

June 17, 2015

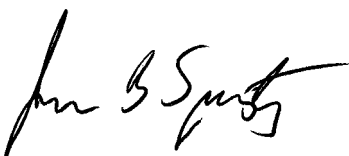
Kevin Beardsley, CFO
Duluth Seaway Port Authority
1200 Port Terminal Drive
Duluth, Minnesota 55802-2609

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, 2015 and 2014, 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previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.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, 2015

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Independent Auditor's Report

To the Board of Commissioners
Duluth Seaway Port Authority
Duluth, Minnesota

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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of March 31, 2015 and 2014, 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 on pages 3 through 8 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 audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying combining statement of revenues and expenses and schedules of departmental revenues and expenses and 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the 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 as a whole.



Duluth, Minnesota
June 17, 2015

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

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2015

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, 2015 and 2014. 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

2015

The Authority's net position increased \$561,723 (1.4 percent), from \$41,425,899 in 2014 to \$41,987,622 in 2015. This increase was made up of operating income of \$311,747, nonoperating loss of \$48,018, and capital grant of \$297,994.

The Authority's operating revenues decreased 0.7 percent to \$4,431,148. This decrease results primarily from a significant decrease in facilities fees for the Marine Terminal. Operating expenses decreased to \$4,119,401 (1.0 percent). Operating income for 2015 is \$311,747 compared to \$299,546 in 2014.

2014

The Authority's net position increased \$285,613 (0.7 percent), from \$41,140,286 in 2013 to \$41,425,899 in 2014. This increase was made up of operating income of \$299,546, nonoperating loss of \$53,032, and capital grant of \$39,099.

The Authority's operating revenues decreased 7.5 percent to \$4,460,335. This decrease results primarily from a significant decrease in facilities fees for the Marine Terminal. Operating expenses increased to \$4,160,789 (11.5 percent). Operating income for 2014 is \$299,546 compared to \$1,094,068 in 2013.

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 three statements are fund financial statements that 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.

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2015

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 (61 percent in 2015 and 57 percent in 2014) 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, 15 percent in 2015 and 12 percent in 2014, is restricted for compliance with provisions of bond indentures and grants.

The remaining balance of net position (24 percent in 2015 and 31 percent 2014) is unrestricted and may be used to meet the Authority's ongoing obligations to its clients and creditors.

The following table presents a summary of the Authority's net position at March 31, 2015, 2014, and 2013:

	Business-Type Activities		
	2015	2014	2013
Current and Other Assets	\$ 20,517,629	\$ 19,037,734	\$ 18,780,859
Capital Assets	27,243,430	25,632,345	25,693,437
Total assets	47,761,059	44,670,079	44,474,296
Long-Term Debt Outstanding	2,090,878	2,274,803	2,448,505
Other Liabilities	3,682,559	969,377	885,505
Total liabilities	5,773,437	3,244,180	3,334,010
Net Position			
Net investment in capital assets	23,546,908	23,649,936	23,665,654
Restricted	5,362,427	4,823,455	2,829,921
Unrestricted	13,078,287	12,952,508	14,644,711
Total net position	\$ 41,987,622	\$ 41,425,899	\$ 41,140,286

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2015

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, 2015, 2014, and 2013. The schedule below shows revenues by source and expenses by function for business-type activities.

	Business-Type Activities		
	2015	2014	2013
Revenues			
Program revenues, charges for services	\$ 3,506,156	\$ 3,559,307	\$ 3,934,299
General revenues:			
Property taxes	924,992	901,028	890,013
Gain on sale of capital asset	-	100	49,500
Interest	67,312	62,448	86,127
Other	2,726	8,543	13,095
Insurance recoveries	-	1,974	490,000
Total revenues	4,501,186	4,533,400	5,463,034
Expenses			
Administration	1,337,815	1,511,382	1,283,498
Port promotion	618,640	525,720	520,000
Port development	421,996	468,558	388,998
Marine terminal	415,937	356,881	284,939
Interest on long-term debt	118,056	126,097	133,698
Depreciation	1,325,013	1,298,248	1,252,809
Total expenses	4,237,457	4,286,886	3,863,942
Grant Revenue for Capital Purposes	297,994	39,099	-
Increase in net position	561,723	285,613	1,599,092
Net Position			
Beginning of year	41,425,899	41,140,286	39,541,194
End of year	\$ 41,987,622	\$ 41,425,899	\$ 41,140,286

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2015

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, was \$27,243,430 and \$25,632,345, as of March 31, 2015 and 2014, respectively. This investment includes land and improvements, buildings and equipment. The Authority's total investment in capital assets, net of accumulated depreciation, increased 6.3 percent during 2015. 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 \$2,274,803 in bonds compared to \$2,448,505 in 2014.

