



Duluth Seaway Port Authority Duluth, Minnesota

Financial and Compliance Report
March 31, 2019

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RSM US LLP

Independent Auditor's Report

To the Board of Commissioners
Duluth Seaway Port Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Duluth Seaway Port Authority (Authority), as of and for the years ended March 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the 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 the Authority as of March 31, 2019 and 2018, 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 the 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
July 29, 2019

Required Supplementary Information
Management's Discussion and Analysis (MD&A)

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2019

This section of Duluth Seaway Port Authority's annual financial report presents a discussion and analysis of the Authority's financial performance during the years ended March 31, 2019 and 2018. 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

2019

The Authority's net position increased \$225,352 (0 percent), 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 percent 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 percent) 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 percent), 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 percent 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 percent) 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.

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2019

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, 79 percent in 2019 and 75 percent in 2018, 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, 4 percent in 2019 and 2 percent in 2018, is restricted for compliance with provisions of bond indentures and grants.

The remaining balance of net position, 17 percent in 2019 and 23 percent in 2018, 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, 2019, 2018, and 2017:

	2019	2018	2017
Current and other assets	\$ 13,320,582	\$ 15,765,552	\$ 15,444,737
Capital assets	46,086,436	43,988,567	44,331,934
Deferred outflows	161,297	269,053	484,596
Total assets and deferred outflows	59,568,315	60,023,172	60,261,267
Long-term debt outstanding	1,446,613	1,683,184	1,917,175
Other liabilities	1,539,446	2,035,829	1,977,396
Deferred inflows	263,945	211,200	105,554
Total liabilities and deferred inflows	3,250,004	3,930,213	4,000,125
Net position:			
Net investment in capital assets	44,458,532	42,050,992	42,641,527
Restricted	1,086,188	951,656	2,030,253
Unrestricted	10,773,591	13,090,311	11,589,362
Total net position	\$ 56,318,311	\$ 56,092,959	\$ 56,261,142

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2019

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, 2019, 2018, and 2017. The schedule below shows revenues by source and expenses by function.

	2019	2018	2017
Revenues:			
Program revenues, charges for services	\$ 3,697,656	\$ 3,317,854	\$ 3,685,439
General revenues:			
Property taxes	1,154,915	1,021,677	985,505
Gain (loss) on sale of capital asset	-	-	61,212
Interest	221,658	109,094	52,264
Other	13,825	5,662	35,216
Total revenues	5,088,054	4,454,287	4,819,636
Expenses:			
Administration	1,489,717	1,805,945	1,608,875
Port promotion	700,413	763,966	715,426
Port development	293,493	454,466	398,751
Marine terminal	561,716	347,803	585,100
Interest on long-term debt	56,110	57,804	104,560
Depreciation	1,761,253	1,886,264	1,305,071
Total expenses	4,862,702	5,316,248	4,717,783
Grant revenue for capital purposes	-	693,778	6,817,947
Increase (decrease) in net position	225,352	(168,183)	6,919,800
Net position:			
Beginning of year	56,092,959	56,261,142	49,341,342
End of year	<u>\$ 56,318,311</u>	<u>\$ 56,092,959</u>	<u>\$ 56,261,142</u>

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, was \$46,086,436 and \$43,988,567, as of March 31, 2019 and 2018, 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 5 percent during 2019. 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 \$1,446,613 in long-term debt compared to \$1,683,184 in 2018.

Other liabilities for obligations such as vacation, sick leave, and severance items are discussed further in the notes to financial statements.

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2019

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 FY2020, we anticipate that general maritime cargo activity at the Clure Public Marine Terminal will be similar to fiscal year 2016 when the Terminal handled 24 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 FY2019, with possible growth in intermodal activity.

In regards to capital projects and grant-funded activity, the Authority 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. The total project budget is approximately \$3.0 million. The project began late fall of 2018, and has an anticipated completion date of June 30, 2019. This project will expand 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 will also address storm water management, security fencing and lighting. This expansion will accommodate our five-year projected capacity of 45,000-50,000 annualized containers.

The Authority has completed the replacement of Dock Cap and Fenders for Berths 5, 6, & 7: The project totaled \$485,000 and was funded in part by a \$240,000 grant from the MnDOT Port Development Assistance Program. This project was necessary due to the age and wear of the originally installed Dock Cap and Fenders dating to the 1960s.

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 remodel of the building is scheduled to begin late fall of 2019 with the expected completion in Fall of 2020.

