% in 2019, is net investment in capital assets (land and improvements, buildings, and equipment). The Authority uses these assets to provide services to its clients; therefore, these assets are not available for future spending.

Of the Authority's net position balance, 6% in 2020 and 2% in 2019 is restricted for compliance with provisions of bond indentures and grants.

The remaining balance of net position, 12% in 2020 and 19% in 2019 is unrestricted and may be used to meet the Authority's ongoing obligations to its clients and creditors. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not restricted or included in the determination of net investment in capital assets.

The following table presents a summary of the Authority's net position at March 31, 2020, 2019 and 2018:

	2020	2019	2018
Current and other assets	$ 12,399,250	$ 13,320,582	$ 15,765,552
Capital assets	52,903,228	46,086,436	43,988,567
Deferred outflows	78,398	161,297	269,053
Total assets and deferred outflows	65,380,876	59,568,315	60,023,172
Long-term debt outstanding	4,721,895	1,446,613	1,683,184
Other liabilities	1,419,591	1,539,446	2,035,829
Deferred inflows	275,634	263,945	211,200
Total liabilities and deferred inflows	6,417,120	3,250,004	3,930,213
Net position:			
Net investment in capital assets	47,995,266	44,458,532	42,050,992
Restricted	3,782,023	1,086,188	951,656
Unrestricted	7,186,467	10,773,591	13,090,311
Total net position	$ 58,963,756	$ 56,318,311	$ 56,092,959

During 2020, capital assets increased largely due to the purchase of buildings and land improvements, resulting in an increase of $6,800,000. Also during 2020, long-term debt outstanding increased due to the Authority entering into a debt agreement for $3,500,000 to finance capital asset acquisition. See Note 4 for further details.

During 2019, capital assets increased largely due to building improvements, resulting in an increase of $2,500,000. Also during 2019, liabilities decreased $680,000 due to principal payments on long-term debt, a decrease in construction and equipment payables, and a decrease in the Authority's net pension liability.

To give users a better understanding of the sources and uses of the Authority's net position, the table that follows presents a summary of revenues and expenses for the years ended March 31, 2020, 2019 and 2018. The schedule below shows revenues by source and expenses by function.

	2020	2019	2018
Revenues:			
Program revenues, charges for services	$ 4,368,404	$ 3,697,656	$ 3,317,854
General revenues:			
Property taxes	1,209,729	1,154,915	1,021,677
Interest	187,493	221,658	109,094
Other	10,176	13,825	5,662
Total revenues	5,775,802	5,088,054	4,454,287
Expenses:			
Administration	1,374,071	1,489,717	1,805,945
Port promotion	772,304	700,413	763,966
Port development	267,609	293,493	454,466
Marine terminal	574,681	561,716	347,803
Interest on long-term debt	86,502	56,110	57,804
Depreciation	2,020,665	1,761,253	1,886,264
Total expenses	5,095,832	4,862,702	5,316,248
Capital grants and contributed capital	1,965,475	-	693,778
Increase (decrease) in net position	2,645,445	225,352	(168,183)
Net position:			
Beginning of year	56,318,311	56,092,959	56,261,142
End of year	$ 58,963,756	$ 56,318,311	$ 56,092,959

Capital Assets
The Authority's investment in capital assets, net of accumulated depreciation, was $52,903,228 and $46,086,436 as of March 31, 2020 and 2019, respectively. This investment includes land and improvements, buildings, equipment and construction in progress. The Authority's total investment in capital assets, net of accumulated depreciation, increased 15% during 2020. Additional information related to the Authority's capital assets can be found in Note 3 of the notes to the financial statements.

Debt
At year-end, the Authority has $4,721,895 in long-term debt compared to $1,446,613 in 2019. Additional information related to the Authority's debt can be found in Note 4 of the financial statements.

Economic Factors and Next Year's Budgets

The Authority's revenues derive from revenue operation of the Clure Public Marine Terminal (cargo handling, warehousing, ship berthing, intermodal terminal operations), leasing, grant funds and a tax levy from St. Louis County. For fiscal year 2021, we anticipate that general maritime cargo activity at the Clure Public Marine Terminal will be similar to or slightly up from fiscal years 2016 and 2020 when the Terminal handled 24 and 23 vessels and produced higher revenue compared to previous years' levels. We expect intermodal terminal operations, leasing activity, and the tax levy to be on par with fiscal year 2020, with possible growth in intermodal activity.

In regards to capital projects and grant-funded activity, the City of Duluth (the City) was awarded funds of $1.9 million from the Minnesota Highway Freight Program—Intermodal Program (Minnesota Department of Transportation—MnDOT) in 2018 for the expansion of the CN Intermodal Terminal. MnDOT required that the funds be administered by a State Aid entity. The City and the Authority entered into an agreement for the City (a State Aid entity) to receive the funds and administer the construction program. At completion of the project, the asset was contributed to the Authority. The total project budget was approximately $3.0 million. The project began late fall of 2018, and was completed June 30, 2019. This project expanded the Duluth/CN Intermodal Terminal by extending the freight rail tracks an additional 2,600 feet and adding six acres of pavement, providing a larger area for intermodal well-car loading and unloading and container storage. The project also addressed storm water management, security fencing and lighting. This expansion will accommodate our five-year projected capacity of 45,000 to 50,000 annualized containers.