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 2015 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 are preparing the Response Action Plan (RAP) which will detail 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 was awarded a \$10 million TIGER (Transportation Investment Generating Economic Recovery) Grant from the United States Department of Transportation to rebuild a 28 acre dock known as Dock C & D, of which funds are to be received over the next two years. 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 has pledged \$3.94 million to the project. The permitting and the engineering are complete and construction contracts were awarded in January 2015. The project is expected to be completed by the end of 2016. Dock C & D will be a multi-modal facility being served by maritime, railroad and roadway components.

Building the public support and capital budget required for maritime redevelopment projects like Dock C & D can take decades. With this in mind, the Authority embarked on its next project in January of 2015 when it entered into a purchase agreement with XIK Corp. to acquire a 35.7 acre dock property in the Industrial-Waterfront zoning district in West Duluth. The purchase price, which is contingent on an environmental investigation of the property to be conducted by the Authority, was set at \$810,000. Upon closing, the Authority plans to conduct minimal environmental and infrastructure improvements aimed at stabilizing the property enough to secure ground leases, which will generate the revenue needed to recoup its initial investment and begin planning for the more extensive improvements required to put this dock back into full maritime service.

Duluth Seaway Port Authority

**Management's Discussion and Analysis
March 31, 2015**

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, 2015 and 2014**

Assets	2015	2014
Current Assets		
Cash and cash equivalents	\$ 3,291,045	\$ 3,829,112
Certificates of deposit	8,067,036	7,748,855
Receivables:		
Taxes	919,718	898,555
Accounts, less allowance for doubtful accounts of \$506,431 in 2015 and \$460,438 in 2014	179,726	289,017
Grants (Note 12)	1,327,093	39,099
Interest	21,354	18,062
Due from other governments	3,000	3,000
Current portion of long-term notes	31,958	30,385
Prepaid expenses	70,883	72,723
Total current unrestricted assets	13,911,813	12,928,808
Current Restricted Assets (Note 8)		
Cash and cash equivalents	1,422,743	1,503,455
Certificates of deposit	3,939,684	3,320,000
Total current restricted assets	5,362,427	4,823,455
Capital Assets (Note 3)		
Land and land improvements	17,000,378	17,000,378
Buildings	26,561,124	26,282,330
Equipment	5,764,796	5,746,349
Construction in progress	3,362,130	723,273
	52,688,428	49,752,330
Less accumulated depreciation	25,444,998	24,119,985
	27,243,430	25,632,345
Other Assets		
Restricted cash and cash equivalents (Note 8)	64,000	64,250
Notes receivable, less current portion	151,539	183,496
Land held for sale, at cost	1,027,850	1,037,725
	1,243,389	1,285,471
	\$ 47,761,059	\$ 44,670,079

See Notes to Financial Statements.

Liabilities and Net Position	2015	2014
Current Liabilities (Payable from Current Assets)		
Accounts payable:		
Trade	\$ 115,206	\$ 186,416
Construction and equipment	56,417	126,651
Pollution remediation (Note 12)	2,879,347	-
Accrued payroll liabilities	227,582	241,373
Unearned revenue (Note 6)	96,384	112,956
Total current liabilities, payable from current assets	3,374,936	667,396
Current Liabilities (Payable from Restricted Assets)		
Current maturities of long-term debt (Note 4)	183,925	173,702
Accrued interest	59,698	64,029
Total current liabilities, payable from restricted assets	243,623	237,731
Long-Term Debt, less current maturities (Note 4)	2,090,878	2,274,803
Other Long-Term Liabilities, tenant deposits	64,000	64,250
Net Position		
Net investment in capital assets	23,546,908	23,649,936
Restricted	5,362,427	4,823,455
Unrestricted	13,078,287	12,952,508
	41,987,622	41,425,899
	\$ 47,761,059	\$ 44,670,079

