



# **Duluth Seaway Port Authority Duluth, Minnesota**

Financial and Compliance Report  
March 31, 2019

## Contents

|  |       |
|--|-------|
| Independent auditor's report on the basic financial statements and supplementary information | 1-2   |
| Required supplementary information, management's discussion and analysis (MD&A)              | 3-6   |
| <hr/>  |       |
| Basic financial statements   |       |
| Statements of net position   | 7-8   |
| Statements of revenues, expenses and changes in net position                                 | 9     |
| Statements of cash flows   | 10-11 |
| Notes to financial statements  | 12-24 |
| <hr/>  |       |
| Required supplementary information   |       |
| Schedule of proportionate share of the net pension liability                                 | 25    |
| Schedule of pension contributions  | 26    |
| Supplementary information  |       |
| Combining statement of revenues and expenses   | 27    |
| Schedules of departmental revenues and expenses:   |       |
| Administration   | 28    |
| Port promotion   | 29    |
| Port development   | 30    |
| Marine terminal  | 31    |
| Independent auditor's report on Minnesota legal compliance                                   | 32    |

## Independent Auditor's Report

To the Board of Commissioners  
Duluth Seaway Port Authority

### Report on the Financial Statements

We have audited the accompanying financial statements of Duluth Seaway Port Authority (Authority), as of and for the years ended March 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of March 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

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

### ***Other Information***

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

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

*RSM US LLP*

Duluth, Minnesota  
July 29, 2019

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

## **Duluth Seaway Port Authority**

### **Management's Discussion and Analysis**

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**March 31, 2019**

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

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

### **Financial Highlights**

#### **2019**

The Authority's net position increased \$225,352 (0 percent), from \$56,092,959 in 2018 to \$56,318,311 in 2019. This increase was made up of operating loss of \$1,108,936, and nonoperating income of \$1,334,288.

The Authority's operating revenues increased 11 percent to \$3,697,656. This increase results primarily from an increase in rental revenue for the Administration department. Operating expenses decreased to \$4,806,592 (9 percent) primarily from a decrease in consulting, employee benefits, and bad debt expense for the Administration department. Operating loss for 2019 is \$1,108,936 compared to \$1,940,590 in 2018.

#### **2018**

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

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

### **Overview of the Financial Statements**

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

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

### **Basic Financial Statements**

The financial statements are designed to give users details of the Authority's finances, in a manner similar to that of a private-sector business. The statements of net position present information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position over time may serve as a useful indicator of whether the Authority's financial position is improving or deteriorating. The statements of revenues, expenses and changes in net position show how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event that caused the change occurs, regardless of the timing of the related cash flows.

## Duluth Seaway Port Authority

### Management's Discussion and Analysis March 31, 2019

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#### Notes to Financial Statements

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

#### Other Information

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

#### Financial Analysis

As noted earlier, over time, net position may serve as a useful indicator of the Authority's financial position. The largest portion of the Authority's net position, 79 percent in 2019 and 75 percent in 2018, is net investment in capital assets (land and improvements, buildings, and equipment). The Authority uses these assets to provide services to its clients; therefore, these assets are not available for future spending.

Of the Authority's net position balance, 4 percent in 2019 and 2 percent in 2018, is restricted for compliance with provisions of bond indentures and grants.

The remaining balance of net position, 17 percent in 2019 and 23 percent in 2018, is unrestricted and may be used to meet the Authority's ongoing obligations to its clients and creditors. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not restricted or included in the determination of net investment in capital assets.

The following table presents a summary of the Authority's net position at March 31, 2019, 2018, and 2017:

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

## Duluth Seaway Port Authority

### Management's Discussion and Analysis March 31, 2019

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To give users a better understanding of the sources and uses of the Authority's net position, the table that follows presents a summary of revenues and expenses for the years ended March 31, 2019, 2018, and 2017. The schedule below shows revenues by source and expenses by function.

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

### Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, was \$46,086,436 and \$43,988,567, as of March 31, 2019 and 2018, respectively. This investment includes land and improvements, buildings, equipment and construction in progress. The Authority's total investment in capital assets, net of accumulated depreciation, increased 5 percent during 2019. Additional information related to the Authority's capital assets can be found in Note 3 of the notes to the financial statements.

### Debt

At year-end, the Authority has \$1,446,613 in long-term debt compared to \$1,683,184 in 2018.

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

## **Duluth Seaway Port Authority**

### **Management's Discussion and Analysis**

**March 31, 2019**

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#### **Economic Factors and Next Year's Budgets**

The Authority's revenues derive from revenue operation of the Clure Public Marine Terminal (cargo handling, warehousing, ship berthing, intermodal terminal operations), leasing, grant funds and a tax levy from St. Louis County. For FY2020, we anticipate that general maritime cargo activity at the Clure Public Marine Terminal will be similar to fiscal year 2016 when the Terminal handled 24 vessels and produced higher revenue compared to previous years' levels. We expect intermodal terminal operations, leasing activity, and the tax levy to be on par with FY2019, with possible growth in intermodal activity.