The Authority has been awarded a second MARAD grant for $10.5 million. This Port Infrastructure Development Program grant will help fund the construction of a 56,000-square-foot rail-served warehouse addition at the Clure Public Marine Terminal, along with rehabilitation of 1,775 lineal feed of deteriorating dock walls at Berth 10 and 11 of the Clure Terminal Expansion. These improvements will enhance our ability to provide supply chain cost savings to regional industries, helping keep them competitive in the global marketplace. This infrastructure upgrade will allow increased cargo storage and movement flexibility, which allows cargo owners to take greater advantage of market opportunities. Construction is to begin in the spring of 2021 with completion spring of 2023.

In 2010, the Authority entered into a purchase agreement to obtain a 123-acre parcel of land from the United States Steel Corporation in the interest of creating large developable sites for industrial use to support the regional economy. This parcel of land is part of a 600-acre Superfund Site that was previously home to the US Steel Duluth Works integrated steel mill. The purchase is dependent on a successful clean-up of the site. To date, working with US Steel, we have completed the Phase II environmental investigation stage (inclusive of the collection and laboratory analysis of soil and ground water samples) and prepared a draft Response Action Plan (RAP) for the clean-up of the site. Upon completion, the Authority and US Steel will submit the RAP to the Minnesota PCA for approval. The Authority has obtained special tax increment legislation, which will support the redevelopment if the site is purchased.

The Authority has purchased a 1910-era building on Rice's Point with the intent of remodeling it for use as the Authority's new office headquarters. The building has formerly served as a primary school and, more recently, an office building. The remodeling of the building will begin June 1, 2020, and is scheduled to be completed late fall of 2020, with occupancy prior to January 1, 2021.

Requests for Information

This financial report is meant to provide a general overview for all those with an interest in the Authority's finances. Questions concerning information provided in the report, or requests for additional financial information, should be addressed to the Authority, 2305 West Superior Street, Duluth, Minnesota 55806, Attention: Chief Financial Officer.

Duluth Seaway Port Authority

Statements of Net Position
March 31, 2020 and 2019

	2020	2019
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	**$ 3,047,056**	$ 1,654,915
Investments	**2,976,402**	7,812,110
Receivables:		
Taxes	**1,213,257**	1,158,359
Accounts, less allowance for doubtful accounts of $0 in 2020 and $390,000 in 2019	**380,396**	624,939
Interest	**27,947**	14,672
Due from other governments	**3,000**	3,000
Prepaid expenses	**85,858**	81,361
Total current unrestricted assets	**7,733,916**	11,349,356
Current restricted assets (Note 8):		
Cash and cash equivalents	**2,085**	2,085
Investments	**3,779,938**	1,084,103
Total current restricted assets	**3,782,023**	1,086,188
Capital assets (Note 3):		
Land and land improvements	**43,866,794**	39,869,369
Buildings	**32,880,543**	28,630,556
Equipment	**6,760,991**	6,735,628
Construction in progress	**1,945,811**	1,407,841
	85,454,139	76,643,394
Less accumulated depreciation	**32,550,911**	30,556,958
Total capital assets	**52,903,228**	46,086,436
Other assets:		
Restricted cash and cash equivalents (Note 8)	**55,500**	55,500
Land held for sale, at cost	**827,811**	829,538
Total other assets	**883,311**	885,038
Total assets	**65,302,478**	59,407,018
Deferred outflows of resources:		
Deferred pension amounts (Note 5)	**78,398**	161,297
Total assets and deferred outflows	**$ 65,380,876**	$ 59,568,315

See notes to financial statements.

	2020	2019
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable:		
Trade	**$ 83,836**	$ 117,478
Construction and equipment	**186,067**	181,291
Accrued payroll liabilities	**120,920**	119,295
Unearned revenue (Note 6)	**97,421**	97,386
Current maturities of long-term debt (Note 4)	**342,145**	164,046
Other current liabilities	**-**	13,552
Total current liabilities	**830,389**	693,048
Long-term debt, less current maturities (Note 4)	**4,379,750**	1,282,567
Net pension liability (Note 5)	**691,097**	809,948
Long-term accrued payroll liabilities	**184,750**	144,996
Other long-term liabilities	**55,500**	55,500
Total liabilities	**6,141,486**	2,986,059
Deferred inflows of resources:		
Deferred pension amounts (Note 5)	**275,634**	263,945
Total liabilities and deferred inflows	**6,417,120**	3,250,004
Net position:		
Net investment in capital assets	**47,995,266**	44,458,532
Restricted (Note 8)	**3,782,023**	1,086,188
Unrestricted	**7,186,467**	10,773,591
Total net position	**58,963,756**	56,318,311
Total liabilities, deferred inflows and net position	**$ 65,380,876**	$ 59,568,315

Duluth Seaway Port Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2020 and 2019

	2020	2019
Operating revenues	**$ 4,368,404**	$ 3,697,656
Operating expenses, excluding depreciation	**2,988,665**	3,045,339
Operating income before depreciation	**1,379,739**	652,317
Depreciation	**2,020,665**	1,761,253
Operating loss	**(640,926)**	(1,108,936)
Nonoperating revenues (expenses):		
General tax levies	**1,209,729**	1,154,915
Interest income	**187,493**	221,658
Other revenues	**10,176**	13,825
Interest expense	**(86,502)**	(56,110)
	1,320,896	1,334,288
Income before capital grants and contributed capital	**679,970**	225,352
Capital grants and contributed capital	**1,965,475**	-
Change in net position	**2,645,445**	225,352
Net position:		
Beginning of year	**56,318,311**	56,092,959
End of year	**$ 58,963,756**	$ 56,318,311

See notes to financial statements.