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, 2019 and 2018**

	2019	2018
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	\$ 1,654,915	\$ 413,391
Investments	7,812,110	11,520,000
Receivables:		
Taxes	1,158,359	1,020,378
Accounts, less allowance for doubtful accounts of \$390,000 in 2019 and \$195,000 in 2018	624,939	406,038
Grants	-	240,000
Interest	14,672	33,889
Due from other governments	3,000	3,000
Notes receivable, current portion	-	2,300
Prepaid expenses	81,361	76,609
Total current unrestricted assets	11,349,356	13,715,605
Current restricted assets (Note 8):		
Cash and cash equivalents	2,085	951,656
Investments	1,084,103	-
Total current restricted assets	1,086,188	951,656
Capital assets (Note 3):		
Land and land improvements	39,869,369	38,230,284
Buildings	28,630,556	26,429,018
Equipment	6,735,628	6,761,150
Construction in progress	1,407,841	1,466,935
	76,643,394	72,887,387
Less accumulated depreciation	30,556,958	28,898,820
Total capital assets	46,086,436	43,988,567
Other assets:		
Restricted cash and cash equivalents (Note 8)	55,500	68,000
Notes receivable, less current portion	-	2,441
Land held for sale, at cost	829,538	1,027,850
Total other assets	885,038	1,098,291
Total assets	59,407,018	59,754,119
Deferred outflows of resources:		
Deferred pension amounts (Note 5)	161,297	269,053
Total assets and deferred outflows	\$ 59,568,315	\$ 60,023,172

See notes to financial statements.

	2019	2018
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable:		
Trade	\$ 117,478	\$ 181,345
Construction and equipment	181,291	331,661
Accrued payroll liabilities	119,295	210,015
Unearned revenue (Note 6)	97,386	97,373
Current maturities of long-term debt (Note 4)	164,046	236,513
Accrued interest	-	2,898
Other current liabilities	13,552	13,552
Total current liabilities	693,048	1,073,357
Long-term debt, less current maturities (Note 4)	1,282,567	1,446,671
Net pension liability (Note 5)	809,948	1,008,662
Long-term accrued payroll liabilities	144,996	122,323
Other long-term liabilities	55,500	68,000
Total liabilities	2,986,059	3,719,013
Deferred inflows of resources:		
Deferred pension amounts (Note 5)	263,945	211,200
Total liabilities and deferred inflows	3,250,004	3,930,213
Net position:		
Net investment in capital assets	44,458,532	42,050,992
Restricted (Note 8)	1,086,188	951,656
Unrestricted	10,773,591	13,090,311
Total net position	56,318,311	56,092,959
Total liabilities, deferred inflows, and net position	\$ 59,568,315	\$ 60,023,172

Duluth Seaway Port Authority

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2019 and 2018**

	2019	2018
Operating revenues	\$ 3,697,656	\$ 3,317,854
Operating expenses, excluding depreciation	<u>3,045,339</u>	3,372,180
Operating income (loss) before depreciation	652,317	(54,326)
Depreciation	<u>1,761,253</u>	1,886,264
Operating loss	(1,108,936)	(1,940,590)
Nonoperating revenues (expenses):		
General tax levies	1,154,915	1,021,677
Interest income	221,658	109,094
Other revenues	13,825	5,662
Interest expense	<u>(56,110)</u>	(57,804)
	<u>1,334,288</u>	1,078,629
Income (loss) before grant revenue for capital purposes	225,352	(861,961)
Grant revenue for capital purposes	<u>-</u>	693,778
Change in net position	225,352	(168,183)
Net position:		
Beginning of year	<u>56,092,959</u>	56,261,142
End of year	<u>\$ 56,318,311</u>	\$ 56,092,959

See notes to financial statements.