In regards to capital projects and grant-funded activity, the Authority was awarded funds of \$1.9 million from the Minnesota Highway Freight Program—Intermodal Program (Minnesota Department of Transportation -MnDOT) in 2018 for the expansion of the CN Intermodal Terminal. The total project budget is approximately \$3.0 million. The project began late fall of 2018, and has an anticipated completion date of June 30, 2019. This project will expand the Duluth/CN Intermodal Terminal by extending the freight rail tracks an additional 2,600 feet and adding six acres of pavement, providing a larger area for intermodal well-car loading and unloading and container storage. The project will also address storm water management, security fencing and lighting. This expansion will accommodate our five-year projected capacity of 45,000-50,000 annualized containers.

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

In 2010, the Authority entered into a purchase agreement to obtain a 123 acre parcel of land from the United States Steel Corporation in the interest of creating large developable sites for industrial use to support the regional economy. This parcel of land is part of a 600-acre Superfund Site that was previously home to the US Steel Duluth Works integrated steel mill. The purchase is dependent on a successful clean-up of the site. To date, working with US Steel, we have completed the Phase II environmental investigation stage (inclusive of the collection and laboratory analysis of soil and ground water samples) and prepared a draft Response Action Plan (RAP) for the clean-up of the site. Upon completion, the Authority and US Steel will submit the RAP to the Minnesota PCA for approval. The Authority has obtained special tax increment legislation, which will support the redevelopment if the site is purchased.

The Authority has purchased a 1910-era building on Rice's Point with the intent of remodeling it for use as the Authority's new office headquarters. The building has formerly served as a primary school and, more recently, an office building. The remodel of the building is scheduled to begin late fall of 2019 with the expected completion in Fall of 2020.

#### **Requests for Information**

This financial report is meant to provide a general overview for all those with an interest in the Authority's finances. Questions concerning information provided in the report, or requests for additional financial information, should be addressed to the Authority, 2305 West Superior Street, Duluth, Minnesota 55806, Attention: Chief Financial Officer.

**Duluth Seaway Port Authority**

**Statements of Net Position**  
**March 31, 2019 and 2018**

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

See notes to financial statements.

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

**Duluth Seaway Port Authority**

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

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

See notes to financial statements.

**Duluth Seaway Port Authority**

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

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

(Continued)

**Duluth Seaway Port Authority**

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

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

See notes to financial statements.

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### Note 1. Nature of Operations and Significant Accounting Policies

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

The operational departments within the Authority are as follows:

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

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

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

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

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

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

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

#### Significant accounting policies:

**Measurement focus and basis of accounting:** The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, assets, and liabilities resulting from exchange and exchange-type transactions are recognized when the exchange takes place. Nonexchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied. The operating statements present increases (revenues) and decreases (expenses) in net position.

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

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### 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:

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

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

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

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

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

**Compensated absences:** Employees accumulate vacation hours for subsequent use or for payment upon termination, death, or retirement. A maximum carryover of 80 vacation hours has been established by Board resolution. A liability is recorded for earned but unpaid vacation. During 2019, employees earned \$70,450, and used \$51,096 of vacation. At March 31, 2019 and 2018, the liability totaled \$110,323 and \$90,969, respectively.

## Duluth Seaway Port Authority

### Notes to Financial Statements

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

The Authority makes payments to the Minnesota State Retirement System Health Care Savings Plan for employees with 10 years of continuous service at time of retirement. The total of the payments made for a retiree is limited to the number of unused sick days at retirement (up to a maximum of 120 days) multiplied by the average daily earnings of all full-time employees at the retirement date. The Authority accrues this benefit for qualifying employees over the five-year period preceding their retirement dates. At March 31, 2019 and 2018 the liability totaled \$144,996 and \$209,697, respectively.

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

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

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

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

#### Note 2. Deposits and Investments

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

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

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### Note 2. Deposits and Investments (Continued)

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

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

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

The Authority does not have a formal policy for deposits.

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

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

*Credit risk:* Generally, credit risk is the risk that the issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. As of March 31, 2019, the Authority's money market funds and U.S. Treasury bills had a credit rating of Aaa-mf and Unrated, respectively as reported by Moody's.

*Custodial credit risk:* This is the risk that in the event of the failure of the counterparty (e.g., broker dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another party. The Authority's money market funds and U.S. Treasury bills are not subject to custodial credit risk at March 31, 2019.

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

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

**Level 1:** Investments whose values are based on quoted prices (unadjusted) for identical assets (liabilities) in active markets that a government can access at measurement date.

**Level 2:** Investments with inputs, other than quoted prices included within Level 1 that are observable for an asset (liability), either directly or indirectly.

**Level 3:** Investments classified as Level 3 have unobservable inputs for an asset (liability) and may require a degree of professional judgment.