Duluth Seaway Port Authority

Statements of Cash Flows
Years Ended March 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Receipts from customers	**$ 4,511,014**	$ 3,579,411
Payments to suppliers	**(1,642,678)**	(1,847,198)
Payments to employees	**(1,380,562)**	(1,373,020)
Other receipts	**113,871**	98,994
Net cash provided by operating activities	**1,601,645**	458,187
Cash flows from noncapital financing activities:		
General tax levies	**1,154,831**	1,016,934
Net cash provided by noncapital financing activities	**1,154,831**	1,016,934
Cash flows from capital and related financing activities:		
Purchase of capital assets	**(6,932,681)**	(4,009,492)
Receipts from other governments	**65,475**	240,000
Proceeds on long-term debt	**3,500,000**	-
Principal payments on long-term debt	**(224,718)**	(236,571)
Interest paid on long-term debt	**(86,502)**	(59,008)
Net cash used in capital and related financing activities	**(3,678,426)**	(4,065,071)
Cash flows from investing activities:		
Purchase of investments	**(10,418,161)**	(26,982,010)
Proceeds from maturities of investments	**12,558,034**	29,605,797
Principal payments received on notes receivable	**-**	4,741
Interest received	**174,218**	240,875
Net cash provided by investing activities	**2,314,091**	2,869,403
Net increase in cash and cash equivalents	**1,392,141**	279,453
Cash and cash equivalents:		
Beginning	**1,712,500**	1,433,047
Ending	**$ 3,104,641**	$ 1,712,500
Cash and cash equivalents are reported as follows:		
Current assets	**$ 3,047,056**	$ 1,654,915
Restricted assets	**2,085**	2,085
Other assets	**55,500**	55,500
	$ 3,104,641	$ 1,712,500

(Continued)

Duluth Seaway Port Authority

Statements of Cash Flows (Continued)
Years Ended March 31, 2020 and 2019

	2020	2019
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	**$ (640,926)**	$ (1,108,936)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Bad debt		
Depreciation	**2,020,665**	1,761,253
Miscellaneous nonoperating receipts	**10,176**	13,825
Change in deferred outflows	**82,899**	107,756
Change in deferred inflows	**11,689**	52,745
Changes in assets and liabilities:		
Receivables	**244,543**	(218,901)
Prepaid expenses	**(4,497)**	(4,752)
Land held for sale	**1,727**	198,312
Accounts payable and accrued liabilities	**(5,815)**	(131,914)
Unearned revenue	**35**	13
Tenant deposits	**-**	(12,500)
Net pension liability	**(118,851)**	(198,714)
Net cash provided by operating activities	**$ 1,601,645**	$ 458,187
Supplemental schedule of noncash capital and related financing activities:		
Accounts payable, capital assets	**$ 186,067**	$ 181,291
Contributed capital	**$ 1,900,000**	$ -

See notes to financial statements.

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: Duluth Seaway Port Authority (the Authority) is a corporate body created in accordance with Minnesota Statute Section 469.048. The Authority is an enterprise operation managed by a seven-member Board of Commissioners appointed as follows: two by the State of Minnesota, two by St. Louis County, and three by the City of Duluth, Minnesota.

The operational departments within the Authority are as follows:

Administration: The Authority oversees all departments and monitors all enterprise operations within the Port District. Revenue consists principally of rental revenues. Substantially all property and equipment is leased to others.

Port promotion: The Authority promotes the use of the Port of Duluth on a local, regional, national and global basis; responds to the needs of both the users of the Port and the providers of services within the Port; and encourages shippers to use the public marine terminal.

Port development: The Authority oversees owned property and facilities and assists with development of the private and public enterprise operations within the Port District.

Marine terminal: The Authority owns maritime facilities that are operated by a private company under an agent operating agreement.

Reporting entity: Generally accepted accounting principles define the financial reporting entity as consisting of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationships with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Based upon the criteria provided, there are no entities that should be presented with the Authority.

The Authority is considered a special-purpose government and is not a component unit of any other government because a voting majority of its Board of Commissioners is not appointed by any single entity and it is fiscally independent.

Significant accounting policies:

Measurement focus and basis of accounting: The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, assets and liabilities resulting from exchange and exchange-type transactions are recognized when the exchange takes place. Nonexchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements and donations. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied. The operating statements present increases (revenues) and decreases (expenses) in net position.

Cash and cash equivalents: For purposes of reporting the statements of cash flows, the Authority considers all cash accounts and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market funds.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Investments: Investments are accounted for at amortized cost or fair value, which is the price that would be received to sell the investment in an orderly transaction between market participants at the measurement date. Fair value of actively traded securities is determined by the reported market value of securities trading on national exchanges. Values of securities not actively traded are based on observable inputs of similar financial instruments or on the fair value of the underlying assets. Realized gains and losses are determined on the specific-identification method. Accrued income on investments is recorded as earned, since it is both measurable and available. Investment transactions are recorded on the settlement date.

