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July 18, 2017

Kevin Beardsley, CFO
Duluth Seaway Port Authority
1200 Port Terminal Drive
Duluth, MN 55802-2609

In accordance with your request, we are transmitting the accompanying PDF file, which contains an electronic final version of the accompanying financial statements and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years ended March 31, 2017 and 2016, for Duluth Seaway Port Authority. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our reports on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our Firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors, or "experts" in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, Duluth Seaway Port Authority will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, Duluth Seaway Port Authority also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing, and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when Duluth Seaway Port Authority seeks such consent, we will be under no obligation to grant such consent or approval.

Sincerely,

James B. Spreitzer, Partner

Duluth Seaway Port Authority
Duluth, Minnesota

Financial and Compliance Report
March 31, 2017

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RSM US LLP

Independent Auditor's Report

To the Board of Commissioners
Duluth Seaway Port Authority

Report on the Financial Statements
We have audited the accompanying financial statements of Duluth Seaway Port Authority (Authority), as of and for the years ended March 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of March 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information, as listed in the table of contents, including the combining statement of revenues and expenses, schedules of departmental revenues and expenses, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2017, 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, grant agreements and other matters. The purpose of that report is 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 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 the Authority's internal control over financial reporting and compliance.

RSM US LLP

Duluth, Minnesota
July 13, 2017

Required Supplementary Information

Management's Discussion and Analysis (MD&A)

This section of Duluth Seaway Port Authority's annual financial report presents a discussion and analysis of the Authority's financial performance during the years ended March 31, 2017 and 2016. Please read this discussion and analysis in conjunction with the Authority's financial statements.

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

Financial Highlights

2017

The Authority's net position increased $6,919,800 (14 percent), from $49,341,342 in 2016 to $56,261,142 in 2017. This increase was made up of operating loss of $927,784, nonoperating income of $1,029,637, and capital grants of $6,817,947.

The Authority's operating revenues decreased 20 percent to $3,539,189. This decrease results primarily from a decrease in facilities fees for the Marine Terminal. Operating expenses decreased to $4,466,973 (2 percent). Operating loss for 2017 is $927,784 compared to $174,571 in 2016.

2016

The Authority's net position increased $8,147,415 (20 percent), from $41,193,927 in 2015 to $49,341,342 in 2016. This increase was made up of operating loss of $174,571, nonoperating income of $890,804, and capital grant of $7,431,182.

The Authority's operating revenues increased 26 percent to $4,400,484. This increase results primarily from a significant increase in facilities fees for the Marine Terminal. Operating expenses increased to $4,575,055 (11 percent). Operating loss for 2016 is $174,571 compared to $602,203 in 2015.

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) fund financial statements and 2) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements. There are no government-wide financial statements presented as the Authority operates as a single proprietary fund.

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

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

Fund Financial Statements

The fund 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. There are revenues and expenses reported in this statement for some items that will only result in cash flows in future fiscal years; examples include uncollected grants and vacation days that are earned but not used.

The Authority charges fees to customers to help cover all or most of the cost of certain services it provides.

Notes to Financial Statements

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

Other Information

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

Fund 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, 76 percent in 2017 and 64 percent in 2016, is net investment in capital assets (land and improvements, buildings, and equipment). The Authority uses these assets to provide services to its clients; therefore, these assets are not available for future spending.

Of the Authority's net position balance, 4 percent in 2017 and 6 percent in 2016, is restricted for compliance with provisions of bond indentures and grants.

The remaining balance of net position, 20 percent in 2017 and 30 percent 2016, 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, 2017, 2016, and 2015:

	2017	2016	2015
Current and other assets	$ 15,444,737	$ 20,809,675	$ 20,517,629
Capital assets	44,331,934	35,469,713	27,243,430
Deferred outflows	484,596	187,857	137,120
Total assets and deferred outflows	60,261,267	56,467,245	47,898,179
Long-term debt outstanding	1,683,260	1,896,708	2,090,878
Other liabilities	2,211,311	5,036,670	4,415,369
Deferred inflows	105,554	192,525	198,005
Total liabilities and deferred inflows	4,000,125	7,125,903	6,704,252
Net position:			
Net investment in capital assets	42,641,527	31,385,323	23,546,908
Restricted	2,030,253	3,192,125	5,362,427
Unrestricted	11,589,362	14,763,894	12,284,592
Total net position	$ 56,261,142	$ 49,341,342	$ 41,193,927

To give users a better understanding of the sources and uses of the Authority's net position, the table that follows presents a summary of revenues and expenses for the years ended March 31, 2017, 2016, and 2015. The schedule below shows revenues by source and expenses by function.