Duluth Seaway Port Authority

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2015 and 2014**

	2015	2014
Operating Revenues	\$ 4,431,148	\$ 4,460,335
Operating Expenses, excluding depreciation	2,794,388	2,862,541
Operating income before depreciation	1,636,760	1,597,794
Depreciation	1,325,013	1,298,248
Operating income	311,747	299,546
Nonoperating Revenues (Expenses)		
Gain on sale of capital assets	-	100
Interest income	67,312	62,448
Other revenues	2,726	8,543
Interest expense	(118,056)	(126,097)
Insurance recoveries	-	1,974
	(48,018)	(53,032)
Income before grant revenue for capital purposes	263,729	246,514
Grant Revenue for Capital Purposes	297,994	39,099
Change in net position	561,723	285,613
Net Position		
Beginning of year	41,425,899	41,140,286
End of year	\$ 41,987,622	\$ 41,425,899

See Notes to Financial Statements.

Duluth Seaway Port Authority

**Statements of Cash Flows
Years Ended March 31, 2015 and 2014**

	2015	2014
Cash Flows from Operating Activities		
Receipts from customers	\$ 3,327,306	\$ 3,429,118
Payments to suppliers	(1,480,119)	(1,514,526)
Payments to employees	(1,397,430)	(1,331,377)
Other receipts	1,187,749	994,398
Net cash provided by operating activities	1,637,506	1,577,613
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(1,116,985)	(1,182,531)
Proceeds from sale of capital assets	-	100
Proceeds from insurance recovery	-	1,974
Principal paid on general obligations bonds	(173,702)	(163,503)
Interest paid on general obligation bonds	(122,387)	(130,123)
Net cash used in capital and related financing activities	(1,413,074)	(1,474,083)
Cash Flows from Investing Activities		
Purchase of certificates of deposit	(7,526,475)	(11,548,855)
Proceeds from maturities of certificates of deposit	6,588,610	8,299,607
Principal payments received on notes receivable	30,384	28,892
Interest received	64,020	83,651
Net cash used in investing activities	(843,461)	(3,136,705)
Net decrease in cash and cash equivalents	(619,029)	(3,033,175)
Cash and Cash Equivalents		
Beginning	5,396,817	8,429,992
Ending	\$ 4,777,788	\$ 5,396,817
Cash and Cash Equivalents Are Reported as Follows		
Current assets	\$ 3,291,045	\$ 3,829,112
Restricted assets	1,422,743	1,503,455
Other assets	64,000	64,250
	\$ 4,777,788	\$ 5,396,817

(Continued)

Duluth Seaway Port Authority

Statements of Cash Flows (Continued)
Years Ended March 31, 2015 and 2014

	2015	2014
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 311,747	\$ 299,546
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,325,013	1,298,248
Miscellaneous nonoperating receipts	2,726	8,543
Changes in assets and liabilities:		
Receivables	88,128	(37,953)
Prepaid expenses	1,840	(13,845)
Land held for sale	9,875	-
Accounts payable and accrued liabilities	(85,001)	30,483
Unearned revenue	(16,572)	11,091
Tenant deposits	(250)	(18,500)
Net cash provided by operating activities	\$ 1,637,506	\$ 1,577,613
Supplemental Schedule of Noncash Capital and Related Financing Activities		
Assets and liabilities recorded related to the pollution remediation of Docks C & D		
Recoveries	\$ 990,000	\$ -
Pollution remediation liability	(2,879,347)	-
Pollution remediation related CIP additions	\$ (1,889,347)	\$ -

See Notes to Financial Statements.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

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

The operational departments within the Authority are as follows:

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

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

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

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

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

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

The Authority is considered an other stand-alone 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 accounts for its transactions on a cost of services or "capital maintenance" 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.

Duluth Seaway Port Authority

Notes to Financial Statements

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

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.

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.

The tax levies are recognized as operating revenue in the Statements of Revenues, Expenses and Changes in Net Position and totaled \$924,992 in 2015 and \$901,028 in 2014.

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. At March 31, 2015 and 2014 the liability totaled \$94,246 and \$91,527, respectively.

Employees may accumulate up to 180 days of sick leave. Sick leave does not vest and, therefore, is not accrued.

The Authority makes payments to the Minnesota State Retirement System Health Care Savings Plan for retired employees with 10 years of continuous service. The total of the insurance 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, 2015 and 2014 the liability totaled \$113,441 and \$128,877, respectively.