Capital assets: Capital assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Contributed assets are recorded at estimated acquisition cost on the date of received. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Costs incurred for repairs and maintenance are expensed as incurred. The estimated useful lives are as follows:

	Years
Land improvements	10-50
Buildings	20-50
Equipment	4-30

Deferred inflows and deferred outflows: Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred outflows include pension expense, pension related deferrals, and contributions made to the pension plan in the current fiscal year. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. Such items include pension contributions and other pension related deferrals.

Net position: Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of these assets. Restricted net position is noncapital net position that must be used for a particular purpose, as specified by external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

Operating revenues and expenses: Operating revenues and expenses generally result from activities of the Authority's principal ongoing operations, which are administration, port promotion, port development and marine terminal activities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Property tax levies: The Authority may request the City of Duluth to levy a tax for its benefit. This mandatory levy may not exceed 0.01813% of the taxable market value of the taxable property in the City. The amount levied is paid to the Authority by St. Louis County.

Compensated absences: Employees accumulate vacation hours for subsequent use or for payment upon termination, death or retirement. A maximum carryover of 80 vacation hours has been established by Board resolution. A liability is recorded for earned but unpaid vacation. During 2020, employees earned $84,406, and used $83,171 of vacation. During 2019, employees earned $70,450, and used $51,096 of vacation. At March 31, 2020 and 2019, the liability totaled $111,558 and $110,323, respectively.

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

The Authority makes payments to the Minnesota State Retirement System Health Care Savings Plan for employees with 10 years of continuous service at time of retirement. The total of the payments made for a retiree is limited to the number of unused sick days at retirement (up to a maximum of 120 days) multiplied by the average daily earnings of all full-time employees at the retirement date. The Authority accrues this benefit for qualifying employees over the five-year period preceding their retirement dates. At March 31, 2020 and 2019, the liability totaled $184,750 and $144,996, respectively.

Advertising costs: Advertising costs are expensed as incurred. Advertising expense amounted to $212,454 in 2020 and $183,525 in 2019.

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

Use of estimates in the 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.

Note 2. Deposits and Investments

The carrying amount of deposits and investments are included in the Authority’s statements of net position as follows:

	2020	2019
Deposits with financial institutions	$ 74,472	$ 292,677
Investments:		
U.S. Treasury bills	988,179	3,616,214
U.S. Treasury notes	248,701	-
Certificates of deposits	5,519,460	5,280,000
Money market funds	3,030,169	1,419,822
	$ 9,860,981	$ 10,608,713

	2020	2019
Current assets:		
Cash and cash equivalents	$ 3,047,056	$ 1,654,915
Investments	2,976,402	7,812,110
Current restricted assets:		
Cash and cash equivalents	2,085	2,085
Investments	3,779,938	1,084,103
Other assets, restricted cash and cash equivalents	55,500	55,500
	$ 9,860,981	$ 10,608,713

Note 2. Deposits and Investments (Continued)

Deposits: In accordance with Minnesota Statutes, the Authority maintains deposits at those depository banks authorized by the Board. Such depositories are members of the Federal Reserve System.

Minnesota Statutes require that all Authority deposits be protected by surety bond or collateral. Authorized collateral includes U.S. governmental treasury bills, notes or bonds; issues of U.S. government agencies; certain rated general and revenue obligations of state and local governments; certain types of standby letters of credit and insured certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Authority's Treasurer or in a financial institution other than that furnishing collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% in the case of mortgage notes pledged). The Authority does not have a formal policy for deposits.

At March 31, 2020, the Authority's deposits and certificates of deposit were entirely covered by federal depository insurance and pledged collateral.

Investments: Minnesota Statutes authorize the Authority to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, shares of certain investment companies, general obligations of the State of Minnesota and its municipalities, banker's acceptances, commercial paper and guaranteed investment contracts.

Investment policy: The Authority does not have a formal investment policy.

Credit risk: Generally, credit risk is the risk that the issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. As of March 31, 2020, the Authority's money market funds and U.S. Treasury bills had a credit rating of Aaa-mf and Unrated, respectively, as reported by Moody's.

Custodial credit risk: This is the risk that in the event of the failure of the counterparty (e.g., broker dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. As of March 31, 2020, the Authority's investments were held in the name of the Authority and are not subject to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Investments with longer maturities have greater sensitivity to fair value changes based on market interest rates. U.S. Treasury bills, U.S. Treasury notes and certificates of deposit have a maturity of less than two years.

Fair value reporting: The Authority's investments in money market funds are measured at amortized cost.

There is an established hierarchy of valuation inputs based on the extent to which the inputs are observable in the market place. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1: Investments are those whose values are based on quoted prices (unadjusted) for identical assets (liabilities) in active markets that a government can access at measurement date.

Level 2: Investments are those with inputs, other than quoted prices included within Level 1 that are observable for an asset (liability), either directly or indirectly.

Level 3: Investments classified as Level 3 have unobservable inputs for an asset (liability) and may require a degree of professional judgment.

Note 2. Deposits and Investments (Continued)

The U.S. Treasury bills and U.S. Treasury notes are valued using the Level 1 inputs of the fair value hierarchy. Certificates of deposit are valued using the Level 2 inputs of the fair value hierarchy.