Duluth Seaway Port Authority

Statements of Cash Flows
Years Ended March 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from customers	\$ 3,579,411	\$ 3,242,847
Payments to suppliers	(1,847,198)	(1,672,104)
Payments to employees	(1,373,020)	(1,514,744)
Other receipts	98,994	12,000
Net cash provided by operating activities	458,187	67,999
Cash flows from noncapital financing activities:		
General tax levies	1,016,934	980,757
Net cash provided by noncapital financing activities	1,016,934	980,757
Cash flows from capital and related financing activities:		
Purchase of capital assets	(4,009,492)	(1,355,443)
Receipts from other governments	240,000	2,084,602
Principal payments on long-term debt	(236,571)	(233,991)
Interest paid on long-term debt	(59,008)	(59,887)
Net cash (used in) provided by capital and related financing activities	(4,065,071)	435,281
Cash flows from investing activities:		
Purchase of certificates of deposit	(26,982,010)	(22,080,000)
Proceeds from maturities of certificates of deposit	29,605,797	12,480,000
Principal payments received on notes receivable	4,741	113,185
Interest received	240,875	81,253
Net cash provided by (used in) investing activities	2,869,403	(9,405,562)
Net increase (decrease) in cash and cash equivalents	279,453	(7,921,525)
Cash and cash equivalents:		
Beginning	1,433,047	9,354,572
Ending	\$ 1,712,500	\$ 1,433,047
Cash and cash equivalents are reported as follows:		
Current assets	\$ 1,654,915	\$ 413,391
Restricted assets	2,085	951,656
Other assets	55,500	68,000
	\$ 1,712,500	\$ 1,433,047

(Continued)

Duluth Seaway Port Authority

**Statements of Cash Flows (Continued)
Years Ended March 31, 2019 and 2018**

	2019	2018
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,108,936)	\$ (1,940,590)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,761,253	1,886,264
Miscellaneous nonoperating receipts	13,825	5,662
Change in deferred outflow	107,756	215,543
Change in deferred inflow	52,745	105,646
Changes in assets and liabilities:		
Receivables	(218,901)	(70,665)
Prepaid expenses	(4,752)	(6,923)
Land held for sale	198,312	-
Accounts payable and accrued liabilities	(131,914)	137,166
Unearned revenue	13	(3,004)
Tenant deposits	(12,500)	5,000
Net pension liability	(198,714)	(266,100)
Net cash provided by operating activities	\$ 458,187	\$ 67,999
Supplemental schedule of noncash capital and related financing activities:		
Accounts payable, capital assets	\$ 181,291	\$ 331,661

See notes to financial statements.

Duluth Seaway Port Authority

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 which 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.

Duluth Seaway Port Authority

Notes to Financial Statements

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. 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:

	<u>Years</u>
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 .01813 percent 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 2019, employees earned \$70,450, and used \$51,096 of vacation. At March 31, 2019 and 2018, the liability totaled \$110,323 and \$90,969, respectively.

Duluth Seaway Port Authority

Notes to Financial Statements

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, 2019 and 2018 the liability totaled \$144,996 and \$209,697, respectively.

Advertising costs: Advertising costs are expensed as incurred. Advertising expense amounted to \$183,525 in 2019 and \$178,534 in 2018.

Pensions: For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/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.

Reclassifications: Certain liabilities as previously reported in 2018, have been reclassified to be consistent with the classifications adopted for 2019 with no effect on net position.

Note 2. Deposits and Investments

The carrying amount of deposits and investments are included in the Authority's balance sheet as follows:

	2019	2018
Deposits with financial institutions	\$ 5,572,677	\$ 11,923,826
Investments		
U.S. Treasury bills	3,616,214	-
Money market funds	1,419,822	1,029,221
	<u>\$ 10,608,713</u>	<u>\$ 12,953,047</u>
	2019	2018
Current assets:		
Cash and cash equivalents	\$ 1,654,915	\$ 413,391
Investments	7,812,110	11,520,000
Current restricted assets:		
Cash and cash equivalents	2,085	951,656
Investments	1,084,103	-
Other assets, restricted cash and cash equivalents	55,500	68,000
	<u>\$ 10,608,713</u>	<u>\$ 12,953,047</u>

Duluth Seaway Port Authority

Notes to Financial Statements

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 percent of the deposits not covered by insurance or bonds (140 percent in the case of mortgage notes pledged).

At March 31, 2019, the Authority's deposits were entirely covered by federal depository insurance and pledged collateral.

The Authority does not have a formal policy for deposits.

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, 2019, 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. The Authority's money market funds and U.S. Treasury bills are not subject to custodial credit risk at March 31, 2019.

Fair value reporting: The Authority's investments in money market funds are measured at amortized cost. The certificates of deposits are valued using the Level 1 inputs of the fair value hierarchy.