	2017	2016	2015
Revenues:			
Program revenues, charges for services	$ 3,539,189	$ 4,400,484	$ 3,506,156
General revenues:			
Property taxes	985,505	949,933	924,992
Gain (loss) on sale of capital asset	61,212	(17,328)	-
Interest	52,264	46,879	67,312
Other	35,216	20,779	2,726
Total revenues	4,673,386	5,400,747	4,501,186
Expenses:			
Administration	1,462,625	1,404,133	1,326,773
Port promotion	715,426	742,976	618,640
Port development	398,751	522,575	421,996
Marine terminal	585,100	592,218	415,937
Interest on long-term debt	104,560	109,459	118,056
Depreciation	1,305,071	1,313,153	1,325,013
Total expenses	4,571,533	4,684,514	4,226,415
Grant revenue for capital purposes	6,817,947	7,431,182	297,994
Increase in net position	6,919,800	8,147,415	572,765
Net position:			
Beginning of year	49,341,342	41,193,927	40,621,162
End of year	$ 56,261,142	$ 49,341,342	$ 41,193,927

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, was $44,331,934 and $35,469,713, as of March 31, 2017 and 2016, 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 25 percent during 2017. Additional information related to the Authority's capital assets can be found in Note 3 of the notes to the financial statements.

Debt

At year-end, the Authority has $1,917,175 in long-term debt compared to $2,090,878 in 2016.

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

Economic Factors and Next Year's Budgets

The Authority's Clure Public Marine Terminal is positioned within a major transportation route connecting the Atlantic Ocean to railroad lines and the interstate highway system. Because of its position, the Terminal will continue to transship wind electrical generating equipment and other project cargos to Minnesota and the upper Midwest states and Canadian providences during the 2017 shipping season. The activity at the Terminal is expected to produce about the same amount of revenue to the Authority as last year's level.

The Authority has had to refer economic development inquiries for large parcels of land to other development entities in the region because there are no large developable sites available within the Port District. In response to this shortage of large sites, the Authority has entered into a purchase agreement to obtain a 123 acre parcel of land from the United States Steel Corporation. This parcel of land is part of a 600 acre Superfund Site on which previously stood a steel mill known as the Duluth Works. The purchase is dependent on a successful clean-up of the site. Currently the redevelopment effort has completed the Phase II environmental investigation stage where samples of both the soil and ground water were tested to determine the amount of clean-up required to make the site useable for industrial purposes. The Authority and US Steel have prepared a Response Action Plan (RAP) which details the clean-up plan. Upon completion, the Authority and US Steel will submit the RAP to the Federal EPA and the Minnesota PCA for approval. The Authority has obtained special tax increment legislation which will support the redevelopment if the site is purchased.

The Authority has completed reconstruction of Dock C & D (multi-modal facility being served by maritime, railroad and roadway) in December of 2016 that contained a $10 million TIGER (Transportation Investment Generating Economic Recovery) Grant from the United States Department of Transportation to rebuild the 28 acre dock. In addition the Authority was awarded funds from the Minnesota Department of Transportation, a $2.75 million Port Development Assistance Grant and $990,000 Minnesota Department of Employment and Economic Development Grant for this rebuild project. The Authority pledged $3.94 million for a project total of approximately $17.7 million.

The Authority was awarded funds of $1.3 million from the Minnesota Department of Transportation Port Development Assistance Program for project Debottlenecking the Clure: Roadway, Pavement and Truck Scale Construction to support Increased Cargo Movement. This project is critical due to the increase in rail and truck traffic since 2006. This improvement will improve the flow of cargo through the Terminal and to enhance services for container, rail and truck traffic. This project is scheduled to be completed by June 30, 2017.

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, 1200 Port Terminal Drive, Duluth, Minnesota 55802, Attention: Chief Financial Officer.

Duluth Seaway Port Authority

Statements of Net Position
March 31, 2017 and 2016

	2017	2016
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	**$ 8,066,091**	$ 8,387,342
Certificates of deposit	**1,115,228**	4,616,578
Receivables:		
Taxes	**979,458**	945,797
Accounts, less allowance for doubtful accounts of $690,401 in 2017 and $586,918 in 2016	**335,373**	446,855
Grants	**1,630,824**	1,897,787
Interest	**6,048**	5,868
Due from other governments	**3,000**	3,000
Current portion of long-term notes	**35,350**	33,611
Prepaid expenses	**69,686**	71,934
Total current unrestricted assets	**12,241,058**	16,408,772
Current restricted assets (Note 9):		
Cash and cash equivalents	**1,225,481**	1,328,703
Certificates of deposit	**804,772**	1,863,422
Total current restricted assets	**2,030,253**	3,192,125
Capital assets (Note 3):		
Land and land improvements	**34,817,749**	16,858,865
Buildings	**26,325,119**	26,325,119
Equipment	**5,195,376**	5,332,836
Construction in progress	**5,006,246**	12,847,841
	71,344,490	61,364,661
Less accumulated depreciation	**27,012,556**	25,894,948
Total capital assets	**44,331,934**	35,469,713
Other assets:		
Restricted cash and cash equivalents (Note 9)	**63,000**	63,000
Notes receivable, less current portion	**82,576**	117,928
Land held for sale, at cost	**1,027,850**	1,027,850
Total other assets	**1,173,426**	1,208,778
Total assets	**59,776,671**	56,279,388
Deferred outflows of resources:		
Deferred pension amounts (Note 5)	**484,596**	187,857
Total assets and deferred outflows	**$ 60,261,267**	$ 56,467,245

See notes to financial statements.