Advertising costs: Advertising costs are expensed as incurred. Advertising expense amounted to \$159,074 in 2015 and \$136,992 in 2014.

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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 2. Deposits and Investments

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

	2015	2014
Deposits with financial institutions	\$ 12,951,359	\$ 11,742,597
Investments, money market funds	3,833,149	4,723,075
	<u>\$ 16,784,508</u>	<u>\$ 16,465,672</u>

Included in the following balance sheet captions:

	2015	2014
Current assets:		
Cash and cash equivalents	\$ 3,291,045	\$ 3,829,112
Certificates of deposits	8,067,036	7,748,855
Current restricted assets:		
Cash and cash equivalents	1,422,743	1,503,455
Certificates of deposits	3,939,684	3,320,000
Other assets, cash and cash equivalents	64,000	64,250
	<u>\$ 16,784,508</u>	<u>\$ 16,465,672</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.

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, 2015, 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. Investments in money market funds are not considered securities and are not classified for credit risk purposes under accounting principles generally accepted in the United States of America. Money market funds are measured at fair value in the statement of net position determined based on quoted market prices.

Duluth Seaway Port Authority

Notes to Financial Statements

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, 2015.

Note 3. Capital Assets

	Cost			
	Balance March 31, 2014	Additions	Reclassifications/ Deletions	Balance March 31, 2015
Land and land improvements	\$ 17,000,378	\$ -	\$ -	\$ 17,000,378
Buildings	26,282,330	278,794	-	26,561,124
Equipment	5,746,349	18,447	-	5,764,796
Construction in progress	723,273	2,638,857	-	3,362,130
	<u>\$ 49,752,330</u>	<u>\$ 2,936,098</u>	<u>\$ -</u>	<u>\$ 52,688,428</u>

	Accumulated Depreciation			Net	
	Balance March 31, 2014	Additions	Deductions	Balance March 31, 2015	Book Value March 31, 2015
Land and land improvements	\$ 7,162,314	\$ 365,304	\$ -	\$ 7,527,618	\$ 9,472,760
Buildings	12,931,381	781,962	-	13,713,343	12,847,781
Equipment	4,026,290	177,747	-	4,204,037	1,560,759
Construction in progress	-	-	-	-	3,362,130
	<u>\$ 24,119,985</u>	<u>\$ 1,325,013</u>	<u>\$ -</u>	<u>\$ 25,444,998</u>	<u>\$ 27,243,430</u>

	Cost			
	Balance March 31, 2013	Additions	Reclassifications/ Deletions	Balance March 31, 2014
Land and land improvements	\$ 17,000,378	\$ -	\$ -	\$ 17,000,378
Buildings	25,308,925	-	973,405	26,282,330
Equipment	5,746,349	-	-	5,746,349
Construction in progress	459,522	1,237,156	(973,405)	723,273
	<u>\$ 48,515,174</u>	<u>\$ 1,237,156</u>	<u>\$ -</u>	<u>\$ 49,752,330</u>

	Accumulated Depreciation			Net	
	Balance March 31, 2013	Additions	Deductions	Balance March 31, 2014	Book Value March 31, 2014
Land and land improvements	\$ 6,795,628	\$ 366,686	\$ -	\$ 7,162,314	\$ 9,838,064
Buildings	12,179,848	751,533	-	12,931,381	13,350,949
Equipment	3,846,261	180,029	-	4,026,290	1,720,059
Construction in progress	-	-	-	-	723,273
	<u>\$ 22,821,737</u>	<u>\$ 1,298,248</u>	<u>\$ -</u>	<u>\$ 24,119,985</u>	<u>\$ 25,632,345</u>

Duluth Seaway Port Authority

Notes to Financial Statements

Note 4. Long-Term Debt

	2015	2014
Assessment Bonds to the City of Duluth at an imputed rate of 5.23%, due in annual installments ranging from \$82,239 to \$91,297	\$ 309,803	\$ 378,505
2006 Revenue Bonds (tax exempt), principal payments are due in annual installments ranging from \$105,000 on April 1, 2015, to \$200,000 on April 1, 2027, interest payable (at rates ranging from 5.0% to 5.2%) on April 1 and October 1 each year; lease revenues and a building are pledged as collateral. In addition, the lessee is required to provide a bank letter of credit as collateral for its obligation under the lease.	1,965,000	2,070,000
	<u>2,274,803</u>	<u>2,448,505</u>
Less current maturities	183,925	173,702
	<u>\$ 2,090,878</u>	<u>\$ 2,274,803</u>

