



Duluth Seaway Port Authority Duluth, Minnesota

Financial and Compliance Report
March 31, 2018

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

RSM US LLP

Duluth, Minnesota
July 18, 2018

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

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2018

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, 2018 and 2017. 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

2018

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

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

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 16 percent to \$3,685,439. This decrease results primarily from a decrease in facilities fees for the Marine Terminal. Operating expenses increased to \$4,613,223 (1 percent). Operating loss for 2017 is \$927,784 compared to \$174,571 in 2016.

Overview of the Financial Statements

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

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

Basic Financial Statements

The 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.

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2018

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.

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, 75 percent in 2018 and 76 percent in 2017, 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, 2 percent in 2018 and 4 percent in 2017, is restricted for compliance with provisions of bond indentures and grants.

The remaining balance of net position, 23 percent in 2018 and 20 percent 2017, 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, 2018, 2017, and 2016:

	2018	2017	2016
Current and other assets	\$ 15,765,552	\$ 15,444,737	\$ 20,809,675
Capital assets	43,988,567	44,331,934	35,469,713
Deferred outflows	269,053	484,596	187,857
Total assets and deferred outflows	60,023,172	60,261,267	56,467,245
Long-term debt outstanding	1,683,184	1,917,175	2,090,878
Other liabilities	2,035,829	1,977,396	4,842,500
Deferred inflows	211,200	105,554	192,525
Total liabilities and deferred inflows	3,930,213	4,000,125	7,125,903
Net position:			
Net investment in capital assets	42,050,992	42,641,527	31,385,323
Restricted	951,656	2,030,253	3,192,125
Unrestricted	13,090,311	11,589,362	14,763,894
Total net position	\$ 56,092,959	\$ 56,261,142	\$ 49,341,342

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2018

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, 2018, 2017, and 2016. The schedule below shows revenues by source and expenses by function.

	2018	2017	2016
Revenues:			
Program revenues, charges for services	\$ 3,317,854	\$ 3,685,439	\$ 4,400,484
General revenues:			
Property taxes	1,021,677	985,505	949,933
Gain (loss) on sale of capital asset	-	61,212	(17,328)
Interest	109,094	52,264	46,879
Other	5,662	35,216	20,779
Total revenues	4,454,287	4,819,636	5,400,747
Expenses:			
Administration	1,805,945	1,608,875	1,404,133
Port promotion	763,966	715,426	742,976
Port development	454,466	398,751	522,575
Marine terminal	347,803	585,100	592,218
Interest on long-term debt	57,804	104,560	109,459
Depreciation	1,886,264	1,305,071	1,313,153
Total expenses	5,316,248	4,717,783	4,684,514
Grant revenue for capital purposes	693,778	6,817,947	7,431,182
(Decrease) increase in net position	(168,183)	6,919,800	8,147,415
Net position:			
Beginning of year	56,261,142	49,341,342	41,193,927
End of year	<u>\$ 56,092,959</u>	<u>\$ 56,261,142</u>	<u>\$ 49,341,342</u>

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, was \$43,988,567 and \$44,331,934, as of March 31, 2018 and 2017, 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, decreased 1 percent during 2018. 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 \$1,683,184 in long-term debt compared to \$1,917,175 in 2017.

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

Duluth Seaway Port Authority

Management's Discussion and Analysis March 31, 2018

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 2018 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 the Debottlenecking the Clure: Roadway, Pavement and Truck Scale Construction project to support Increased Cargo Movement on the Clure Public Terminal. The project total was \$2.8 million and the Authority was funded a \$1.3 million grant from the Minnesota Department of Transportation Port Development Assistance Program. This project is critical due to the increase in rail and truck traffic since 2006. These improvements will improve the flow of cargo through the Terminal and enhance services for container, rail and truck traffic.

The Authority has been awarded a \$240,000 grant from the Minnesota Department of Transportation Port Development Assistance Program to repair Berths 5, 6, and 7 Dock Cap and Fenders. This project is needed due to the age and wear of the originally installed Dock Cap and Fenders from 1960's. The project budget was approximately \$442,000 and was completed on June 30, 2018.

The Authority was also awarded funds of \$1.9 million from the Minnesota Highway Freight Program – Intermodal Program for the expansion of the CN Intermodal Terminal. The project budget is approximately \$2.9 million and is expected to begin in late Summer of 2018 and be completed by Spring of 2019. This project will expand the Duluth/CN Intermodal Terminal by extending the freight rail tracks an additional 2,500 feet for intermodal well-car loading and unloading; paving approximately six acres of terminal space and address storm water management, security fencing and lighting. This expansion will achieve our five-year projected capacity of 45,000-50,000 annualized containers.