	2017	2016
Liabilities, Deferred Inflows and Net Position		
Current liabilities (payable from current assets):		
Accounts payable:		
Trade	**$ 90,351**	$ 139,137
Construction and equipment	**144,207**	1,859,158
Pollution remediation (Note 13)	**-**	1,574,474
Accrued payroll liabilities	**299,718**	235,440
Unearned revenue (Note 6)	**100,377**	112,932
Total current liabilities, payable from current assets	**634,653**	3,921,141
Current liabilities (payable from restricted assets):		
Current maturities of long-term debt (Note 4)	**233,915**	194,170
Accrued interest	**4,981**	55,069
Total current liabilities, payable from restricted assets	**238,896**	249,239
Long-term debt, less current maturities (Note 4)	**1,683,260**	1,896,708
Net pension liability (Note 5)	**1,274,762**	803,290
Other long-term liabilities, tenant deposits	**63,000**	63,000
Total liabilities	**3,894,571**	6,933,378
Deferred inflows of resources:		
Deferred pension amounts (Note 5)	**105,554**	192,525
Total liabilities and deferred inflows	**4,000,125**	7,125,903
Net position:		
Net investment in capital assets	**42,641,527**	31,385,323
Restricted (Note 9)	**2,030,253**	3,192,125
Unrestricted	**11,589,362**	14,763,894
Total net position	**56,261,142**	49,341,342
Total liabilities, deferred inflows, and net position	**$ 60,261,267**	$ 56,467,245

Duluth Seaway Port Authority

Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2017 and 2016

	2017	2016
Operating revenues	**$ 3,539,189**	$ 4,400,484
Operating expenses, excluding depreciation	**3,161,902**	3,261,902
Operating income before depreciation	**377,287**	1,138,582
Depreciation	**1,305,071**	1,313,153
Operating loss	**(927,784)**	(174,571)
Nonoperating revenues (expenses):		
General tax levies	**985,505**	949,933
Gain (loss) on sale of capital assets	**61,212**	(17,328)
Interest income	**52,264**	46,879
Other revenues	**35,216**	20,779
Interest expense	**(104,560)**	(109,459)
	1,029,637	890,804
Income before grant revenue for capital purposes	**101,853**	716,233
Grant revenue for capital purposes	**6,817,947**	7,431,182
Change in net position	**6,919,800**	8,147,415
Net position:		
Beginning of year	**49,341,342**	41,193,927
End of year	**$ 56,261,142**	$ 49,341,342

See notes to financial statements.

Duluth Seaway Port Authority

Statements of Cash Flows
Years Ended March 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from customers	**$ 3,661,332**	$ 4,239,682
Payments to suppliers	**(1,596,482)**	(1,759,117)
Payments to employees	**(1,459,918)**	(1,457,784)
Other receipts	**12,000**	11,000
Net cash provided by operating activities	**616,932**	1,033,781
Cash flows from noncapital financing activities:		
General tax levies	**951,844**	923,854
Net cash provided by noncapital financing activities	**951,844**	923,854
Cash flows from capital and related financing activities:		
Purchase of capital assets	**(11,882,243)**	(7,835,023)
Proceeds from sale of capital assets	**61,212**	-
Receipts from other governments	**7,084,910**	6,860,488
Payment on pollution remediation liability	**(1,574,474)**	(1,304,873)
Proceeds on long-term debt issued to refund bonds	**1,773,339**	-
Principal payments on long-term debt	**(1,947,042)**	(183,925)
Interest paid on long-term debt	**(154,648)**	(114,088)
Net cash used in capital and related financing activities	**(6,638,946)**	(2,577,421)
Cash flows from investing activities:		
Purchase of certificates of deposit	**(2,400,000)**	(3,840,147)
Proceeds from maturities of certificates of deposit	**6,960,000**	9,366,867
Principal payments received on notes receivable	**33,613**	31,958
Interest received	**52,084**	62,365
Net cash provided by investing activities	**4,645,697**	5,621,043
Net (decrease) increase in cash and cash equivalents	**(424,473)**	5,001,257
Cash and cash equivalents:		
Beginning	**9,779,045**	4,777,788
Ending	**$ 9,354,572**	$ 9,779,045
Cash and cash equivalents are reported as follows:		
Current assets	**$ 8,066,091**	$ 8,387,342
Restricted assets	**1,225,481**	1,328,703
Other assets	**63,000**	63,000
	$ 9,354,572	$ 9,779,045