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 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 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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 3. Capital Assets

	Cost			
	Balance	Additions	Reclassifications/	Balance
	March 31, 2018		Deletions	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
	<u>\$ 72,887,387</u>	<u>\$ 3,859,122</u>	<u>\$ (103,115)</u>	<u>\$ 76,643,394</u>

	Accumulated Depreciation			Net	
	Balance	Additions	Deductions	Balance	Book Value
	March 31, 2018			March 31, 2018	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
	<u>\$ 28,898,820</u>	<u>\$ 1,761,253</u>	<u>\$ (103,115)</u>	<u>\$ 30,556,958</u>	<u>\$ 46,086,436</u>

	Cost			
	Balance	Additions	Reclassifications/	Balance
	March 31, 2017		Deletions	March 31, 2018
Land and land improvements	\$ 34,817,749	\$ -	\$ 3,412,535	\$ 38,230,284
Buildings	26,325,119	-	103,899	26,429,018
Equipment	5,195,376	-	1,565,774	6,761,150
Construction in progress	5,006,246	1,542,897	(5,082,208)	1,466,935
	<u>\$ 71,344,490</u>	<u>\$ 1,542,897</u>	<u>\$ -</u>	<u>\$ 72,887,387</u>

	Accumulated Depreciation			Net	
	Balance	Additions	Deductions	Balance	Book Value
	March 31, 2017			March 31, 2017	March 31, 2018
Land and land improvements	\$ 8,123,363	\$ 902,656	\$ -	\$ 9,026,019	\$ 29,204,265
Buildings	15,003,018	768,767	-	15,771,785	10,657,233
Equipment	3,886,175	214,841	-	4,101,016	2,660,134
Construction in progress	-	-	-	-	1,466,935
	<u>\$ 27,012,556</u>	<u>\$ 1,886,264</u>	<u>\$ -</u>	<u>\$ 28,898,820</u>	<u>\$ 43,988,567</u>

Duluth Seaway Port Authority

Notes to Financial Statements

Note 4. Long-Term Debt

	2019	2018
Note payable at a fixed rate of 3.00%, due in annual installments ranging from \$164,046 to \$185,886 due on February 15, 2027. Lease revenues and a building are pledged as collateral.	\$ 1,446,613	\$ 1,605,913
Assessment bonds to the City of Duluth, paid in full during 2019	-	77,271
	<u>1,446,613</u>	<u>1,683,184</u>
Less current maturities	164,046	236,513
	<u>\$ 1,282,567</u>	<u>\$ 1,446,671</u>

The following is a summary of changes in long-term debt at March 31, 2019 and 2018:

	2019				
	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Assessment bonds to the City of Duluth	\$ 77,271	\$ -	\$ 77,271	\$ -	\$ -
Note payable	1,605,913	-	159,300	1,446,613	164,046
	<u>\$ 1,683,184</u>	<u>\$ -</u>	<u>\$ 236,571</u>	<u>\$ 1,446,613</u>	<u>\$ 164,046</u>
	2018				
Assessment bonds to the City of Duluth	\$ 156,709	\$ -	\$ 79,438	\$ 77,271	\$ 77,271
Note payable	1,760,466	-	154,553	1,605,913	159,242
	<u>\$ 1,917,175</u>	<u>\$ -</u>	<u>\$ 233,991</u>	<u>\$ 1,683,184</u>	<u>\$ 236,513</u>

Debt service requirements at March 31, 2019, are:

	Principal	Interest	Total
Years ending March 31:			
2020	\$ 164,046	\$ 41,855	\$ 205,901
2021	169,214	36,687	205,901
2022	174,433	31,468	205,901
2023	179,813	26,088	205,901
2024	185,310	20,591	205,901
2025–2027	573,797	26,614	600,411
	<u>\$ 1,446,613</u>	<u>\$ 183,303</u>	<u>\$ 1,629,916</u>

Duluth Seaway Port Authority

Notes to Financial Statements

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 the Public Employees Retirement Association of Minnesota (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.

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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

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 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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 6.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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 2019 and 2018, Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary. In calendar years 2019 and 2018, the Authority was required to contribute 7.50 percent for Coordinated Plan members. The Authority's contributions to the General Employees Retirement Fund (GERF) for the years ended March 31, 2019 and 2018, were \$63,579 and \$78,255, respectively. The Authority's contributions were equal to the required contributions as set by state statute.

Pension costs: At March 31, 2019 and 2018, the Authority reported a liability of \$809,948 and \$1,008,662, 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 2018.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan Statewide (Continued)

The State of Minnesota is considered a non-employer 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 \$26,429. 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, 2017, through June 30, 2018, for 2019 measurement, and July 1, 2016, through June 30, 2017, for 2018 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 and 2017, the Authority's proportion was .0146 percent and .0158 percent, respectively.

