

Duluth Seaway Port Authority

Financial and Compliance Report
March 31, 2023

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RSM US LLP

Independent Auditor's Report

Board of Commissioners
Duluth Seaway Port Authority

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of the Duluth Seaway Port Authority (the Authority), as of and for the year ended March 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of March 31, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 4 to the financial statements, the Authority adopted and implemented Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit 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.

Supplementary 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 combining statement of revenues and expenses and schedules of departmental revenues and expenses and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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. The 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2023, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

RSM US LLP

Duluth, Minnesota
September 13, 2023

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

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2023

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 year ended March 31, 2023. 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 accounting principles generally accepted in the United States of America. Certain comparative information between the current year and prior year is required to be presented in the MD&A.

Financial Highlights

2023

The Authority's net position increased \$7,077,010 (11%), from \$62,957,560 in 2022 to \$70,034,570 in 2023. This increase was made up of operating loss of \$741,641, and nonoperating income and capital grants of \$7,818,651.

The Authority's operating revenues increased 27% to \$4,538,795. This increase results primarily from an increase in facilities fees and wharfage for the Marine Terminal Department. Operating expenses increased to \$5,280,436 (6%) primarily from an increase in operating expense related to employee benefits. Operating loss for 2023 is \$741,641 compared to operating loss of \$1,439,036 in 2022.

2022

The Authority's net position increased \$173,223 (1%), from \$62,784,337 in 2021 to \$62,957,560 in 2022. This increase was made up of operating loss of \$1,439,036, and nonoperating income and capital grants of \$1,612,259.

The Authority's operating revenues decreased 32% to \$3,566,298. This decrease results primarily from a decrease in facilities fees and wharfage for the Marine Terminal Department. Operating expenses increased to \$5,005,334 (3%) primarily from an increase in operating expense for the Marine Terminal Department. Operating loss for 2022 is \$1,439,036 compared to operating income of \$381,475 in 2021.

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.

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. The statement of cash flows presents all cash receipts and payments resulting from operational, noncapital financing, capital and related financing and investing activities. This statement summarizes the sources and uses of cash for the current period.

Notes to Financial Statements

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

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2023

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, 80% in 2023 and 81% in 2022, 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, 1% in 2023 and 1% in 2022 is restricted for compliance with provisions of bond indentures and grants.

The remaining balance of net position, 19% in 2023 and 18% in 2022, 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, 2023 and 2022:

	2023	2022
Current and other assets	\$ 28,598,531	\$ 13,362,228
Capital assets	59,688,560	54,117,012
Deferred outflows	336,297	454,652
Total assets and deferred outflows	<u>88,623,388</u>	<u>67,933,892</u>
Long-term debt outstanding	2,902,021	3,090,333
Other liabilities	2,258,017	1,314,658
Deferred inflows	13,428,780	571,341
Total liabilities and deferred inflows	<u>18,588,818</u>	<u>4,976,332</u>
Net position:		
Net investment in capital assets	56,210,242	50,930,367
Restricted	241,280	524,553
Unrestricted	13,583,048	11,502,640
Total net position	<u>\$ 70,034,570</u>	<u>\$ 62,957,560</u>

During 2023, capital assets increased largely due to improvements and purchases of \$5,400,000 related to the construction of a 58,000-square-foot rail-served warehouse addition at the Clure Public Marine Terminal, and \$962,000 of rail service improvement project costs, resulting in an increase, net of depreciation, of approximately \$5,600,000.

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2023

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 by source and expenses by function for the years ended March 31, 2023 and 2022.

	2023	2022
Revenues:		
Operating revenues	\$ 4,538,795	\$ 3,566,298
General revenues:		
Property taxes	1,420,077	1,357,919
Gain (loss) on sale of capital assets	-	350,215
Interest	81,396	23,069
Other	71,244	9,474
Total revenues	<u>6,111,512</u>	<u>5,306,975</u>
Expenses:		
Administration	1,389,783	1,247,209
Port promotion	923,709	786,493
Port development	268,940	239,379
Marine terminal	481,548	491,122
Interest on long-term debt	127,646	167,052
Depreciation	2,216,456	2,241,131
Total expenses	<u>5,408,082</u>	<u>5,172,386</u>
Capital grants	<u>6,373,580</u>	<u>38,634</u>
Increase in net position	7,077,010	173,223
Net position:		
Beginning of year	62,957,560	62,784,337
End of year	<u>\$ 70,034,570</u>	<u>\$ 62,957,560</u>

During 2023, the Authority recognized capital grants associated with the warehouse and rail service improvement projects of approximately \$6,100,000.