(Continued)

Duluth Seaway Port Authority

Statements of Cash Flows (Continued)
Years Ended March 31, 2017 and 2016

		2017		2016
Reconciliation of operating loss to net cash provided by operating activities:				
Operating loss	**$**	**(927,784)**	$	(174,571)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation		**1,305,071**		1,313,153
Miscellaneous nonoperating receipts		**35,216**		20,779
Change in deferred outflow		**(296,739)**		(50,737)
Change in deferred inflow		**(86,971)**		(5,480)
Changes in assets and liabilities:				
Receivables		**111,482**		(186,129)
Prepaid expenses		**2,248**		(1,051)
Accounts payable and accrued liabilities		**15,492**		31,789
Unearned revenue		**(12,555)**		16,548
Tenant deposits		**-**		(1,000)
Net pension liability		**471,472**		70,480
Net cash provided by operating activities	**$**	**616,932**	$	1,033,781
Supplemental schedule of noncash capital and related financing activities:				
Accounts payable, capital assets	**$**	**144,207**	$	1,859,158

See notes to financial statements.

Note 1. Nature of Operations and Significant Accounting Policies

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

The operational departments within the Authority are as follows:

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

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

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

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

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

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

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

Significant Accounting Policies

Basis of accounting: The Authority operates as an enterprise fund to report on its financial position and the changes in financial position. The accrual basis of accounting is used. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Measurement focus: The Authority’s financial statements are reported using the economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with this activity are included on the statements of net position. The operating statements present increases (revenues) and decreases (expenses) in net position.

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

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

Capital assets: Capital assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives, as follows:

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

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

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

Operating revenues and expenses: Operating revenues and expenses generally result from activities of the Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Grant revenue: Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants.

Property tax levies: The Authority may request the City of Duluth to levy a tax for its benefit. This mandatory levy may not exceed .01813 percent of the taxable market value of the taxable property in the City. The amount levied is paid to the Authority by St. Louis County.

Compensated absences: Employees accumulate vacation hours for subsequent use or for payment upon termination, death, or retirement. A maximum carryover of 80 vacation hours has been established by Board resolution. A liability is recorded for earned but unpaid vacation. During 2017, employees earned $72,762, and used $63,306 of vacation. At March 31, 2017 and 2016, the liability totaled $107,087 and $97,631, respectively.

The Authority makes payments to the Minnesota State Retirement System Health Care Savings Plan for employees with 10 years of continuous service at time of retirement. The total of the payments made for a retiree is limited to the number of unused sick days at retirement (up to a maximum of 120 days) multiplied by the average daily earnings of all full-time employees at the retirement date. The Authority accrues this benefit for qualifying employees over the five-year period preceding their retirement dates. At March 31, 2017 and 2016 the liability totaled $169,849 and $116,480, respectively.

Advertising costs: Advertising costs are expensed as incurred. Advertising expense amounted to $209,142 in 2017 and $184,427 in 2016.

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

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

Use of estimates in the preparation of financial statements: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain revenues and expenses as previously reported in 2016, have been reclassified to be consistent with the classifications adopted for 2017 with no effect on net position.

Summary of new accounting standards: Governmental Accounting Standards Board's (GASB) Statement No. 72, *Fair Value Measurement and Application*, was adopted by the Authority beginning with its year ended March 31, 2017. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

Note 2. Deposits and Investments

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

	2017	2016
Deposits with financial institutions	$ 2,716,752	$ 7,055,012
Investments, money market funds	8,557,820	9,204,033
	$ 11,274,572	$ 16,259,045

Included in the following balance sheet captions:

	2017	2016
Current assets:		
Cash and cash equivalents	$ 8,066,091	$ 8,387,342
Certificates of deposits	1,115,228	4,616,578
Current restricted assets:		
Cash and cash equivalents	1,225,481	1,328,703
Certificates of deposits	804,772	1,863,422
Other assets, cash and cash equivalents	63,000	63,000
	$ 11,274,572	$ 16,259,045

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

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

At March 31, 2017, the Authority's deposits were entirely covered by federal depository insurance and pledged collateral.

The Authority does not have a formal policy for deposits.

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

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

Credit risk: Generally, credit risk is the risk that the issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. Money market funds are measured at fair value in the statement of net position determined based on quoted market prices. As of March 31, 2017, the Authority's money market funds had a credit rating as reported by Moody's as Aaa-mf.

Note 2. Deposits and Investments (Continued)

Custodial credit risk: This is the risk that in the event of the failure of the counterparty (e.g., broker dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. The Authority's money market funds are not subject to custodial credit risk at March 31, 2017.