Authority's proportionate share of the net pension liability	\$ 809,948
State of Minnesota's proportionate share of the net pension liability associated with the Authority	26,429
Total	<u>\$ 836,377</u>

For the years ended March 31, 2019 and 2018, the Authority recognized pension expense of \$46,972 and \$41,373, respectively, for its proportionate share of the GERS's pension expense. In addition, for the year ended March 31, 2019, the Authority recognized an additional \$6,163 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, 2019 and 2018, the Authority reported its proportionate share of the GERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 23,121	\$ 25,403	\$ 33,242	\$ 64,305
Changes in actuarial assumptions	83,200	96,126	166,403	101,118
Net difference between projected and actual investment earnings	-	84,963	-	44,602
Changes in proportion	6,652	57,453	11,272	1,175
Contributions paid to PERA subsequent to the measurement date	48,324	-	58,136	-
Total	<u>\$ 161,297</u>	<u>\$ 263,945</u>	<u>\$ 269,053</u>	<u>\$ 211,200</u>

The amount of \$48,324 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense
Years ended March 31:	
2020	\$ 16,727
2021	(62,673)
2022	(88,124)
2023	(16,902)
	<u>\$ (150,972)</u>

Duluth Seaway Port Authority

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan Statewide (Continued)

Actuarial assumptions: The total pension liability in the June 30, 2018 and 2017, actuarial valuations were determined using the following actuarial assumptions:

	2018	2017
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 percent per year.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the GERF was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions. The following changes in actuarial assumptions and plan provisions occurred in 2018.

GERF

Changes in actuarial assumptions:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in plan provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

Duluth Seaway Port Authority

Notes to Financial Statements

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:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	36%	5.10%
International stocks	17%	5.30%
Bonds	20%	0.75%
Alternative assets	25%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

Discount rate: The discount rate used to measure the total pension liability in 2018 was 7.50 percent. 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 GERP 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:

	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
Proportionate share of the GERP net pension liability	\$ 1,316,269	\$ 809,948	\$ 391,994

Pension plan fiduciary net position: Detailed information about GERP'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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 6. Unearned Revenue

	2019	2018
Tenant capital asset rental	\$ 97,386	\$ 97,373

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 comprised of cash and investments which 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, 2019 and 2018:

	2019	2018
EDA land sales	\$ -	\$ 773,318
Intermodal container terminal expansion project; cost share	1,084,103	-
State grants; pledged matching funds	-	176,253
Other	2,085	2,085
Restricted net position	1,086,188	951,656
Tenant and other deposits	55,500	68,000
Restricted assets	<u>\$ 1,141,688</u>	<u>\$ 1,019,656</u>

Duluth Seaway Port Authority

Notes to Financial Statements

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, 2019, 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:	
2020	\$ 1,892,727
2021	1,652,795
2022	1,562,475
2023	1,194,893
2024	249,236
Thereafter	2,015,354
	<u>\$ 8,567,480</u>

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, 2019, the Authority had expended \$435,028 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 percent 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 purchase of an office building, the Altec building expansion project, and dock fender project. The Authority has approximately \$2,200,000 remaining on these contracts.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 12. Pending Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statement not yet implemented by the Authority. Management has not yet evaluated the impact of these statements. Listed below is the statement which 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, 2020. 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, 2020. 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, 2021. 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, 2020. 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. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, will be effective for the Authority beginning with its year ending March 31, 2021. This statement establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest costs incurred before the end of a construction period.

GASB Statement No. 90, *Majority Equity Interests*, will be effective for the Authority beginning with its year ending March 31, 2020. 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.

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%

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%

Supplementary Information

Duluth Seaway Port Authority

**Combining Statement of Revenues and Expenses
Year Ended March 31, 2019**

	Operational Departments				Combined
	Administration	Port Promotion	Port Development	Marine Terminal	
Operating revenues	\$ 2,371,611	\$ -	\$ 12,000	\$ 1,314,045	\$ 3,697,656
Operating expenses, excluding depreciation	1,489,717	700,413	293,493	561,716	3,045,339
Operating income (loss) before depreciation	881,894	(700,413)	(281,493)	752,329	652,317
Depreciation	922,795	-	-	838,458	1,761,253
Operating loss	(40,901)	(700,413)	(281,493)	(86,129)	(1,108,936)
Nonoperating revenues (expenses):					
General tax levies	-	-	1,154,915	-	1,154,915
Interest income	221,658	-	-	-	221,658
Other revenues	13,825	-	-	-	13,825
Interest expense	(56,110)	-	-	-	(56,110)
	179,373	-	1,154,915	-	1,334,288
Change in net position	\$ 138,472	\$ (700,413)	\$ 873,422	\$ (86,129)	\$ 225,352