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, 2018 and 2017**

	2018	2017
Assets and Deferred Outflows		
Current assets:		
Cash and cash equivalents	\$ 413,391	\$ 8,066,091
Certificates of deposit	11,520,000	1,115,228
Receivables:		
Taxes	1,020,378	979,458
Accounts, less allowance for doubtful accounts of \$195,000 in 2018 and \$836,651 in 2017	406,038	335,373
Grants	240,000	1,630,824
Interest	33,889	6,048
Due from other governments	3,000	3,000
Notes receivable, current portion	2,300	35,350
Prepaid expenses	76,609	69,686
Total current unrestricted assets	13,715,605	12,241,058
Current restricted assets (Note 9):		
Cash and cash equivalents	951,656	1,225,481
Certificates of deposit	-	804,772
Total current restricted assets	951,656	2,030,253
Capital assets (Note 3):		
Land and land improvements	38,230,284	34,817,749
Buildings	26,429,018	26,325,119
Equipment	6,761,150	5,195,376
Construction in progress	1,466,935	5,006,246
	72,887,387	71,344,490
Less accumulated depreciation	28,898,820	27,012,556
Total capital assets	43,988,567	44,331,934
Other assets:		
Restricted cash and cash equivalents (Note 9)	68,000	63,000
Notes receivable, less current portion	2,441	82,576
Land held for sale, at cost	1,027,850	1,027,850
Total other assets	1,098,291	1,173,426
Total assets	59,754,119	59,776,671
Deferred outflows of resources:		
Deferred pension amounts (Note 5)	269,053	484,596
Total assets and deferred outflows	\$ 60,023,172	\$ 60,261,267

See notes to financial statements.

	2018	2017
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable:		
Trade	\$ 181,345	\$ 90,351
Construction and equipment	331,661	144,207
Accrued payroll liabilities	345,890	299,718
Unearned revenue (Note 6)	97,373	100,377
Current maturities of long-term debt (Note 4)	236,513	233,915
Accrued interest	2,898	4,981
Total current liabilities	1,195,680	873,549
Long-term debt, less current maturities (Note 4)	1,446,671	1,683,260
Net pension liability (Note 5)	1,008,662	1,274,762
Other long-term liabilities	68,000	63,000
Total liabilities	3,719,013	3,894,571
Deferred inflows of resources:		
Deferred pension amounts (Note 5)	211,200	105,554
Total liabilities and deferred inflows	3,930,213	4,000,125
Net position:		
Net investment in capital assets	42,050,992	42,641,527
Restricted (Note 9)	951,656	2,030,253
Unrestricted	13,090,311	11,589,362
Total net position	56,092,959	56,261,142
Total liabilities, deferred inflows, and net position	\$ 60,023,172	\$ 60,261,267

Duluth Seaway Port Authority

**Statements of Revenues, Expenses and Changes in Net Position
Years Ended March 31, 2018 and 2017**

	2018	2017
Operating revenues	\$ 3,317,854	\$ 3,685,439
Operating expenses, excluding depreciation	3,372,180	3,308,152
Operating (loss) income before depreciation	(54,326)	377,287
Depreciation	1,886,264	1,305,071
Operating loss	(1,940,590)	(927,784)
Nonoperating revenues (expenses):		
General tax levies	1,021,677	985,505
Gain on sale of capital assets	-	61,212
Interest income	109,094	52,264
Other revenues	5,662	35,216
Interest expense	(57,804)	(104,560)
(Loss) income before grant revenue for capital purposes	(861,961)	101,853
Grant revenue for capital purposes	693,778	6,817,947
Change in net position	(168,183)	6,919,800
Net position:		
Beginning of year	56,261,142	49,341,342
End of year	\$ 56,092,959	\$ 56,261,142

See notes to financial statements.