Note 3. Capital Assets

	Cost			
	Balance March 31, 2019	Additions	Reclassifications/ Deletions	Balance March 31, 2020
Land and land improvements	$ 39,869,369	$ -	$ 3,997,425	$ 43,866,794
Buildings	28,630,556	-	4,249,987	32,880,543
Equipment	6,735,628	-	25,363	6,760,991
Construction in progress	1,407,841	8,837,457	(8,299,487)	1,945,811
	$ 76,643,394	$ 8,837,457	$ (26,712)	$ 85,454,139

	Accumulated Depreciation				Net
	Balance March 31, 2019	Additions	Deductions	Balance March 31, 2020	Book Value March 31, 2019
Land and land improvements	$ 9,725,469	$ 994,776	$ -	$ 10,720,245	$ 33,146,549
Buildings	16,551,122	826,562	-	17,377,684	15,502,859
Equipment	4,280,367	199,327	(26,712)	4,452,982	2,308,009
Construction in progress	-	-	-	-	1,945,811
	$ 30,556,958	$ 2,020,665	$ (26,712)	$ 32,550,911	$ 52,903,228

	Cost			
	Balance March 31, 2018	Additions	Reclassifications/ Deletions	Balance March 31, 2019
Land and land improvements	$ 38,230,284	$ -	$ 1,639,085	$ 39,869,369
Buildings	26,429,018	-	2,201,538	28,630,556
Equipment	6,761,150	-	(25,522)	6,735,628
Construction in progress	1,466,935	3,859,122	(3,918,216)	1,407,841
	$ 72,887,387	$ 3,859,122	$ (103,115)	$ 76,643,394

	Accumulated Depreciation				Net
	Balance March 31, 2018	Additions	Deductions	Balance March 31, 2018	Book Value March 31, 2019
Land and land improvements	$ 9,026,019	$ 699,450	$ -	$ 9,725,469	$ 30,143,900
Buildings	15,771,785	779,337	-	16,551,122	12,079,434
Equipment	4,101,016	282,466	(103,115)	4,280,367	2,455,261
Construction in progress	-	-	-	-	1,407,841
	$ 28,898,820	$ 1,761,253	$ (103,115)	$ 30,556,958	$ 46,086,436

Note 4. Long-Term Debt

	2020	2019
Note payable at a fixed rate of 3.00%, due in annual installments ranging from \$169,214 to \$185,886 due on February 15, 2027. Lease revenues and a building are pledged as collateral.	\$ 1,282,498	\$ 1,446,613
Note payable at a fixed rate of 4.25%, due in monthly installments ranging from \$172,931 to \$300,190 due on November 22, 2034. Lease revenues and a building are pledged as collateral.	3,439,397	-
	4,721,895	1,446,613
Less current maturities	342,145	164,046
	\$ 4,379,750	\$ 1,282,567

The following is a summary of changes in long-term debt at March 31, 2020 and 2019:

	2020				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Notes payable	\$ 1,446,613	\$ 3,500,000	\$ 224,718	\$ 4,721,895	\$ 342,145
	\$ 1,446,613	\$ 3,500,000	\$ 224,718	\$ 4,721,895	\$ 342,145
	2019				
Assessment bonds to the City of Duluth	\$ 77,271	\$ -	\$ 77,271	\$ -	\$ -
Note payable	1,605,913	-	159,300	1,446,613	164,046
	\$ 1,683,184	\$ -	\$ 236,571	\$ 1,446,613	\$ 164,046

Debt service requirements at March 31, 2020, are:

	Principal	Interest	Total
Years ending March 31:			
2021	\$ 342,145	\$ 179,713	\$ 521,858
2022	354,859	166,999	521,858
2023	368,058	153,800	521,858
2024	381,713	140,145	521,858
2025	395,990	125,868	521,858
Thereafter	2,879,130	569,560	3,448,690
	\$ 4,721,895	\$ 1,336,085	\$ 6,057,980

Note 5. Defined Benefit Pension Plan Statewide

Plan description: The Authority participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA’s defined benefit pension plans are tax-qualified plans under section 401(a) of the Internal Revenue Code. All full-time and certain part-time employees of the Authority are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Note 5. Defined Benefit Pension Plan Statewide (Continued)

Benefits provided: PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the Social Security Administration (SSA), with a minimum increase of at least 1.0% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions: Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

For calendar years 2020 and 2019, Coordinated Plan members were required to contribute 6.5% of their annual covered salary. In calendar years 2020 and 2019, the Authority was required to contribute 7.5% for Coordinated Plan members. The Authority's contributions to the General Employees Retirement Fund (GERF) for the years ended March 31, 2020 and 2019, were $73,075 and $63,579, respectively. The Authority's contributions were equal to the required contributions as set by state statute.

Pension costs: At March 31, 2020 and 2019, the Authority reported a liability of $691,097 and $809,948, respectively, for its proportionate share of the GERF's net pension liability. The Authority's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2019.

Note 5. Defined Benefit Pension Plan Statewide (Continued)

The State of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Authority totaled $21,499. The Authority's proportion of the net pension liability was based on the Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, for 2020 measurement, and July 1, 2017 through June 30, 2018, for 2019 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020 and 2019, the Authority's proportion was 0.0125% and 0.0146%, respectively.