The following is a summary of changes in long-term debt at March 31, 2014 and 2013:

	2015			
	Beginning Balance	Additions	Principal Repayments	Ending Balance
Assessment bonds to the City of Duluth	\$ 378,505	\$ -	\$ 68,702	\$ 309,803
2006 Revenue Bonds	2,070,000	-	105,000	1,965,000
	<u>\$ 2,448,505</u>	<u>\$ -</u>	<u>\$ 173,702</u>	<u>\$ 2,274,803</u>

	2014			
	Beginning Balance	Additions	Principal Repayments	Ending Balance
Assessment bonds to the City of Duluth	\$ 442,008	\$ -	\$ 63,503	\$ 378,505
2006 Revenue Bonds	2,170,000	-	100,000	2,070,000
	<u>\$ 2,612,008</u>	<u>\$ -</u>	<u>\$ 163,503</u>	<u>\$ 2,448,505</u>

Debt service requirements at March 31, 2014, are:

Years Ending March 31,	Principal	Interest	Total
2016	\$ 183,925	\$ 114,087	\$ 298,012
2017	194,170	105,242	299,412
2018	199,438	95,779	295,217
2019	207,270	85,828	293,098
2020	135,000	73,970	208,970
2021 - 2025	785,000	254,670	1,039,670
2026 - 2028	570,000	45,500	615,500
	<u>\$ 2,274,803</u>	<u>\$ 775,076</u>	<u>\$ 3,049,879</u>

Duluth Seaway Port Authority

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan Statewide

Plan Description: All full-time and certain part-time employees of the Duluth Seaway Port Authority are covered by a defined benefit plan administered by Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF), which is a cost-sharing multiple-employer retirement plan. The plan is established and administered in accordance with Minnesota Statutes Chapters 353 and 356.

GERF members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. All participating employees of the Duluth Seaway Port Authority belong to the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after five years of credited service. The defined retirement 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 Coordinated Plan members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.com, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

Duluth Seaway Port Authority

Notes to Financial Statements

Funding policy: *Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The Authority makes annual contributions to the pension plan equal to the amount required by state statutes. GERF Coordinated Plan members are required to contribute 6.25 percent of their annual covered salary in 2014. In 2014, the Authority was required to contribute 7.25 percent of annual covered payroll for Coordinated Plan members. The Authority's contribution to the Public Employees Retirement Fund for the years ended March 31, 2015 and 2014 were \$64,798, and \$58,962, respectively. The Authority's contributions were equal to the contractually required contributions for the year as set by state statute. Contribution rates increased on January 1, 2015 for Coordinated Plan members to 6.5 percent, and 7.5 percent for employers.

Note 6. Unearned Revenue

	2015	2014
Tenant capital asset rental	\$ 96,384	\$ 106,978
Development, bond service fees	-	5,978
	<u>\$ 96,384</u>	<u>\$ 112,956</u>

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.

Port Development unearned revenue is that portion of the annual bond service fees received but not earned. Bond service fees are recognized as revenue on a pro rata basis over the period to which they relate. The amounts and dates of these payments vary for each bond issue.

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 December 31, 2016. The agreement stipulates that a percentage of gross revenue and a percentage of net revenue after operating expenses be paid to the Authority. The Authority has fiscal responsibility for property insurance and facility maintenance, excluding equipment maintenance. Customary harbor charges of dockage, wharfage, and mooring are retained by the Authority.

Note 8. Restricted Assets

Restricted assets are comprised of cash and investments which must be used for a specific purpose as required by contract with an outside party. 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.