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, was \$59,688,560 and \$54,117,012 as of March 31, 2023 and 2022, 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 10% during 2023. 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 \$2,902,021 in long-term debt compared to \$3,090,333 in 2022. Additional information related to the Authority's debt can be found in Note 5 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, and intermodal terminal operations), leasing, grant funds and a tax levy from St. Louis County. For fiscal year 2024, the Authority anticipates that general maritime cargo activity at the Clure Public Marine Terminal will be down compared to fiscal year 2023 when the Terminal handled 25 vessels, resulting in lower terminal revenue.

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2023

The slow maritime season was somewhat off-set by the establishment of monthly liner service between the Clure Terminal and Antwerp starting in May 2023, providing the opportunity for cargo owners to send and receive partial boatload volumes of general cargo and containers on a regularly scheduled basis. This service was made possible by capital investment in a CBP-required container examination station/maritime cargo facility within a Clure Terminal warehouse, which was completed in the summer of 2022. The Authority expects intermodal terminal operations, warehousing activity and the tax levy to be on par with fiscal year 2022.

The Authority has been awarded a MARAD – Port Infrastructure Development Program (PIDP) grant for \$10.5 million and two Minnesota Department of Transportation (MnDOT) Port Development Assistance Program (PDAP) grants totaling \$7.4 million. These grants will help fund the construction of a 58,000-square-foot rail-served warehouse addition at the Clure Public Marine Terminal and the rehabilitation of 1,775 lineal feet of deteriorating dock walls at Berths 10 and 11 of the Clure Terminal Expansion. The warehouse construction is underway and anticipated to be completed late summer 2023. Dock wall rehabilitation is scheduled to start construction spring of 2024. These improvements will maintain and enhance the Authority's 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.

On December 1, 2020, the Authority acquired Duluth Lake Port dock on Rice's Point. The future use of this property is still in the planning phase; the Authority's goal is to revitalize the pier and bring it back to life in a way that contributes to its regional economy and further expands service to customers within the Authority's region and around the globe. In the interim, a portion of the facility is leased and the rail spur is used as part of Clure Terminal operations. The Authority is actively pursuing grant funds to support the first phase of rehabilitation of the dock/facility.

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 U.S. Steel Duluth Works integrated steel mill. The purchase is dependent on a successful clean-up of the site. To date, working with U.S. Steel, the Authority has 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. U.S. Steel has submitted the RAP to the Minnesota PCA and has been approved. The clean-up of the site is scheduled to start in August of 2023. The Authority is conducting preliminary engineering work to help better define property development constraints and costs. The Authority has also obtained special tax increment legislation, which will support the redevelopment if the site is purchased.

The Authority has been awarded two Minnesota Rail Service Improvement Program grants through MnDOT. These two grants will address the deteriorating performance of existing curved track and grade crossings and replace switches, all at the heart of the Clure Public Marine Terminal. The rail and switch reconstruction will bring these areas to current industry standards, mitigate potential safety and performance risks of aging sub optimal track, and prevent possible derailments or other service stoppages that would disrupt supply chains of multiple industries served by the Clure Public Marine Terminal. Phase I was completed in the spring of 2022 and Phase II will be completed late summer of 2023.

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, 802 Garfield Ave., Duluth, Minnesota 55802, Attention: Chief Financial Officer.

Duluth Seaway Port Authority

Statement of Net Position

March 31, 2023

Assets and Deferred Outflows

Current assets:

Cash and cash equivalents:

Unrestricted \$ 3,976,823

Restricted (Note 9) 241,280

Investments 3,839,520

Receivables:

Taxes 1,424,494

Accounts, less allowance for doubtful accounts of \$0 365,030

Interest 28,196

Leases (Note 4) 1,631,569

Due from other governments 4,079,518

Prepaid expenses 116,264

Total current assets 15,702,694

Noncurrent assets:

Capital assets (Note 3):

Land and land improvements 47,767,790

Buildings 34,739,242

Equipment 7,789,191

Construction in progress 6,544,515

96,840,738

Less accumulated depreciation 37,152,178

Total capital assets 59,688,560

Other assets:

Restricted cash and cash equivalents (Note 9) 55,500

Land held for sale, at cost 821,389

Lease receivable, less current portion (Note 4) 12,018,948

Total noncurrent assets 72,584,397

Total assets 88,287,091

Deferred outflows of resources:

Deferred pension amounts (Note 6) 336,297

Total assets and deferred outflows \$ 88,623,388

See notes to financial statements.