Authority's proportionate share of the net pension liability	$	691,097
State of Minnesota's proportionate share of the net pension liability associated with the Authority		21,499
Total	$	712,596

For the years ended March 31, 2020 and 2019, the Authority recognized pension expense of $61,051 and $46,972, respectively, for its proportionate share of the GERF's pension expense. In addition, for the years ended March 31, 2020 and 2019, the Authority recognized an additional $1,610 and $6,163, respectively, as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At March 31, 2020 and 2019, the Authority reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 21,559	$ -	$ 23,121	$ 25,403
Changes in actuarial assumptions	-	64,114	83,200	96,126
Net difference between projected and actual investment earnings	-	85,845	-	84,963
Changes in proportion	2,030	125,675	6,652	57,453
Contributions paid to PERA subsequent to the measurement date	54,809	-	48,324	-
Total	$ 78,398	$ 275,634	$ 161,297	$ 263,945

Note 5. Defined Benefit Pension Plan Statewide (Continued)

The amount of $54,809 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense
Years ending March 31:	
2021	$ (91,160)
2022	(116,611)
2023	(45,392)
2024	1,118
	$ (252,045)

Actuarial assumptions: The total pension liability in the June 30, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions:

	2019	2018
Inflation	2.50% per year	2.50% per year
Active member payroll growth	3.25% per year	3.25% per year
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increase after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions. The following changes in actuarial assumptions and plan provisions occurred in 2019.

GERF:

Changes in actuarial assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.

Changes in plan provisions:

- The employer supplemental contribution was changed prospectively, decreasing from $31 million to $21 million per year. The State of Minnesota's special funding contribution was changed prospectively, requiring $16 million due per year through 2031.

Note 5. Defined Benefit Pension Plan Statewide (Continued)

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

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5%	5.10%
Private markets	25%	5.90%
Fixed income	20%	0.75%
International equity	17.5%	5.90%
Cash equivalents	2%	0.00%
Total	100%	

Discount rate: The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension liability sensitivity: The following presents the Authority's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of the GERF net pension liability	$ 1,136,126	$ 691,097	$ 323,637

Pension plan fiduciary net position: Detailed information about the GERF's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

Note 6. Unearned Revenue

	2020	2019
Tenant capital asset rental	$ 97,421	$ 97,386

The Authority receives capital asset rentals from various tenants. Payments range from a monthly to an annual basis. Revenue is recognized ratably in income over the terms of the leases.

Note 7. Marine Terminal Operations

The Authority has engaged the services of Lake Superior Warehousing Co., Inc. as operator for the Arthur M. Clure Public Marine Terminal through March 31, 2023. The agreement stipulates distributions to Lake Superior Warehousing Co., Inc., and the Authority based on an agreed upon revenue share formula. The Authority has fiscal responsibility for property insurance and facility maintenance, excluding equipment maintenance. Customary harbor charges of dockage, wharfage and mooring are retained by the Authority.

Note 8. Restricted Assets and Net Position

Restricted assets and net position are composed of cash and investments that must be used for a specific purpose as required by contract with outside parties. The following is a summary of the restricted assets and net position at March 31, 2020 and 2019:

	2020	2019
Intermodal container terminal expansion project; cost share	$ -	$ 1,084,103
Intergovernmental grants; pledged matching funds:		
Dock wall rehabilitation and warehouse construction	3,017,438	-
Seaway office building renovation	762,500	-
Other	2,085	2,085
Restricted net position	3,782,023	1,086,188
Tenant and other deposits	55,500	55,500
Restricted assets	$ 3,837,523	$ 1,141,688

Note 9. Operating Leases

The Authority leases substantially all of its property and equipment to others. These leases are accounted for as operating leases and expire at various dates through 2073. As of March 31, 2020, minimum lease payments under these operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

Years ending March 31:	
2021	$ 2,198,968
2022	2,155,693
2023	1,700,880
2024	703,011
2025	433,523
Thereafter	2,638,540
	$ 9,830,615

Note 10. Risk Management

The Authority is exposed to various risks of losses related to torts; theft of, damage to or destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Authority has purchased commercial insurance for all risks. Settled claims have not exceeded coverage in any of the last three years.

Note 11. Commitments

The Authority entered into an agreement with the United States Steel Corporation to purchase 123 acres of land located within a Superfund site for $10,000 an acre. U.S. Steel has been identified as the responsible party. The purchase is contingent upon the remediation of the contaminated soil and the land being delisted from Superfund status. At March 31, 2020, the Authority had expended $439,153 for this project. If the remediation cost is deemed to be excessive by either the Authority or U.S. Steel, either party may terminate the purchase agreement. The drilling and analyzing the soil has been completed on the property. The Response Action Plans for both the Superfund delisting (Federal Environmental Protection Agency) and the voluntary investigation and clean-up (Minnesota Pollution Control Agency) are being prepared by U.S. Steel and the Authority. By contract with U.S. Steel, the Authority will be responsible for payment of 25% of the costs to clean the targeted property. All cost associated with testing and cleaning are being recorded as construction in progress. If terminated, the Authority will write-off the capitalized development costs.

The Authority has entered into several contracts, including the renovation of an office building and equipment purchase. The Authority has approximately $1,200,000 remaining on these contracts.

Note 12. Subsequent Event

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 10, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Authority’s operations, suppliers or other vendors, and customer base. The operations for the Authority’s services could be negatively impacted by the regional and global outbreak of COVID-19, including stop-work orders on existing contract work for an unknown period of time. Any quarantines, labor shortages or other disruptions to the Authority’s operations, or those of its customers, may adversely impact the Authority’s revenues, ability to provide its services, and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which the Authority operates, resulting in an economic downturn that could affect demand for its services. The extent to which COVID-19 impacts the Authority’s results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and actions taken to contain COVID-19 or its impact, among others.