Duluth Seaway Port Authority

**Statements of Cash Flows
Years Ended March 31, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Receipts from customers	\$ 3,242,847	\$ 3,661,332
Payments to suppliers	(1,672,104)	(1,596,482)
Payments to employees	(1,514,744)	(1,459,918)
Other receipts	12,000	12,000
Net cash provided by operating activities	67,999	616,932
Cash flows from noncapital financing activities:		
General tax levies	980,757	951,844
Net cash provided by noncapital financing activities	980,757	951,844
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,355,443)	(11,882,243)
Proceeds from sale of capital assets	-	61,212
Receipts from other governments	2,084,602	7,084,910
Payment on pollution remediation liability	-	(1,574,474)
Proceeds on long-term debt issued to refund bonds	-	1,773,339
Principal payments on long-term debt	(233,991)	(1,947,042)
Interest paid on long-term debt	(59,887)	(154,648)
Net cash provided by (used in) capital and related financing activities	435,281	(6,638,946)
Cash flows from investing activities:		
Purchase of certificates of deposit	(22,080,000)	(2,400,000)
Proceeds from maturities of certificates of deposit	12,480,000	6,960,000
Principal payments received on notes receivable	113,185	33,613
Interest received	81,253	52,084
Net cash (used in) provided by investing activities	(9,405,562)	4,645,697
Net decrease in cash and cash equivalents	(7,921,525)	(424,473)
Cash and cash equivalents:		
Beginning	9,354,572	9,779,045
Ending	\$ 1,433,047	\$ 9,354,572
Cash and cash equivalents are reported as follows:		
Current assets	\$ 413,391	\$ 8,066,091
Restricted assets	951,656	1,225,481
Other assets	68,000	63,000
	\$ 1,433,047	\$ 9,354,572

(Continued)

Duluth Seaway Port Authority

**Statements of Cash Flows (Continued)
Years Ended March 31, 2018 and 2017**

	2018	2017
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,940,590)	\$ (927,784)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	1,886,264	1,305,071
Miscellaneous nonoperating receipts	5,662	35,216
Change in deferred outflow	215,543	(296,739)
Change in deferred inflow	105,646	(86,971)
Changes in assets and liabilities:		
Receivables	(70,665)	111,482
Prepaid expenses	(6,923)	2,248
Accounts payable and accrued liabilities	137,166	15,492
Unearned revenue	(3,004)	(12,555)
Tenant deposits	5,000	-
Net pension liability	(266,100)	471,472
Net cash provided by operating activities	\$ 67,999	\$ 616,932
Supplemental schedule of noncash capital and related financing activities:		
Accounts payable, capital assets	\$ 331,661	\$ 144,207

See notes to financial statements.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

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

The operational departments within the Authority are as follows:

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

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

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

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

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

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

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

Significant Accounting Policies

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.

Duluth Seaway Port Authority

Notes to Financial Statements

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

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

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

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

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

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

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

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.

Duluth Seaway Port Authority

Notes to Financial Statements

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

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 2018, employees earned \$100,194, and used \$116,312 of vacation. At March 31, 2018 and 2017, the liability totaled \$90,969 and \$107,087, 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, 2018 and 2017 the liability totaled \$209,697 and \$169,849, respectively.

Advertising costs: Advertising costs are expensed as incurred. Advertising expense amounted to \$178,534 in 2018 and \$209,142 in 2017.

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 2017, have been reclassified to be consistent with the classifications adopted for 2018 with no effect on net position.

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:

	2018	2017
Deposits with financial institutions	\$ 11,923,826	\$ 2,716,752
Investments, money market funds	1,029,221	8,557,820
	<u>\$ 12,953,047</u>	<u>\$ 11,274,572</u>

Included in the following balance sheet captions:

	2018	2017
Current assets:		
Cash and cash equivalents	\$ 413,391	\$ 8,066,091
Certificates of deposits	11,520,000	1,115,228
Current restricted assets:		
Cash and cash equivalents	951,656	1,225,481
Certificates of deposits	-	804,772
Other assets, cash and cash equivalents	68,000	63,000
	<u>\$ 12,953,047</u>	<u>\$ 11,274,572</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, 2018, 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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Credit risk: Generally, credit risk is the risk that the issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. As of March 31, 2018, the Authority's money market funds had a credit rating of Aaa to mf as reported by Moody's.

Custodial credit risk: This is the risk that in the event of the failure of the counterparty (e.g., broker dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. The Authority's money market funds are not subject to custodial credit risk at March 31, 2018.