Liabilities, Deferred Inflows and Net Position

Current liabilities:

Accounts payable:

Trade	\$	77,669
Construction and equipment		576,297
Accrued payroll liabilities		150,263
Rent advance liability (Note 7)		113,666
Current maturities of long-term debt (Note 5)		195,016
Total current liabilities		<u>1,112,911</u>

Noncurrent liabilities:

Long-term debt, less current maturities (Note 5)		2,707,005
Net pension liability (Note 6)		1,053,364
Long-term accrued payroll liabilities		231,258
Other long-term liabilities		55,500
Total noncurrent liabilities		<u>4,047,127</u>

Deferred inflows of resources:

Deferred pension amounts (Note 6)		32,136
Leases (Note 4)		13,396,644
Total liabilities and deferred inflows		<u>18,588,818</u>

Net position:

Net investment in capital assets		56,210,242
Restricted (Note 9)		241,280
Unrestricted		13,583,048
Total net position		<u>70,034,570</u>

Total liabilities, deferred inflows and net position	\$	<u><u>88,623,388</u></u>
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Duluth Seaway Port Authority

**Statement of Revenues, Expenses and Changes in Net Position
Year Ended March 31, 2023**

Operating revenues	\$ 4,538,795
Operating expenses, excluding depreciation	<u>3,063,980</u>
Operating income before depreciation	1,474,815
Depreciation	<u>2,216,456</u>
Operating loss	<u>(741,641)</u>
Nonoperating revenues (expenses):	
General tax levies	1,420,077
Interest income	81,396
Other revenues	71,244
Interest expense	<u>(127,646)</u>
	<u>1,445,071</u>
Income before capital grants	703,430
Capital grants	<u>6,373,580</u>
Change in net position	7,077,010
Net position:	
Beginning of year	<u>62,957,560</u>
End of year	<u><u>\$ 70,034,570</u></u>

See notes to financial statements.

Duluth Seaway Port Authority

Statement of Cash Flows
Year Ended March 31, 2023

Cash flows from operating activities:	
Receipts from customers	\$ 4,442,321
Payments to suppliers	(1,457,850)
Payments to employees	(1,575,705)
Other receipts	57,850
Net cash provided by operating activities	1,466,616
Cash flows from noncapital financing activities:	
General tax levies	1,351,903
Other receipts	71,244
Net cash provided by noncapital financing activities	1,423,147
Cash flows from capital and related financing activities:	
Purchase of capital assets	(7,308,019)
Receipts from other governments	2,297,062
Principal payments on long-term debt	(188,312)
Interest paid on long-term debt	(127,646)
Net cash used in capital and related financing activities	(5,326,915)
Cash flows from investing activities:	
Purchase of investments	(3,361,337)
Proceeds from maturities of investments	8,424,705
Interest received	57,684
Net cash provided by investing activities	5,121,052
Net increase in cash and cash equivalents	2,683,900
Cash and cash equivalents:	
Beginning	1,589,703
Ending	\$ 4,273,603
Cash and cash equivalents are reported as follows:	
Current assets	\$ 3,976,823
Restricted assets—current	241,280
Restricted assets—noncurrent	55,500
	\$ 4,273,603

(Continued)

Duluth Seaway Port Authority

Statement of Cash Flows (Continued)

Year Ended March 31, 2023

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (741,641)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	2,216,456
Change in deferred outflows	118,355
Change in deferred inflows	12,857,439
Changes in assets and liabilities:	
Receivables	194,481
Lease receivables	(13,650,517)
Prepaid expenses	2,247
Land held for sale	6,422
Accounts payable and accrued liabilities	(15,014)
Unearned revenue	14,346
Net pension liability	464,042
	<hr/>
Net cash provided by operating activities	\$ 1,466,616
	<hr/>
Supplemental schedule of noncash capital and related financing activities:	
Accounts payable, capital assets	\$ 576,297
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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 (the Port) 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 deferred outflows, and liabilities and deferred inflows 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 (money market funds) 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.