Note 13. Pending Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements not yet implemented by the Authority. Management has not yet evaluated the impact of these statements. Listed below are the statements that may impact future financial statements of the Authority:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for the Authority beginning with its year ending March 31, 2022. This statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to such obligations. Under this statement, a government that has a legal obligation to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for the Authority beginning with its year ending March 31, 2021. This statement establishes criteria for identifying fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities.

GASB Statement No. 87, *Leases,* will be effective for the Authority beginning with its year ending March 31, 2023. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* will be effective for the Authority beginning with its year ending March 31, 2021. This statement requires certain information related to debt be disclosed in the notes to the financial statements, including unused lines of credit, assets pledged as collateral, and terms specified in debt agreements related to significant events of default with finance-related consequences.

GASB Statement No. 90, *Majority Equity Interests*, will be effective for the Authority beginning with its year ending March 31, 2021. This statement clarifies the accounting and financial reporting requirements for government’s majority equity interest in an organization that remains legally separate after acquisition. This statement also establishes guidance for remeasuring assets and liabilities of wholly acquired governmental organizations that remain legally separate. That guidance brings the reporting of those acquisitions in line with existing standards that apply to acquisitions that do not remain legally separate.

Note 13. Pending Accounting Standards (Continued)

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for the Authority beginning with its year ending March 31, 2023. This statement provides a single method for government issuers to report conduit debt obligations and related commitments. The enhanced guidance is designed to eliminate diversity in practice associated with these issues.

GASB Statement No. 92, *Omnibus*, will be effective for the Authority beginning with its year ending March 31, 2023. This statement includes guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, will be effective for the Authority beginning with its year ending March 31, 2023. This statement assists state and local governments in the transition away from existing interbank offered rates to other offered rates. This statement also addresses those accounting and other financial reporting implications of the replacement of an interbank offered rate.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, will be effective for the Authority beginning with its year ending March 31, 2024. This statement provides guidance to improve accounting and financial reporting for public-private and public-public partnership arrangements and availability payment arrangements. The statement also includes guidance for P3 arrangements, including those that are outside the scope of the GASB's existing literature, namely Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and Statement No. 87, *Leases*.

Required Supplementary Information

Duluth Seaway Port Authority

Schedule of Proportionate Share of the Net Pension Liability
PERA General Employees Retirement Fund

Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered-Employee Payroll (b)	Proportionate Share of the NPL as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	0.0156%	$ 732,810	$ 823,803	88.95%	78.75%
June 30, 2015	0.0155%	803,290	927,786	86.58%	78.19%
June 30, 2016	0.0157%	1,274,762	982,357	129.77%	68.91%
June 30, 2017	0.0158%	1,008,662	1,016,007	99.28%	75.90%
June 30, 2018	0.0146%	809,948	978,548	82.77%	79.53%
June 30, 2019	0.0125%	691,097	887,882	77.84%	80.23%

Notes to the Schedule of Proportionate Share of the Net Pension Liability

Actuarial assumptions: The total pension liability in the June 30, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions:

	2019	2018
Inflation	2.50% per year	2.50% per year
Active member payroll growth	3.25% per year	3.25% per year
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increase after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions. The following changes in actuarial assumptions occurred in 2019.

- The morality projection scale was changed from MP-2017 to MP-2018.

Duluth Seaway Port Authority

Schedule of Pension Contributions
PERA General Employees Retirement Fund

Fiscal Year Ended		Statutorily Required Contribution (a)		Contributions in Relation to the Statutorily Required Contribution (b)		Contribution Deficiency (Excess) (a-b)		Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
March 31, 2015	$	65,537	$	65,537	$	-	$	895,902	7.3%
March 31, 2016		71,583		71,583		-		971,670	7.4%
March 31, 2017		74,984		74,984		-		999,793	7.5%
March 31, 2018		78,255		78,255		-		1,043,401	7.5%
March 31, 2019		63,579		63,579		-		847,718	7.5%
March 31, 2020		73,075		73,075		-		974,338	7.5%

Notes to the Schedule of Pension Contributions

Actuarial assumptions: The total pension liability in the June 30, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions:

	2019	2018
Inflation	2.50% per year	2.50% per year
Active member payroll growth	3.25% per year	3.25% per year
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increase after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions. The following changes in actuarial assumptions occurred in 2019.

- The morality projection scale was changed from MP-2017 to MP-2018.