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

Note 3. Capital Assets

	Cost			
	Balance March 31, 2016	Additions	Reclassifications/ Deletions	Balance March 31, 2017
Land and land improvements	$ 16,858,865	$ -	$ 17,958,884	$ 34,817,749
Buildings	26,325,119	-	-	26,325,119
Equipment	5,332,836	50,003	(187,463)	5,195,376
Construction in progress	12,847,841	10,117,289	(17,958,884)	5,006,246
	$ 61,364,661	$ 10,167,292	$ (187,463)	$ 71,344,490

	Accumulated Depreciation				Net
	Balance March 31, 2016	Additions	Deductions	Balance March 31, 2017	Book Value March 31, 2017
Land and land improvements	$ 7,750,883	$ 372,480	$ -	$ 8,123,363	$ 26,694,386
Buildings	14,221,035	781,983	-	15,003,018	11,322,101
Equipment	3,923,030	150,608	(187,463)	3,886,175	1,309,201
Construction in progress	-	-	-	-	5,006,246
	$ 25,894,948	$ 1,305,071	$ (187,463)	$ 27,012,556	$ 44,331,934

	Cost			
	Balance March 31, 2015	Additions	Reclassifications/ Deletions	Balance March 31, 2016
Land and land improvements	$ 17,000,378	$ -	$ (141,513)	$ 16,858,865
Buildings	26,561,124	36,821	(272,826)	26,325,119
Equipment	5,764,796	13,147	(445,107)	5,332,836
Construction in progress	3,362,130	9,587,796	(102,085)	12,847,841
	$ 52,688,428	$ 9,637,764	$ (961,531)	$ 61,364,661

	Accumulated Depreciation				Net
	Balance March 31, 2015	Additions	Deductions	Balance March 31, 2016	Book Value March 31, 2016
Land and land improvements	$ 7,527,618	$ 364,778	$ (141,513)	$ 7,750,883	$ 9,107,982
Buildings	13,713,343	780,517	(272,825)	14,221,035	12,104,084
Equipment	4,204,037	167,858	(448,865)	3,923,030	1,409,806
Construction in progress	-	-	-	-	12,847,841
	$ 25,444,998	$ 1,313,153	$ (863,203)	$ 25,894,948	$ 35,469,713

Note 4. Long-Term Debt

On February 14, 2017, the Authority issued a note in the amount of $1.77 million with an interest rate of 3.0 percent to advance refund $1.77 million of outstanding Revenue Bonds, Series 2006, with an interest rate of 5.0 percent. The net proceeds of $1.77 million were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 Series bonds. As a result, the 2006 Series bonds are considered to be defeased. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At March 31, 2017, $1.77 million of bonds outstanding are considered defeased.

	2017	2016
Assessment Bonds to the City of Duluth at an imputed rate of 5.23%, due in annual installments ranging from $77,271 to $79,438.	$ 156,709	$ 235,878
2006 Revenue Bonds (tax exempt), refunded during 2017. Lease revenues and a building were previously pledged as collateral. Lessee was required to provide a bank letter of credit as collateral for its obligation under the lease.	-	1,855,000
Note Payable at a fixed rate of 3.00%, due in annual installments ranging from $154,477 to $185,886. Lease revenues and a building are pledged as collateral.	1,760,466	-
	1,917,175	2,090,878
Less current maturities	233,915	194,170
	$ 1,683,260	$ 1,896,708

The following is a summary of changes in long-term debt at March 31, 2017 and 2016:

	2017			
	Beginning Balance	Additions	Principal Repayments	Ending Balance
Assessment bonds to the City of Duluth	$ 235,878	$ -	$ 79,169	$ 156,709
2006 Revenue Bonds	1,855,000	-	1,855,000	-
Note Payable	-	1,773,339	12,873	1,760,466
	$ 2,090,878	$ 1,773,339	$ 1,947,042	$ 1,917,175

	2016			
Assessment bonds to the City of Duluth	$ 309,803	$ -	$ 73,925	$ 235,878
2006 Revenue Bonds	1,965,000	-	110,000	1,855,000
	$ 2,274,803	$ -	$ 183,925	$ 2,090,878

Note 4. Long Term Debt (Continued)

Debt service requirements at March 31, 2017, are:

	Principal	Interest	Total
Years ending March 31:			
2018	$ 233,915	$ 59,963	$ 293,878
2019	236,513	51,628	288,141
2020	164,046	41,855	205,901
2021	169,214	36,687	205,901
2022	174,433	31,468	205,901
2023 - 2027	939,054	73,293	1,012,347
	$ 1,917,175	$ 294,894	$ 2,212,069

Note 5. Defined Benefit Pension Plan Statewide

Plan description: The Authority participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

All full-time and certain part-time employees of the Authority are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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.

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year 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.