Leases: The Authority is a lessor in real estate leases. The Authority recognizes a lease receivable and a deferred inflow of resources in the financial statements. The Authority recognizes lease receivables with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the Authority determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term and (3) lease receipts.

- The Authority uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The Authority monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the leases receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the leases receivable.

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 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:

	<u>Years</u>
Land improvements	10-50
Buildings	20-50
Equipment	4-30

Duluth Seaway Port Authority

Notes to Financial Statements

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

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, other pension-related deferrals, and lease related deferred inflows.

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 of Duluth. The amount levied is paid to the Authority by St. Louis County. The property taxes are levied in December of each year and become an enforceable lien on the properties in January. St. Louis County assesses and collects the property taxes and remits the portion collected for the Authority in July and December of each year. Property taxes certified in December 2022 and payable in 2023 are recognized as revenues for the fiscal year ended March 31, 2023, as the Authority has an enforceable legal claim to the resources.

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 and reported in the accrued payroll liabilities on the statement of net position. During 2023, employees earned \$105,088 and used \$98,886 of vacation. At March 31, 2023, the liability totaled \$140,106.

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 and for employees the Authority estimates will become qualified. At March 31, 2023, the liability totaled \$231,258.

Advertising costs: Advertising costs are expensed as incurred. Advertising expense amounted to \$208,242 in 2023.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 2. Nature of Operations and Significant Accounting Policies (Continued)

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 statement of net position as follows:

	<u>Amount</u>
Deposits with financial institutions	\$ 2,368,843
Investments:	
Certificates of deposit	3,839,520
Money market funds	1,904,760
	<u>\$ 8,113,123</u>
	<u>Amount</u>
Current assets:	
Cash and cash equivalents	\$ 3,976,823
Investments	3,839,520
Current restricted assets:	
Cash and cash equivalents	241,280
Other assets, restricted cash and cash equivalents	55,500
	<u>\$ 8,113,123</u>

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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

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, 2023, the Authority's deposits and certificates of deposit had a bank balance of \$6,232,606 which was 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, 2023, the Authority's money market funds and certificates of deposits 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, 2023, the Authority's money market funds 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. Certificates of deposit have a maturity of less than two years.

Fair value reporting: There is an established hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. 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.

The certificates of deposit are valued using the Level 2 inputs of the fair value hierarchy. The Authority's investments in money market funds are measured at amortized cost.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 3. Capital Assets

	Cost			
	Balance	Additions	Reclassifications/	Balance
	March 31, 2022		Deletions	March 31, 2023
Land and land improvements	\$ 46,602,326	\$ -	\$ 1,165,464	\$ 47,767,790
Buildings	32,779,967	-	1,959,275	34,739,242
Equipment	7,729,555	-	59,636	7,789,191
Construction in progress	1,940,886	7,788,004	(3,184,375)	6,544,515
	<u>\$ 89,052,734</u>	<u>\$ 7,788,004</u>	<u>\$ -</u>	<u>\$ 96,840,738</u>

	Accumulated Depreciation			Net	
	Balance	Additions	Deductions	Balance	Book Value
	March 31, 2022			March 31, 2023	March 31, 2023
Land and land improvements	\$ 12,894,117	\$ 1,149,207	\$ -	\$ 14,043,324	\$ 33,724,466
Buildings	17,317,525	856,886	-	18,174,411	16,564,831
Equipment	4,724,080	210,363	-	4,934,443	2,854,748
Construction in progress	-	-	-	-	6,544,515
	<u>\$ 34,935,722</u>	<u>\$ 2,216,456</u>	<u>\$ -</u>	<u>\$ 37,152,178</u>	<u>\$ 59,688,560</u>

Note 4. Leases

Lessor: During the year ended March 31, 2023, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement No. 87, *Leases* (GASB 87), which establishes criteria for identifying and reporting certain lease assets and liabilities.