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

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

- Level 1:** Investments whose values are based on quoted prices (unadjusted) for identical assets (liabilities) in active markets that a government can access at measurement date.
- Level 2:** Investments with inputs, other than quoted prices included within Level 1 that are observable for an asset (liability), either directly or indirectly.
- Level 3:** Investments classified as Level 3 have unobservable inputs for an asset (liability) and may require a degree of professional judgment.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 3. Capital Assets

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

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

	Cost			
	Balance	Additions	Reclassifications/	Balance
	March 31, 2016		Deletions	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
	<u>\$ 61,364,661</u>	<u>\$ 10,167,292</u>	<u>\$ (187,463)</u>	<u>\$ 71,344,490</u>

	Accumulated Depreciation			Balance	Net Book Value	
	Balance	Additions	Deductions			March 31, 2017
	March 31, 2016					
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	
	<u>\$ 25,894,948</u>	<u>\$ 1,305,071</u>	<u>\$ (187,463)</u>	<u>\$ 27,012,556</u>	<u>\$ 44,331,934</u>	

Duluth Seaway Port Authority

Notes to Financial Statements

Note 4. Long-Term Debt

	2018	2017
Assessment Bonds to the City of Duluth at an imputed rate of 5.23%, due on September 1, 2018.	\$ 77,271	\$ 156,709
Note payable at a fixed rate of 3.00%, due in annual installments ranging from \$159,242 to \$185,886. Lease revenues and a building are pledged as collateral.	1,605,913	1,760,466
	<u>1,683,184</u>	<u>1,917,175</u>
Less current maturities	236,513	233,915
	<u>\$ 1,446,671</u>	<u>\$ 1,683,260</u>

The following is a summary of changes in long-term debt at March 31, 2018 and 2017:

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

	2017				
	Beginning Balance	Additions	Principal Repayments	Ending Balance	Due Within One Year
Assessment bonds to the City of Duluth	\$ 235,878	\$ -	\$ 79,169	\$ 156,709	\$ 79,438
2006 Revenue Bonds	1,855,000	-	1,855,000	-	-
Note payable	-	1,773,339	12,873	1,760,466	154,477
	<u>\$ 2,090,878</u>	<u>\$ 1,773,339</u>	<u>\$ 1,947,042</u>	<u>\$ 1,917,175</u>	<u>\$ 233,915</u>

Debt service requirements at March 31, 2018, are:

Years ending March 31:	Principal	Interest	Total
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	179,813	26,088	205,901
2024 - 2027	759,165	73,293	832,458
	<u>\$ 1,683,184</u>	<u>\$ 261,019</u>	<u>\$ 1,944,203</u>

Duluth Seaway Port Authority

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan Statewide

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

All full-time and certain part-time employees of the Authority are covered by the General Employees Plan. General Employees Plan members belong to 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.

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 2018 and 2017, Coordinated Plan members were required to contribute, 6.5 percent and 6.5 percent, respectively, of their annual covered salary. In calendar years 2018 and 2017, the Authority was required to contribute 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, 2018 and 2017, were \$78,255 and \$74,984, respectively. The Authority's contributions were equal to the required contributions as set by state statute.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan Statewide (Continued)

Pension Costs

At March 31, 2018 and 2017, the Authority reported a liability of \$1,008,662 and \$1,274,762, 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 2017. 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 \$12,660. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2016, through June 30, 2017, for 2018 measurement, and July 1, 2015, through June 30, 2016, for 2017 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017 and 2016, the Authority's proportion was .0158 percent and .0157 percent, respectively.

For the years ended March 31, 2018 and 2017, the Authority recognized pension expense of \$41,373 and \$176,687, respectively, for its proportionate share of the GERF's pension expense. In addition, for the year ended March 31, 2018, the Authority recognized an additional \$366 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, 2018 and 2017, 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:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 33,242	\$ 64,305	\$ 3,749	\$ 103,207
Changes in actuarial assumptions	166,403	101,118	274,774	-
Net difference between projected and actual investment earnings	-	44,602	142,217	-
Changes in proportion	11,272	1,175	7,774	2,347
Contributions paid to PERA subsequent to the measurement date	58,136	-	56,082	-
Total	\$ 269,053	\$ 211,200	\$ 484,596	\$ 105,554

Duluth Seaway Port Authority

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan Statewide (Continued)

\$58,136 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:

	<u>Pension Expense</u>
Years ended March 31:	
2019	\$ (2,140)
2020	62,035
2021	(17,365)
2022	(42,813)
	<u>\$ (283)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017 and 2016, actuarial valuations were determined using the following actuarial assumptions:

	<u>2017</u>	<u>2016</u>
Inflation	2.50% per year	2.50% per year
Active member payroll growth	3.25% per year	3.25% per year
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1 percent per year through 2044 and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the GERP 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 2017.