Note 5. Defined Benefit Pension Plan Statewide (Continued)

Contributions

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

For calendar years 2017, 2016, and 2015, Coordinated Plan members were required to contribute, 6.5 percent, 6.5 percent, 6.5 percent, respectively, of their annual covered salary. In calendar years 2017, 2016, and 2015, the Authority was required to contribute 7.50 percent, 7.50 percent, and 7.50 percent, respectively, for Coordinated Plan members. The Authority's contributions to the General Employees Retirement Fund (GERF) for the year ended March 31, 2017 and 2016, were $74,984 and $71,583, respectively. The Authority's contributions were equal to the required contributions as set by state statute.

Pension Costs

At March 31, 2017 and 2016, the Authority reported a liability of $1,274,762 and $803,290, respectively, for its proportionate share of the GERF's net pension liability. The Authority's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. 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 $16,644. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Authority's proportion of the net pension liability was based on the Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, for 2016 measurement, and July 1, 2014, through June 30, 2015, for 2016 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016 and 2015, the Authority's proportion was .0157 percent and .0155 percent, respectively.

For the years ended March 31, 2017 and 2016, the Authority recognized pension expense of $176,687 and $105,903, respectively, for its proportionate share of the GERF's pension expense. In addition, for the year ended March 31, 2017, the Authority recognized an additional $4,963 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

At March 31, 2017 and 2016, the Authority reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,749	$ 103,207	$ 7,498	$ 40,499
Changes in actuarial assumptions	274,774	-	50,349	-
Net difference between projected and actual investment earnings	142,217	-	76,044	148,503
Changes in proportion	7,774	2,347	-	3,523
Contributions paid to PERA subsequent to the measurement date	56,082	-	53,966	-
Total	$ 484,596	$ 105,554	$ 187,857	$ 192,525

Note 5. Defined Benefit Pension Plan Statewide (Continued)

$56,082 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense
Years ended March 31:	
2018	$ 90,194
2019	61,271
2020	125,446
2021	46,049
	$ 322,960

Actuarial Assumptions
The total pension liability in the June 30, 2016 and 2015, actuarial valuations were determined using the following actuarial assumptions:

	2016	2015
Inflation	2.50% per year	2.75% per year
Active member payroll growth	3.25% per year	3.50% per year
Investment rate of return	7.50%	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF was completed in 2015. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually. The following changes in actuarial assumptions occurred in 2016.

GERF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Note 5. Defined Benefit Pension Plan Statewide (Continued)

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

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

Discount rate: The discount rate used to measure the total pension liability in 2016 was 7.50 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease in Discount Rate (6.50%)	Discount Rate (7.50%)	1% Increase in Discount Rate (8.50%)
Proportionate share of the GERF net pension liability	1,810,540	1,274,762	833,427

Pension Plan Fiduciary Net Position

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

Note 6. Unearned Revenue

	2017	2016
Tenant capital asset rental	$ 100,377	$ 112,932

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

Note 7. Marine Terminal Operations

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

Note 8. Deferred Lease Payments

The Authority has sub-leased the 20-year main lease with Northstar Machine & Tool Co., Inc. for a 24 month term (month to month) lease with Republic Bank on February 14, 2017. The lease is for a building constructed by the Authority. Through amendments to the main lease, the Authority has deferred the lease payments. At March 31, 2017 and March 31, 2016, deferred lease payments totaled $690,401 and $586,918, respectively. Deferred amounts are fully allowed for and included in allowance for doubtful accounts.

Note 9. Restricted Assets and Net Position

Restricted assets and net position are comprised of cash and investments which must be used for a specific purpose as required by contract with outside parties. The following restrictions exist: the proceeds from the sale of land that was developed with an Economic Development Agency grant must be spent on industrial development, state and federal grants require matching funds, the Authority's bond agreement requires reserve and debt service accounts, and tenant lease deposit agreements restrict use.

	2017	2016
EDA land sales	$ 855,977	$ 944,098
State and federal grants; pledged matching funds	804,772	1,863,422
Bond agreement	367,659	382,760
Other	1,845	1,845
Restricted net position	2,030,253	3,192,125
Tenant deposits	63,000	63,000
Restricted assets	$ 2,093,253	$ 3,255,125

Note 10. Operating Leases

The Authority leases substantially all of its property and equipment to others. These leases are accounted for as operating leases and expire at various dates through 2073. As of March 31, 2017, minimum lease payments under these operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

Years ending March 31:	
2018	$ 1,586,107
2019	611,144
2020	391,796
2021	314,235
2022	168,723
Thereafter	1,002,174
	$ 4,074,179

Note 11. 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 12. 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, 2017, the Authority had expended $433,488 for this project. If the remediation cost is deemed to be excessive by either the Authority or U.S. Steel, either party may terminate the purchase agreement. The drilling and analyzing the soil has been completed on the property. The Response Action Plans for both the Superfund delisting (Federal Environmental Protection Agency) and the voluntary investigation and clean-up (Minnesota Pollution Control Agency) are being prepared by U.S. Steel and the Authority. By contract with U.S. Steel, the Authority will be responsible for payment of 25 percent of the costs to clean the targeted property. All cost associated with testing and cleaning are being recorded as construction in progress. If terminated, the Authority will write-off the capitalized development costs.