The Authority is a lessor for substantially all of its property and equipment. The new guidance resulted in the Authority recognizing a lease receivable and a deferred inflow of resources on the financial statements. The total amount of inflows of resources, including lease revenue, and interest revenue recognized for the year ended March 31, 2023 were \$2,653,812. This total includes \$115,459 of variable and other payments not recorded in the measurement of lease receivable. Variable payments consist of dockage and mooring fees for loading and unloading cargo at the leased premises.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 4. Leases (Continued)

The following is a schedule of the future principal and interest payments to be received for lease receivables as of March 31, 2023:

	Principal	Interest	Total
Years ending March 31:			
2024	\$ 1,631,569	\$ 590,263	\$ 2,221,832
2025	1,608,395	521,951	2,130,346
2026	1,629,341	453,186	2,082,527
2027	1,387,787	385,629	1,773,416
2028	607,946	346,839	954,785
2029-2033	2,662,906	1,315,324	3,978,230
2034-2038	2,390,879	745,147	3,136,026
2039-2043	680,934	359,592	1,040,526
2044-2048	735,648	193,378	929,026
2049-2053	11,307	93,798	105,105
2054-2058	15,442	89,662	105,104
2059-2063	21,090	84,015	105,105
2064-2068	28,804	76,301	105,105
2069-2073	39,338	65,767	105,105
2074-2078	53,725	51,380	105,105
2079-2083	73,374	31,731	105,105
2084-2087	72,032	6,798	78,830
	<u>\$ 13,650,517</u>	<u>\$ 5,410,761</u>	<u>\$ 19,061,278</u>

Note 5. Long-Term Debt

	Amount
Direct borrowings:	
Note payable at a fixed rate of 4.25%, due in monthly installments of \$26,330 due on November 22, 2034. Lease revenues and a building are pledged as collateral.	<u>\$ 2,902,021</u>
	2,902,021
Less current maturities	<u>195,016</u>
	<u>\$ 2,707,005</u>

The following is a summary of changes in long-term debt at March 31, 2023:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Note from direct borrowings	\$ 3,090,333	\$ -	\$ 188,312	\$ 2,902,021	\$ 195,016
	<u>\$ 3,090,333</u>	<u>\$ -</u>	<u>\$ 188,312</u>	<u>\$ 2,902,021</u>	<u>\$ 195,016</u>

Duluth Seaway Port Authority

Notes to Financial Statements

Note 5. Long-Term Debt (Continued)

The Authority's outstanding note from direct borrowings contains a provision that if the underlying property is sold outstanding amounts become immediately due.

Debt service requirements on long-term debt at March 31, 2023, are as follows:

	Principal	Interest	Total
Years ending March 31:			
2024	\$ 195,016	\$ 119,554	\$ 314,570
2025	204,914	111,042	315,956
2026	213,795	102,162	315,957
2027	223,060	92,897	315,957
2028	232,727	83,230	315,957
2029-2033	1,323,956	271,595	1,595,551
2034-2035	508,553	3,318	511,871
	<u>\$ 2,902,021</u>	<u>\$ 783,798</u>	<u>\$ 3,685,819</u>

Note 6. 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. The General Employees Retirement Plan covers all full time and certain part-time employees of the Authority. 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.

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 Plan members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7% 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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 6. Defined Benefit Pension Plan Statewide (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is 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% 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. 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.

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar year 2023 and 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 year ended March 31, 2023 was \$77,106. The Authority's contributions were equal to the required contributions as set by state statute.

Pension costs: At March 31, 2023, the Authority reported a liability of \$1,053,364 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. 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 \$30,904.

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportionate share 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, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The Authority's proportionate share was 0.0133% at the end of the measurement period and 0.0138% for the beginning of the period.