	2015	2014
Operational departments:		
EDA land sales	\$ 1,030,173	\$ 1,113,219
State and federal grants; pledged matching funds	3,939,684	3,320,000
Bond agreement	392,570	390,236
Tenant deposits	64,000	64,250
	<u>\$ 5,426,427</u>	<u>\$ 4,887,705</u>

Duluth Seaway Port Authority

Notes to Financial Statements

Note 9. Operating Leases

The Authority leases substantially all of its property and equipment to others. These leases are accounted for as operating leases and expire at various dates through 2073. As of March 31, 2015, 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,	
2016	\$ 1,922,963
2017	1,610,036
2018	1,479,830
2019	572,385
2020	572,385
Thereafter	2,039,378
	<u>\$ 8,196,977</u>

Note 10. Risk Management

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

Note 11. Commitments

The Authority entered into an agreement with the United States Steel Corporation to purchase 123 acres of land located within a Superfund site for \$10,000 an acre. U.S. Steel has been identified as the responsible party. The purchase is contingent upon the remediation of the contaminated soil and the land being delisted from Superfund status. At March 31, 2015, the Authority had expended \$429,450 for this project. If the remediation cost is deemed to be excessive by either the Authority or U.S. Steel, either party may terminate the purchase agreement. The drilling and analyzing the soil has been completed on the property. The Response Action Plans for both the Superfund delisting (Federal Environmental Protection Agency) and the voluntary investigation and clean-up (Minnesota Pollution Control Agency) are being prepared by U.S. Steel and the Authority. By contract with U.S. Steel, the Authority will be responsible for payment of 25 percent of the costs to clean the targeted property. All cost associated with testing and cleaning are being recorded as construction in progress. If terminated, the Authority will write-off the capitalized development costs.

The Authority entered into contracts for the rehabilitation and design of the Port of Duluth Intermodal Project (Docks C & D) in the amount of \$15,344,839. As of March 31, 2015 Authority has expended \$24,784 of the contracts. This project is to be funded through a combination of Federal, State, and Local funds.

The Authority entered into a purchase agreement to acquire a 35.7 acre dock property. The purchase price, which is contingent on an environmental investigation of the property to be conducted by the Authority, is \$810,000, of which \$81,000 has already been paid. Purchase of property is to be funded by the Authority's local funds.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 12. 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. Any changes to estimates will be addressed as unexpected issues arise. To assist with funding of the remediation, the Authority was awarded a grant from the State of Minnesota Department of Employment and Economic Development (DEED) in the amount of \$990,000. Governmental Accounting Standards Board's (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. This statement requires the recognition of the pollution remediation liability and related expected recoveries. Under GASB 49, the DEED funding is considered realizable, and reduces the associated pollution remediation expenditures that are placed into construction in progress. Further, remediation expenditures are properly capitalized as the contaminated was property previously purchased at a discount. As of March 31, 2015, the outstanding pollution liability was \$2,879,347, and related recovery receivable was in the amount of \$990,000.

Note 13. Pending Accounting Standards

GASB has issued several statements not yet implemented by the Authority. Listed below are statements which may impact future financial statements of the Authority:

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. Statement 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other requirements, the statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and calls for immediate recognition of more pension expense than is currently required. The provisions will be effective for the Authority beginning with its year ending March 31, 2016. Statement 71 addresses issues regarding application of the transition provisions of Statement No. 68, related to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. Management estimates the application of these pronouncements will result in a restatement of approximately \$750,000 from unrestricted net position to long-term liabilities based on information received from the Public Employees Retirement Association.

Duluth Seaway Port Authority

Combining Statement of Revenues and Expenses
Year Ended March 31, 2015

	Combined	Operational Departments			
		Administration	Port Promotion	Port Development	Marine Terminal
Operating Revenues	\$ 4,431,148	\$ 2,475,904	\$ -	\$ 942,970	\$ 1,012,274
Operating Expenses, excluding depreciation	2,794,388	1,337,815	618,640	421,996	415,937
Operating income (loss) before depreciation	1,636,760	1,138,089	(618,640)	520,974	596,337
Depreciation	1,325,013	789,558	-	-	535,455
Operating income (loss)	311,747	348,531	(618,640)	520,974	60,882
Nonoperating Revenues (Expenses)					
Interest income	67,312	67,312	-	-	-
Other revenues	2,726	2,726	-	-	-
Interest expense	(118,056)	(118,056)	-	-	-
	(48,018)	(48,018)	-	-	-
Income (loss) before grant revenue for capital purposes	263,729	300,513	(618,640)	520,974	60,882
Grant Revenue for Capital Purposes					
State of Minnesota: Grant 99713	297,994	297,994	-	-	-
Total grant revenue for capital purposes	297,994	297,994	-	-	-
Other Revenue					
Change in net position	\$ 561,723	\$ 598,507	\$ (618,640)	\$ 520,974	\$ 60,882