Note 13. Pollution Remediation

In connection with the Port of Duluth Intermodal Project (Docks C & D), in order to proceed with rehabilitation, the Authority must obtain appropriate environmental clearances by cleaning up existing pollution on the property. During 2015, the Authority voluntarily began pollution remediation on Docks C & D, of which costs were estimated by an engineering company at $3,200,000 and recognized as construction in progress. GASB Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* addresses, among other things, the obligations of the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

Note 13. Pollution Remediation (Continued)

This statement requires the recognition of the pollution remediation liability and related expected recoveries. Under GASB 49, remediation expenditures are properly capitalized as the contaminated property was previously purchased at a discount. At March 31, 2017 and March 31, 2016, outstanding remaining pollution liability totaled $0, and $1,574,474, respectively.

Note 14. Pending Accounting Standards

The GASB has issued the following statement not yet implemented by the Authority. Listed below is the statement which may impact future financial statements of the Authority:

GASB Statement No. 82, *Pension Issues*, will be effective for the Authority beginning with its year ending March 31, 2018. This Statement addresses certain issues that have been raised with respect to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for the Authority beginning with its year ending March 31, 2020. This statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to such obligations. Under this statement, a government that has a legal obligation to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for the Authority beginning with its year ending March 31, 2020. This statement establishes criteria for identifying fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities.

GASB Statement No. 85, *Omnibus 2017*, will be effective for the Authority beginning with its year ending March 31, 2019. This statement addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, will be effective for the Authority beginning with its year ending March 31, 2019. This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt.

Required Supplementary Information

Duluth Seaway Port Authority

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

Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered-Employee Payroll (b)	Proportionate Share of the NPL as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	0.0156%	$ 732,810	$ 823,803	88.95%	78.75%
June 30, 2015	0.0155%	803,290	927,786	86.58%	78.19%
June 30, 2016	0.0157%	1,274,762	982,357	129.77%	68.91%

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	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%

Supplementary Information

Duluth Seaway Port Authority

Combining Statement of Revenues and Expenses
Year Ended March 31, 2017

		Operational Departments			
	Combined	Administration	Port Promotion	Port Development	Marine Terminal
Operating revenues	$ 3,539,189	$ 2,316,150	$ -	$ 12,000	$ 1,211,039
Operating expenses, excluding depreciation	3,161,902	1,462,625	715,426	398,751	585,100
Operating income (loss) before depreciation	377,287	853,525	(715,426)	(386,751)	625,939
Depreciation	1,305,071	788,794	-	-	516,277
Operating (loss) income	(927,784)	64,731	(715,426)	(386,751)	109,662
Nonoperating revenues (expenses):					
General tax levies	985,505	-	-	985,505	-
Gain on sale of capital assets	61,212	61,212	-	-	-
Interest income	52,264	52,264	-	-	-
Other revenues	35,216	35,216	-	-	-
Interest expense	(104,560)	(104,560)	-	-	-
Insurance recoveries	-	-	-	-	-
	1,029,637	44,132	-	985,505	-
Income (loss) before grant revenue for capital purposes	101,853	108,863	(715,426)	598,754	109,662
Grant revenue for capital purposes:					
State of Minnesota:					
Debottlenecking Grant	846,222	846,222	-	-	-
Contamination Cleanup Grant	990,000	990,000	-	-	-
U.S. Department of Transportation:					
2013 TIGER Grant	4,981,725	4,981,725	-	-	-
Total grant revenue for capital purposes	6,817,947	6,817,947	-	-	-
Change in net position	$ 6,919,800	$ 6,926,810	$ (715,426)	$ 598,754	$ 109,662

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses
Administration
Years Ended March 31, 2017 and 2016

	2017	2016
Departmental revenues:		
Rentals	$ 2,316,150	$ 2,198,886
	2,316,150	2,198,886
Departmental expenses:		
Salaries and wages	501,277	488,436
Employee benefits:		
Health, welfare, and pension	288,202	229,844
Social security tax	34,657	34,712
Workers' compensation insurance	2,159	2,124
Commissioner fees	5,940	6,160
Consulting	108,088	103,181
Dues and subscriptions	12,978	6,552
Insurance	54,128	56,488
Office	15,375	15,888
Bad debt	-	86,662
Other	48,449	54,967
Professional services	152,543	101,515
Repairs, maintenance, and supplies	141,205	105,383
Telephone	30,947	21,067
Travel and entertainment	38,794	32,755
Utilities	27,883	58,399
Total departmental expenses	1,462,625	1,404,133
Departmental income before depreciation	853,525	794,753
Depreciation	788,794	785,946
Departmental operating income	$ 64,731	$ 8,807

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses
Port Promotion
Years Ended March 31, 2017 and 2016