Authority's proportionate share of the net pension liability	\$ 1,053,364
State of Minnesota's proportionate share of the net pension liability associated with the Authority	30,904
Total	<u>\$ 1,084,268</u>

For the year ended March 31, 2023, the Authority recognized pension expense of \$47,810 for its proportionate share of the General Employees Plan's pension expense. In addition, the Authority recognized an additional \$4,618 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's pension expense for the annual \$16 million contribution to the General Employees Fund.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 6. Defined Benefit Pension Plan Statewide (Continued)

At March 31, 2023, the Authority reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,799	\$ 11,676
Changes in actuarial assumptions	247,086	4,445
Net difference between projected and actual investment earnings	4,517	-
Changes in proportion	17,969	16,015
Contributions paid to PERA subsequent to the measurement date	57,926	-
Total	<u>\$ 336,297</u>	<u>\$ 32,136</u>

The amount of \$57,926 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, 2024. 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:	
2024	\$ 104,259
2025	90,666
2026	(43,950)
2027	95,260
	<u>\$ 246,235</u>

Long-term expected return on investments: 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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 6. Defined Benefit Pension Plan Statewide (Continued)

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 equity	33.5%	5.10%
International equity	16.5%	5.30%
Fixed income	25%	0.75%
Private markets	25%	5.90%
Total	<u>100%</u>	

Actuarial methods and assumptions: The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5%. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25%. Benefit increases after retirement are assumed to be 1.25%.

Salary growth assumptions range in annual increments from 10.25% after one year of service to 3.0% after 27 years of service.

Mortality rates are based on the Pub-2010 General Employee Mortality Table.

Actuarial assumptions are reviewed every four years. The most recent four-year experience study for the GERP was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2022:

Changes in actuarial assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in plan provisions:

- There were no changes in plan provisions since the previous valuation.

Discount rate: The discount rate used to measure the total pension liability in 2022 was 6.5%. 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 General Employees Fund 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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 6. Defined Benefit Pension Plan Statewide (Continued)

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 one percentage point lower or one percentage point higher than the current discount rate:

	1% Lower (5.50%)	Current Discount Rate (6.50%)	1% Higher (7.50%)
Net pension liability at different discount rates	\$ 1,663,844	\$ 1,053,364	\$ 552,677

Pension plan fiduciary net position: Detailed information about the General Employees Fund'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 7. Rent Advance Liability

The Authority receives rent payments in advanced from various tenants. Payments range from a monthly to an annual basis. The Authority recognizes a rent advance liability for payments received in advance. At March 31, 2023, the liability related to those rentals totaled \$113,666.

Note 8. 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, 2025. 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 9. 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, 2023:

	<u>Amount</u>
Intergovernmental grants; pledged matching funds:	
Dock wall rehabilitation and warehouse construction	\$ 127,441
Clure Public Marine Terminal security surveillance enhancement project	111,754
Other	<u>2,085</u>
Restricted net position	241,280
Tenant and other deposits	55,500
Restricted assets	<u><u>\$ 296,780</u></u>

Duluth Seaway Port Authority

Notes to Financial Statements

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, 2023, the Authority had expended \$487,444 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 office suites and construction of warehouse enclosures. The Authority has approximately \$3,600,000 remaining on these contracts.

Note 12. 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. 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*.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, will be effective for the Authority beginning with its year ending March 31, 2024. This statement provides accounting and financial reporting guidance for subscription-based information technology arrangements (SBITAs). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 12. Pending Accounting Standards (Continued)

GASB Statement No. 99, *Omnibus 2022*, will be effective for the Authority beginning with its year ending March 31, 2024, for requirements related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements; and March 31, 2025, for requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB statements and (2) accounting and financial reporting for financial guarantees.

GASB Statement No. 100, *Accounting Changes and Error Corrections*, will be effective for the Authority beginning with its year ending March 31, 2025. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability.

GASB Statement No. 101, *Compensated Absences*, will be effective for the Authority beginning with its year ending March 31, 2025. The objective of this statement is to better meet the information needs of the financial statement users by updating the recognition and measurement guidance for compensated absences.

Note 13. Subsequent Events

Subsequent events have been evaluated through September 13, 2023, which is the date the financial statements were available to be issued.

Required Supplementary Information

Duluth Seaway Port Authority

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

Plan 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%
June 30, 2020	0.0138%	827,373	982,615	84.20%	79.06%
June 30, 2021	0.0138%	589,322	1,044,187	56.44%	87.00%
June 30, 2022	0.0133%	1,053,364	997,167	105.64%	76.67%

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%
March 31, 2021	74,190	74,190	-	1,050,905	7.1%
March 31, 2022	73,992	73,992	-	1,044,187	7.1%
March 31, 2023	77,106	77,106	-	997,167	7.7%

Duluth Seaway Port Authority

Notes to Schedule of Changes in Net Pension Liabilities and Related Ratios

2022 Changes

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50% to 6.50%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.