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Administration
Years Ended March 31, 2019 and 2018**

	2019	2018
Departmental revenues:		
Rentals	\$ 2,284,617	\$ 2,127,165
Gain on sale of land held for resale	86,994	-
	<u>2,371,611</u>	<u>2,127,165</u>
Departmental expenses:		
Salaries and wages	513,123	511,440
Employee benefits:		
Health, welfare, and pension	157,066	260,669
Social security tax	35,644	37,235
Workers' compensation insurance	1,434	1,937
Commissioner fees	6,600	7,040
Consulting	71,854	245,445
Dues and subscriptions	2,344	21,581
Insurance	65,810	54,043
Office	35,326	16,989
Bad debt	195,000	295,140
Other	25,453	45,940
Professional services	77,889	130,976
Rent	59,906	-
Repairs, maintenance, and supplies	165,150	106,536
Telephone	10,603	10,995
Travel and entertainment	42,972	30,814
Utilities	23,543	29,165
Total departmental expenses	<u>1,489,717</u>	<u>1,805,945</u>
Departmental income before depreciation	881,894	321,220
Depreciation	<u>922,795</u>	<u>1,138,878</u>
Departmental operating loss	<u>\$ (40,901)</u>	<u>\$ (817,658)</u>

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Port Promotion
Years Ended March 31, 2019 and 2018**

	2019	2018
Departmental revenues	\$ -	\$ -
Departmental expenses:		
Salaries and wages	289,892	316,761
Employee benefits:		
Health, welfare, and pension	97,057	123,760
Social security tax	23,884	25,191
Workers' compensation insurance	1,690	1,885
Advertising and promotion	169,871	145,006
Consulting	16,380	30,865
Cruise ship visits	-	1,480
Dues and subscriptions	23,951	27,303
Insurance	5,893	5,560
Maritime representative	29,750	28,400
Other	1,045	7,147
Photographs and supplies	575	2,225
Repairs, maintenance, and supplies	5,000	-
Telephone	3,294	4,181
Travel and entertainment	32,131	44,202
Total departmental expenses	<u>700,413</u>	<u>763,966</u>
Departmental loss before depreciation	(700,413)	(763,966)
Depreciation	-	-
Departmental operating loss	<u>\$ (700,413)</u>	<u>\$ (763,966)</u>

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Port Development
Years Ended March 31, 2019 and 2018**

	2019	2018
Departmental revenues:		
Other	\$ 12,000	\$ 12,000
Total departmental revenues	<u>12,000</u>	<u>12,000</u>
Departmental expenses:		
Salaries and wages	142,650	199,082
Employee benefits:		
Health, welfare and pension	31,229	65,939
Social security tax	10,837	15,793
Workers' compensation insurance	467	1,224
Consulting	52,670	90,620
Other	3,859	3,703
Professional services	50,015	67,348
Telephone	791	1,943
Travel and entertainment	975	8,814
Total departmental expenses	<u>293,493</u>	<u>454,466</u>
Departmental loss before depreciation	(281,493)	(442,466)
Depreciation	<u>-</u>	<u>-</u>
Departmental operating loss	<u>\$ (281,493)</u>	<u>\$ (442,466)</u>

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Marine Terminal
Years Ended March 31, 2019 and 2018**

	2019	2018
Departmental revenues:		
Dockage and mooring	\$ 92,744	\$ 107,979
Rentals	68,244	-
Facilities fee	1,108,843	976,002
Wharfage	44,214	94,708
Total departmental revenues	1,314,045	1,178,689
Departmental expenses:		
Advertising and promotion	13,653	33,529
Consulting	144,277	8,100
Foreign trade zone	500	500
Insurance	64,935	63,884
Other	699	660
Professional services	25,614	(15,617)
Protection service	14,704	13,690
Repairs and maintenance	295,286	241,419
Utilities	2,048	1,638
Total departmental expenses	561,716	347,803
Departmental income before depreciation	752,329	830,886
Depreciation	838,458	747,386
Departmental operating (loss) income	\$ (86,129)	\$ 83,500



RSM US LLP

Minnesota Legal Compliance
Independent Auditor's Report

To the 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 (Authority) as of and for the year ended March 31, 2019, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 29, 2019.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except that we did not test for compliance with the provisions for tax increment financing because no tax increment financing was used for the year ended March 31, 2019.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*. 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 the Authority's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the 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
July 29, 2019