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Administration
Years Ended March 31, 2015 and 2014**

	2015	2014
Departmental Revenues		
Rentals	\$ 2,209,712	\$ 2,189,127
Gain on sale of land held for resale	266,192	-
	<u>2,475,904</u>	<u>2,189,127</u>
Departmental Expenses		
Salaries and wages	547,290	506,906
Employee benefits:		
Health, welfare, and pension	210,499	231,995
Social security tax	33,767	34,282
Workers' compensation insurance	3,916	2,310
Commissioner fees	5,390	5,060
Consulting	44,253	69,713
Dues and subscriptions	1,098	5,434
Insurance	58,689	57,646
Office	18,673	24,062
Bad debt	45,993	126,480
Other	64,270	78,791
Professional services	90,839	61,898
Repairs, maintenance, and supplies	121,516	179,266
Telephone	19,986	23,096
Travel and entertainment	21,660	55,371
Utilities	49,976	49,072
Total departmental expenses	<u>1,337,815</u>	<u>1,511,382</u>
Departmental income before depreciation	1,138,089	677,745
Depreciation	789,558	761,412
Departmental operating income (loss)	<u>\$ 348,531</u>	<u>\$ (83,667)</u>

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses

Port Promotion

Years Ended March 31, 2015 and 2014

	2015	2014
Departmental Revenues	\$ -	\$ 3,250
Departmental Expenses		
Salaries and wages	234,081	169,987
Employee benefits:		
Health, welfare, and pension	74,775	57,887
Social security tax	18,474	13,998
Workers' compensation insurance	1,663	1,351
Advertising and promotion	156,715	136,992
Consulting	4,901	4,901
Cruise ship visits	590	15,670
Dues and subscriptions	23,879	24,507
Foreign trade zone	2,003	1,636
Insurance	4,901	3,896
Maritime representative	34,125	33,625
Other	7,308	1,381
Photographs and supplies	4,822	2,112
Repairs, maintenance, and supplies	328	517
Telephone	4,682	5,322
Travel and entertainment	45,393	51,938
Total departmental expenses	618,640	525,720
Departmental loss before depreciation	(618,640)	(522,470)
Depreciation	-	-
Departmental operating loss	\$ (618,640)	\$ (522,470)

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Port Development
Years Ended March 31, 2015 and 2014**

	2015	2014
Departmental Revenues		
General tax levies	\$ 924,992	\$ 901,028
Bond fees	5,978	6,253
Other	12,000	12,000
Total departmental revenues	942,970	919,281
Departmental Expenses		
Salaries and wages	199,467	184,420
Employee benefits:		
Health, welfare and pension	42,243	48,168
Social security tax	16,006	14,694
Workers' compensation insurance	1,458	1,470
Advertising and promotion	2,359	-
Consulting	77,289	132,098
Other	11,822	14,227
Professional services	54,483	53,861
Telephone	2,607	2,088
Travel and entertainment	14,262	17,532
Total departmental expenses	421,996	468,558
Departmental income before depreciation	520,974	450,723
Depreciation	-	-
Departmental operating income	\$ 520,974	\$ 450,723

Duluth Seaway Port Authority

Schedules of Departmental Operating Revenues and Expenses

Marine Terminal

Years Ended March 31, 2015 and 2014

	2015	2014
Departmental Revenues		
Dockage and mooring	\$ 66,516	\$ 55,007
Equipment rental	60,142	60,467
Facilities fee	839,638	1,191,058
Wharfage	45,978	42,145
Total departmental revenues	1,012,274	1,348,677
Departmental Expenses		
Insurance	64,391	61,955
Other	659	658
Professional services	16,108	10,991
Protection service	21,191	10,233
Repairs and maintenance	313,458	272,677
Utilities	130	367
Total departmental expenses	415,937	356,881
Departmental income before depreciation	596,337	991,796
Depreciation	535,455	536,836
Departmental operating income	\$ 60,882	\$ 454,960



Independent Auditor's Report on Minnesota Legal Compliance

To the Board of Commissioners
Duluth Seaway Port Authority
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Duluth Seaway Port Authority as of and for the year ended March 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated June 17, 2015.

The *Minnesota Legal Compliance Audit Guide for 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, public indebtedness, claims and disbursements, and miscellaneous provisions. 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 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.

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

McGladrey LLP

Duluth, Minnesota
June 17, 2015