Duluth Seaway Port Authority

Notes to Schedule of Changes in Net Pension Liabilities and Related Ratios

- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period from July 1, 2020 through December 31, 2023, and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes

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 \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 Changes

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% per year through 2044 and 2.50% per year thereafter to 1.25% 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 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50%, 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 Schedule of Changes in Net Pension Liabilities and Related Ratios

2017 Changes

Changes in Actuarial Assumptions:

- The combined service annuity (CSA) loads were changed from 0.80% for active members and 60.00% for vested and nonvested deferred members. The revised CSA loads are now 0.00% for active member liability, 15.00% for vested deferred member liability, and 3.00% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00% per year for all years to 1.00% per year through 2044 and 2.50% per year thereafter.

Changes in Plan Provisions:

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions:

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2030 and 2.50% per year thereafter to 1.00% per year through 2035 and 2.50% per year thereafter.

Changes in Plan Provisions:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

Supplementary Information

Duluth Seaway Port Authority

**Combining Statement of Revenues and Expenses
Year Ended March 31, 2023**

	Operational Departments				Combined
	Administration	Port Promotion	Port Development	Marine Terminal	
Operating revenues	\$ 2,627,663	\$ -	\$ 12,000	\$ 1,899,132	\$ 4,538,795
Operating expenses, excluding depreciation	1,389,783	923,709	268,940	481,548	3,063,980
Operating income (loss) before depreciation	1,237,880	(923,709)	(256,940)	1,417,584	1,474,815
Depreciation	1,218,610	-	-	997,846	2,216,456
Operating income (loss)	19,270	(923,709)	(256,940)	419,738	(741,641)
Nonoperating revenues (expenses):					
General tax levies	-	-	1,420,077	-	1,420,077
Interest income	81,396	-	-	-	81,396
Other revenues	71,244	-	-	-	71,244
Interest expense	(127,646)	-	-	-	(127,646)
	24,994	-	1,420,077	-	1,445,071
Income (loss) before capital grants	44,264	(923,709)	1,163,137	419,738	703,430
Capital grants	6,373,580	-	-	-	6,373,580
Total capital grants	6,373,580	-	-	-	6,373,580
Change in net position	\$ 6,417,844	\$ (923,709)	\$ 1,163,137	\$ 419,738	\$ 7,077,010

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses

Administration

Year Ended March 31, 2023

Departmental revenues:	
Rentals	\$ 1,924,210
Interest on rentals	657,603
Gain on sale of land held for resale	45,850
	<u>2,627,663</u>
Departmental expenses:	
Salaries and wages	575,714
Employee benefits:	
Health, welfare and pension	294,429
Social security tax	40,473
Workers' compensation insurance	4,251
Advertising and promotion	643
Commissioner fees	6,710
Consulting	65,019
Dues and subscriptions	1,828
Insurance	73,005
Office	11,738
Other	22,634
Professional services	57,789
Repairs, maintenance and supplies	119,357
Telephone	8,525
Travel and entertainment	42,402
Utilities	65,266
Total departmental expenses	<u>1,389,783</u>
Departmental income before depreciation	1,237,880
Depreciation	<u>1,218,610</u>
Departmental operating income	<u>\$ 19,270</u>

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Port Promotion
Year Ended March 31, 2023**

Departmental revenues	<u>\$ -</u>
Departmental expenses:	
Salaries and wages	352,320
Employee benefits:	
Health, welfare and pension	132,477
Social security tax	27,484
Workers' compensation insurance	3,454
Advertising and promotion	173,869
Consulting	87,915
Cruise ship visits	2,708
Dues and subscriptions	50,100
Insurance	4,002
Maritime representative	34,716
Other	929
Telephone	2,287
Travel and entertainment	51,448
Total departmental expenses	<u>923,709</u>
Departmental loss before depreciation	(923,709)
Depreciation	<u>-</u>
Departmental operating loss	<u><u>\$ (923,709)</u></u>

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Port Development
Year Ended March 31, 2023**