GERP

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 5. Defined Benefit Pension Plan Statewide (Continued)

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

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39%	5.10%
International stocks	19%	5.30%
Bonds	20%	0.75%
Alternative assets	20%	5.90%
Cash	2%	0.00%
Total	<u>100%</u>	

Discount rate: The discount rate used to measure the total pension liability in 2017 was 7.50 percent, a reduction from the 7.5 percent used in 2016. 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:

	<u>1% Decrease in Discount Rate (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase in Discount Rate (8.50%)</u>
Proportionate share of the GERF net pension liability	1,564,509	1,008,662	553,559

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.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 6. Unearned Revenue

	2018	2017
Tenant capital asset rental	\$ 97,373	\$ 100,377

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 had a 20-year lease with Northstar Machine & Tool Co., Inc. that commenced in 2006 and was sub-leased to Republic Bank in February 2017 and has now been sub-leased to Cirrus Design Corp. through February 2019. There have been several amendments to the lease with Northstar Machine & Tool Co., Inc. that resulted in the Authority deferring lease payments that totaled \$690,401. The deferred amounts were fully allowed for and included in allowance for doubtful accounts in previous years. Northstar Machine & Tool Co., Inc. is no longer in business. The fully allowed for deferred amounts were written off by the Authority during 2018.

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 (EDA) grant must be spent on industrial development, state grants require matching funds, the Authority's bond agreement requires reserve and debt service accounts, and tenant lease deposit agreements restrict use.

	2018	2017
EDA land sales	\$ 773,318	\$ 855,977
State grants; pledged matching funds	176,253	804,772
Bond agreement	-	367,659
Other	2,085	1,845
Restricted net position	951,656	2,030,253
Tenant and other deposits	68,000	63,000
Restricted assets	\$ 1,019,656	\$ 2,093,253

Duluth Seaway Port Authority

Notes to Financial Statements

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, 2018, 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:	
2019	\$ 1,897,877
2020	1,446,712
2021	1,293,137
2022	1,147,365
2023	827,241
Thereafter	1,771,886
	<u>\$ 8,384,218</u>

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, 2018, 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.

The Authority has entered into several contracts including the purchase of an office building, the Altec building expansion project, and dock fender project. The Authority has approximately \$2,856,000 remaining on these contracts.

Duluth Seaway Port Authority

Notes to Financial Statements

Note 13. Pending Accounting Standards

The Governmental Accounting Standards Board (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. 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.

GASB Statement No. 87, *Leases*, will be effective for the Authority beginning with its year ending March 31, 2021. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, will be effective for the Authority beginning with its year ending March 31, 2020. This statement requires certain information related to debt be disclosed in the notes to the financial statements, including unused lines of credit, assets pledged as collateral, and terms specified in debt agreements related to significant events of default with finance-related consequences.

Required Supplementary Information

Duluth Seaway Port Authority

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

Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability (NPL)	Proportionate Share (Amount) of the NPL (a)	Covered- Employee Payroll (b)	Proportionate Share of the NPL as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	0.0156%	\$ 732,810	\$ 823,803	88.95%	78.75%
June 30, 2015	0.0155%	803,290	927,786	86.58%	78.19%
June 30, 2016	0.0157%	1,274,762	982,357	129.77%	68.91%
June 30, 2017	0.0158%	1,008,662	1,016,007	99.28%	75.90%

Duluth Seaway Port Authority

**Schedule of Pension Contributions
PERA General Employees Retirement Fund**

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

Supplementary Information

Duluth Seaway Port Authority

Combining Statement of Revenues and Expenses
Year Ended March 31, 2018

	Operational Departments				Combined
	Administration	Port Promotion	Port Development	Marine Terminal	
Operating revenues	\$ 2,127,165	\$ -	\$ 12,000	\$ 1,178,689	\$ 3,317,854
Operating expenses, excluding depreciation	1,805,945	763,966	454,466	347,803	3,372,180
Operating income (loss) before depreciation	321,220	(763,966)	(442,466)	830,886	(54,326)
Depreciation	1,138,878	-	-	747,386	1,886,264
Operating (loss) income	(817,658)	(763,966)	(442,466)	83,500	(1,940,590)
Nonoperating revenues (expenses):					
General tax levies	-	-	1,021,677	-	1,021,677
Gain on sale of capital assets	-	-	-	-	-
Interest income	109,094	-	-	-	109,094
Other revenues	5,662	-	-	-	5,662
Interest expense	(57,804)	-	-	-	(57,804)
Insurance recoveries	-	-	-	-	-
	56,952	-	1,021,677	-	1,078,629
(Loss) income before grant revenue for capital purposes	(760,706)	(763,966)	579,211	83,500	(861,961)
Grant revenue for capital purposes:					
State of Minnesota:					
Debottlenecking Grant	453,778	-	-	-	453,778
Fender Replacement Grant	240,000	-	-	-	240,000
Total grant revenue for capital purposes	693,778	-	-	-	693,778
Change in net position	\$ (66,928)	\$ (763,966)	\$ 579,211	\$ 83,500	\$ (168,183)