	2017	2016
Departmental revenues	$ -	$ -
Departmental expenses:		
Salaries and wages	311,635	289,134
Employee benefits:		
Health, welfare, and pension	90,431	113,319
Social security tax	24,121	22,881
Workers' compensation insurance	2,203	2,006
Advertising and promotion	157,118	165,587
Consulting	19,340	4,901
Cruise ship visits	650	729
Dues and subscriptions	29,420	24,624
Foreign trade zone	-	2,011
Insurance	4,964	4,866
Maritime representative	35,875	34,500
Other	916	982
Photographs and supplies	1,413	1,044
Repairs, maintenance, and supplies	260	19,785
Telephone	4,381	3,849
Travel and entertainment	32,699	52,758
Total departmental expenses	715,426	742,976
Departmental loss before depreciation	(715,426)	(742,976)
Depreciation	-	-
Departmental operating loss	$ (715,426)	$ (742,976)

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses
Port Development
Years Ended March 31, 2017 and 2016

	2017	2016
Departmental revenues:		
Other	$ 12,000	$ 12,000
Total departmental revenues	12,000	12,000
Departmental expenses:		
Salaries and wages	196,337	212,452
Employee benefits:		
Health, welfare and pension	56,359	52,651
Social security tax	15,384	16,603
Workers' compensation insurance	1,431	1,480
Consulting	67,754	156,747
Other	4,889	18,868
Professional services	40,628	42,947
Telephone	1,912	2,713
Travel and entertainment	14,057	18,114
Total departmental expenses	398,751	522,575
Departmental income before depreciation	(386,751)	(510,575)
Depreciation	-	-
Departmental operating income	$ (386,751)	$ (510,575)

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses
Marine Terminal
Years Ended March 31, 2017 and 2016

	2017	2016
Departmental revenues:		
Dockage and mooring	$ 163,722	$ 218,000
Equipment rental	42,425	56,567
Facilities fee	916,742	1,667,136
Wharfage	88,150	247,895
Total departmental revenues	1,211,039	2,189,598
Departmental expenses:		
Advertising and promotion	52,024	18,840
Consulting	400	5,250
Foreign trade zone	500	-
Insurance	63,917	58,268
Other	2,516	1,022
Professional services	11,813	50,764
Protection service	18,067	15,706
Repairs and maintenance	413,450	428,582
Utilities	22,413	13,786
Total departmental expenses	585,100	592,218
Departmental income before depreciation	625,939	1,597,380
Depreciation	516,277	527,207
Departmental operating income	$ 109,662	$ 1,070,173

Duluth Seaway Port Authority

Schedule of Expenditures of Federal Awards
Year Ended March 31, 2017

Federal Grantor/Program Title	CFDA Number	Grant Number	Award Period	Federal Expenditures
Department of Transportation:				
Maritime Administration:				
National Infrastructure Investments				
TIGER Discretionary Grant	20.933	DTMA91G140003	06/25/2014 - 09/30/2019	$ 4,981,725
Total Department of Transportation				4,981,725
Total Expenditures of Federal Awards				$ 4,981,725

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Duluth Seaway Port Authority under programs of the federal government for the year ended March 31, 2017. 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 percent de minimis indirect cost rate allowed under the Uniform Guidance.

RSM

RSM US LLP

Independent Auditor's 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*

To the 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 the financial statements of the Duluth Seaway Port (the Authority) as of and for the years ended March 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 13, 2017.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 may exist that have not been identified.

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 determination of financial statement amounts. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Duluth, Minnesota
July 13, 2017

RSM US LLP

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Commissioners
Duluth Seaway Port Authority

Report on Compliance for Each Major Federal Program
We have audited the Duluth Seaway Port Authority (the Authority)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended March 31, 2017. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program
In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2017.

Report on Internal Control Over Compliance
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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
July 13, 2017

Duluth Seaway Port Authority

Schedule of Findings and Questioned Costs
Year Ended March 31, 2017

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

A. Financial Statements

Type of auditor's report issued on the financial statements: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____Yes __X__No
- Significant deficiency(ies) identified? _____Yes __X__None reported

Noncompliance material to financial statements noted? _____Yes __X__No

B. Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____Yes __X__No
- Significant deficiency(ies) identified? _____Yes __X__None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____Yes __X__No

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
20.933	National Infrastructure Investments

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

Auditee qualifies as a low-risk auditee? ______Yes __X__No

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

RSM US LLP

Independent Auditor's Report on Minnesota Legal Compliance

To the Board of Commissioners
Duluth Seaway Port Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States the financial statements of Duluth Seaway Port Authority as of and for the year ended March 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated July 13, 2017.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions,* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that Duluth Seaway Port Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions.* However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Duluth Seaway Port Authority's noncompliance with the above referenced provisions.

The purpose of this report is solely for 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
July 13, 2017