Departmental revenues:	
Other	\$ 12,000
Total departmental revenues	<u>12,000</u>
Departmental expenses:	
Salaries and wages	117,940
Employee benefits:	
Health, welfare and pension	32,367
Social security tax	8,680
Workers' compensation insurance	510
Consulting	56,637
Other	1,767
Professional services	47,601
Telephone	900
Travel and entertainment	2,538
Total departmental expenses	<u>268,940</u>
Departmental loss before depreciation	(256,940)
Depreciation	<u>-</u>
Departmental operating loss	<u><u>\$ (256,940)</u></u>

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses

Marine Terminal

Year Ended March 31, 2023

Departmental revenues:	
Dockage and mooring	\$ 199,545
Rentals	72,000
Facilities fee	1,465,173
Wharfage	162,414
Total departmental revenues	<u>1,899,132</u>
Departmental expenses:	
Advertising and promotion	33,728
Insurance	120,530
Other	660
Professional services	(16,405)
Travel and entertainment	203
Protection service	21,832
Repairs and maintenance	275,293
Utilities	45,707
Total departmental expenses	<u>481,548</u>
Departmental income before depreciation	1,417,584
Depreciation	<u>997,846</u>
Departmental operating income	<u>\$ 419,738</u>

Duluth Seaway Port Authority

**Schedule of Expenditures of Federal Awards
Year Ended March 31, 2023**

Federal Grantor/Program Title	Assistance Listings Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Transportation:			
Direct:			
Maritime Administration:			
Port Infrastructure Development Project	20.823	\$ -	\$ 1,863,211
Total U.S. Department of Transportation		<u>-</u>	<u>1,863,211</u>
U.S. Environmental Protection Agency:			
Direct:			
Brownfields Multipurpose, Assessment Revolving Loan Fund, and Cleanup Cooperative Agreements			
	66.818	-	75,306
Total U.S. Environmental Protection Agency		<u>-</u>	<u>75,306</u>
U.S. Department of Homeland Security:			
Direct:			
Port Security Grant Program	97.056	-	234,482
Total U.S. Department of Homeland Security		<u>-</u>	<u>234,482</u>
Total expenditures of federal awards		<u>\$ -</u>	<u>\$ 2,172,999</u>

Duluth Seaway Port Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended March 31, 2023

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Authority under programs of the federal government for the year ended March 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rate

The Authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

Independent Auditor's Report

Board of Commissioners
Duluth Seaway Port Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the Duluth Seaway Port Authority (the Authority), as of and for the year ended March 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 13, 2023. Our report contained an emphasis of matter for the adoption of GASB Statement No. 87, Leases.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM VS LLP

Duluth, Minnesota
September 13, 2023

**Report on Compliance for the Major Federal Program
And Report on Internal Control Over Compliance Required by the
Uniform Guidance**

Independent Auditor's Report

Board of Commissioners
Duluth Seaway Port Authority

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Duluth Seaway Port Authority's (the Authority) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended March 31, 2023. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Duluth, Minnesota
September 13, 2023

Duluth Seaway Port Authority

**Schedule of Findings and Questioned Costs
Year Ended March 31, 2023**

I. SUMMARY OF AUDITOR'S RESULTS

A. Financial Statements

1. Type of auditor's report issued on whether the financial statements were prepared in accordance with U.S. GAAP: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None Reported
3. Noncompliance material to financial statements noted? _____ Yes X No

B. Federal Awards

1. Internal control over major programs:
- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None Reported
2. Type of auditor's report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

C. Identification of Major Programs:

<u>Assistance Listings Number</u>	<u>Name of Federal Program or Cluster</u>
20.823	Maritime Administration – Port Infrastructure Development Program

Dollar threshold used to distinguish between Type A and B programs: \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

II. FINANCIAL STATEMENT FINDINGS

No matters to report.

III. FEDERAL AND STATE AWARDS FINDINGS AND QUESTIONED COSTS

No matters to report.



**Duluth Seaway
Port Authority**

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED MARCH 31, 2023**

The prior year audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from the prior audit's Summary of Prior Audit Findings.

A handwritten signature in blue ink, appearing to read 'Kevin Beardsley', written over a horizontal line.

Kevin Beardsley, CFO



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 contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Duluth Seaway Port Authority (the Authority) as of and for the year ended March 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 13, 2023.

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 contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions 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 the Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Duluth, Minnesota
September 13, 2023