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Administration
Years Ended March 31, 2018 and 2017**

	2018	2017
Departmental revenues:		
Rentals	\$ 2,127,165	\$ 2,462,400
Departmental expenses:		
Salaries and wages	511,440	501,277
Employee benefits:		
Health, welfare, and pension	260,669	288,202
Social security tax	37,235	34,657
Workers' compensation insurance	1,937	2,159
Commissioner fees	7,040	5,940
Consulting	245,445	108,088
Dues and subscriptions	21,581	12,978
Insurance	54,043	54,128
Office	16,989	15,375
Bad debt	295,140	146,250
Other	45,940	48,449
Professional services	130,976	152,543
Repairs, maintenance, and supplies	106,536	141,205
Telephone	10,995	30,947
Travel and entertainment	30,814	38,794
Utilities	29,165	27,883
Total departmental expenses	1,805,945	1,608,875
Departmental income before depreciation	321,220	853,525
Depreciation	1,138,878	788,794
Departmental operating (loss) income	\$ (817,658)	\$ 64,731

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Port Promotion
Years Ended March 31, 2018 and 2017**

	2018	2017
Departmental revenues	\$ -	\$ -
Departmental expenses:		
Salaries and wages	316,761	311,635
Employee benefits:		
Health, welfare, and pension	123,760	90,431
Social security tax	25,191	24,121
Workers' compensation insurance	1,885	2,203
Advertising and promotion	145,006	157,118
Consulting	30,865	19,340
Cruise ship visits	1,480	650
Dues and subscriptions	27,303	29,420
Insurance	5,560	4,964
Maritime representative	28,400	35,875
Other	7,147	916
Photographs and supplies	2,225	1,413
Repairs, maintenance, and supplies	-	260
Telephone	4,181	4,381
Travel and entertainment	44,202	32,699
Total departmental expenses	763,966	715,426
Departmental loss before depreciation	(763,966)	(715,426)
Depreciation	-	-
Departmental operating loss	\$ (763,966)	\$ (715,426)

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Port Development
Years Ended March 31, 2018 and 2017**

	2018	2017
Departmental revenues:		
Other	\$ 12,000	\$ 12,000
Total departmental revenues	<u>12,000</u>	<u>12,000</u>
Departmental expenses:		
Salaries and wages	199,082	196,337
Employee benefits:		
Health, welfare and pension	65,939	56,359
Social security tax	15,793	15,384
Workers' compensation insurance	1,224	1,431
Consulting	90,620	67,754
Other	3,703	4,889
Professional services	67,348	40,628
Telephone	1,943	1,912
Travel and entertainment	8,814	14,057
Total departmental expenses	<u>454,466</u>	<u>398,751</u>
Departmental loss before depreciation	(442,466)	(386,751)
Depreciation	-	-
Departmental operating loss	<u>\$ (442,466)</u>	<u>\$ (386,751)</u>

Duluth Seaway Port Authority

**Schedules of Departmental Operating Revenues and Expenses
Marine Terminal
Years Ended March 31, 2018 and 2017**

	2018	2017
Departmental revenues:		
Dockage and mooring	\$ 107,979	\$ 163,722
Equipment rental	-	42,425
Facilities fee	976,002	916,742
Wharfage	94,708	88,150
Total departmental revenues	1,178,689	1,211,039
Departmental expenses:		
Advertising and promotion	33,529	52,024
Consulting	8,100	400
Foreign trade zone	500	500
Insurance	63,884	63,917
Other	660	2,516
Professional services	(15,617)	11,813
Protection service	13,690	18,067
Repairs and maintenance	241,419	413,450
Utilities	1,638	22,413
Total departmental expenses	347,803	585,100
Departmental income before depreciation	830,886	625,939
Depreciation	747,386	516,277
Departmental operating income	\$ 83,500	\$ 109,662



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 of Duluth Seaway Port Authority (Authority) as of and for the year ended March 31, 2018, 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 18, 2018.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories except that we did not test for compliance with the provisions for tax increment financing because no tax increment financing was used for the year ended March 31, 2018.

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

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

RSM US LLP

Duluth, Minnesota
July 18, 2018