Supplementary Information

Duluth Seaway Port Authority

Combining Statement of Revenues and Expenses
Year Ended March 31, 2020

	Operational Departments				
	Administration	Port Promotion	Port Development	Marine Terminal	Combined
Operating revenues	$ 2,178,599	$ -	$ 12,000	$ 2,177,805	$ 4,368,404
Operating expenses, excluding depreciation	1,374,071	772,304	267,609	574,681	2,988,665
Operating income (loss) before depreciation	804,528	(772,304)	(255,609)	1,603,124	1,379,739
Depreciation	1,145,454	-	-	875,211	2,020,665
Operating income (loss)	(340,926)	(772,304)	(255,609)	727,913	(640,926)
Nonoperating revenues (expenses):					
General tax levies	-	-	1,209,729	-	1,209,729
Interest income	187,493	-	-	-	187,493
Other revenues	10,176	-	-	-	10,176
Interest expense	(86,502)	-	-	-	(86,502)
	111,167	-	1,209,729	-	1,320,896
Income (loss) before capital grants and contributed capital	(229,759)	(772,304)	954,120	727,913	679,970
Capital grants and contributed capital	1,965,475	-	-	-	1,965,475
Total capital grants and contributed capital	1,965,475	-	-	-	1,965,475
Change in net position	$ 1,735,716	$ (772,304)	$ 954,120	$ 727,913	$ 2,645,445

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses
Administration
Years Ended March 31, 2020 and 2019

	2020	2019
Departmental revenues:		
Rentals	**$ 2,076,728**	$ 2,284,617
Gain on sale of land held for resale	**101,871**	86,994
	2,178,599	2,371,611
Departmental expenses:		
Salaries and wages	**562,617**	513,123
Employee benefits:		
Health, welfare and pension	**208,102**	157,066
Social security tax	**39,970**	35,644
Workers' compensation insurance	**9,395**	1,434
Advertising and promotion	**490**	-
Commissioner fees	**7,260**	6,600
Consulting	**137,740**	71,854
Dues and subscriptions	**11,111**	2,344
Insurance	**65,213**	65,810
Office	**23,990**	35,326
Bad debt	**-**	195,000
Other	**19,260**	25,453
Professional services	**70,235**	77,889
Rent	**81,872**	59,906
Repairs, maintenance and supplies	**58,021**	165,150
Telephone	**11,251**	10,603
Travel and entertainment	**33,107**	42,972
Utilities	**34,437**	23,543
Total departmental expenses	**1,374,071**	1,489,717
Departmental income before depreciation	**804,528**	881,894
Depreciation	**1,145,454**	922,795
Departmental operating loss	**$ (340,926)**	$ (40,901)

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses
Port Promotion
Years Ended March 31, 2020 and 2019

	2020	2019
Departmental revenues	**$ -**	$ -
Departmental expenses:		
Salaries and wages	**318,745**	289,892
Employee benefits:		
Health, welfare and pension	**108,412**	97,057
Social security tax	**24,724**	23,884
Workers' compensation insurance	**1,593**	1,690
Advertising and promotion	**164,343**	169,871
Consulting	**14,378**	16,380
Cruise ship visits	**6,454**	-
Dues and subscriptions	**42,475**	23,951
Insurance	**5,183**	5,893
Maritime representative	**32,785**	29,750
Other	**2,771**	1,045
Photographs and supplies	**100**	575
Repairs, maintenance and supplies	**-**	5,000
Telephone	**3,794**	3,294
Travel and entertainment	**46,547**	32,131
Total departmental expenses	**772,304**	700,413
Departmental loss before depreciation	**(772,304)**	(700,413)
Depreciation	**-**	-
Departmental operating loss	**$ (772,304)**	$ (700,413)

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses
Port Development
Years Ended March 31, 2020 and 2019

	2020	2019
Departmental revenues:		
Other	**$ 12,000**	$ 12,000
Total departmental revenues	**12,000**	12,000
Departmental expenses:		
Salaries and wages	**94,211**	142,650
Employee benefits:		
Health, welfare and pension	**33,290**	31,229
Social security tax	**6,868**	10,837
Workers' compensation insurance	**462**	467
Consulting	**71,257**	52,670
Other	**2,319**	3,859
Professional services	**56,899**	50,015
Telephone	**962**	791
Travel and entertainment	**1,341**	975
Total departmental expenses	**267,609**	293,493
Departmental loss before depreciation	**(255,609)**	(281,493)
Depreciation	**-**	-
Departmental operating loss	**$ (255,609)**	$ (281,493)

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses
Marine Terminal
Years Ended March 31, 2020 and 2019

	2020	2019
Departmental revenues:		
Dockage and mooring	**$ 193,430**	$ 92,744
Rentals	**102,367**	68,244
Facilities fee	**1,570,337**	1,108,843
Wharfage	**311,671**	44,214
Total departmental revenues	**2,177,805**	1,314,045
Departmental expenses:		
Advertising and promotion	**47,621**	13,653
Consulting	**38,309**	144,277
Foreign trade zone	**-**	500
Insurance	**75,503**	64,935
Other	**665**	699
Professional services	**(22,570)**	25,614
Travel and entertainment	**164**	-
Protection service	**16,947**	14,704
Repairs and maintenance	**412,939**	295,286
Utilities	**5,103**	2,048
Total departmental expenses	**574,681**	561,716
Departmental income before depreciation	**1,603,124**	752,329
Depreciation	**875,211**	838,458
Departmental operating income (loss)	**$ 727,913**	$ (86,129)

RSM

RSM US LLP

Independent Auditor's Report on Minnesota Legal Compliance

Board of Commissioners
Duluth Seaway Port Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits of Duluth Seaway Port Authority as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise Duluth Seaway Port Authority's basic financial statements, and have issued our report thereon dated June 18, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that Duluth Seaway Port Authority failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Duluth Seaway Port Authority's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

This report is intended solely for the information and use of those charged with governance and management of Duluth Seaway Port Authority and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

Duluth, Minnesota
June 19, 2020