**Duluth Seaway Port Authority**

**Notes to Financial Statements**

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**Note 3. Capital Assets**

|                            | Cost                 |                     |                     |                      |                      |
|----------------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
|                            | Balance              |                     | Reclassifications/  |                      | Balance              |
|                            | March 31, 2018       | Additions           | Deletions           | March 31, 2019       |                      |
| Land and land improvements | \$ 38,230,284        | \$ -                | \$ 1,639,085        | \$ 39,869,369        |                      |
| Buildings                  | 26,429,018           | -                   | 2,201,538           | 28,630,556           |                      |
| Equipment                  | 6,761,150            | -                   | (25,522)            | 6,735,628            |                      |
| Construction in progress   | 1,466,935            | 3,859,122           | (3,918,216)         | 1,407,841            |                      |
|                            | <u>\$ 72,887,387</u> | <u>\$ 3,859,122</u> | <u>\$ (103,115)</u> | <u>\$ 76,643,394</u> |                      |
| Accumulated Depreciation   |                      |                     |                     |                      |                      |
|                            | Net                  |                     |                     |                      |                      |
|                            | Balance              | Additions           |                     | Balance              | Book Value           |
|                            | March 31, 2018       | March 31, 2018      | Deductions          | March 31, 2018       | March 31, 2019       |
| Land and land improvements | \$ 9,026,019         | \$ 699,450          | \$ -                | \$ 9,725,469         | \$ 30,143,900        |
| Buildings                  | 15,771,785           | 779,337             |                     | 16,551,122           | 12,079,434           |
| Equipment                  | 4,101,016            | 282,466             | (103,115)           | 4,280,367            | 2,455,261            |
| Construction in progress   | -                    | -                   | -                   | -                    | 1,407,841            |
|                            | <u>\$ 28,898,820</u> | <u>\$ 1,761,253</u> | <u>\$ (103,115)</u> | <u>\$ 30,556,958</u> | <u>\$ 46,086,436</u> |
| Cost                       |                      |                     |                     |                      |                      |
|                            | Reclassifications/   |                     |                     |                      |                      |
|                            | Balance              | Additions           |                     | Deletions            | Balance              |
|                            | March 31, 2017       | March 31, 2017      |                     | March 31, 2018       | March 31, 2018       |
| Land and land improvements | \$ 34,817,749        | \$ -                | \$ 3,412,535        | \$ 38,230,284        |                      |
| Buildings                  | 26,325,119           | -                   | 103,899             | 26,429,018           |                      |
| Equipment                  | 5,195,376            | -                   | 1,565,774           | 6,761,150            |                      |
| Construction in progress   | 5,006,246            | 1,542,897           | (5,082,208)         | 1,466,935            |                      |
|                            | <u>\$ 71,344,490</u> | <u>\$ 1,542,897</u> | <u>\$ -</u>         | <u>\$ 72,887,387</u> |                      |
| Accumulated Depreciation   |                      |                     |                     |                      |                      |
|                            | Net                  |                     |                     |                      |                      |
|                            | Balance              | Additions           |                     | Balance              | Book Value           |
|                            | March 31, 2017       | March 31, 2017      | Deductions          | March 31, 2017       | March 31, 2018       |
| Land and land improvements | \$ 8,123,363         | \$ 902,656          | \$ -                | \$ 9,026,019         | \$ 29,204,265        |
| Buildings                  | 15,003,018           | 768,767             | -                   | 15,771,785           | 10,657,233           |
| Equipment                  | 3,886,175            | 214,841             | -                   | 4,101,016            | 2,660,134            |
| Construction in progress   | -                    | -                   | -                   | -                    | 1,466,935            |
|                            | <u>\$ 27,012,556</u> | <u>\$ 1,886,264</u> | <u>\$ -</u>         | <u>\$ 28,898,820</u> | <u>\$ 43,988,567</u> |

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### Note 4. Long-Term Debt

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

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

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

Debt service requirements at March 31, 2019, are:

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

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### Note 5. Defined Benefit Pension Plan Statewide

**Plan description:** The Authority participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code. All full-time and certain part-time employees of the Authority are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**Benefits provided:** PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 6.

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

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

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

**Pension costs:** At March 31, 2019 and 2018, the Authority reported a liability of \$809,948 and \$1,008,662, respectively, for its proportionate share of the GERP's net pension liability. The Authority's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018.

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### Note 5. Defined Benefit Pension Plan Statewide (Continued)

The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Authority totaled \$26,429. The Authority's proportion of the net pension liability was based on the Authority's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, for 2019 measurement, and July 1, 2016, through June 30, 2017, for 2018 measurement, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 and 2017, the Authority's proportion was .0146 percent and .0158 percent, respectively.

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

For the years ended March 31, 2019 and 2018, the Authority recognized pension expense of \$46,972 and \$41,373, respectively, for its proportionate share of the GERF's pension expense. In addition, for the year ended March 31, 2019, the Authority recognized an additional \$6,163 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At March 31, 2019 and 2018, the Authority reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

The amount of \$48,324 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### Note 5. Defined Benefit Pension Plan Statewide (Continued)

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

|                              | 2018           | 2017           |
|------------------------------|----------------|----------------|
| Inflation                    | 2.50% per year | 2.50% per year |
| Active member payroll growth | 3.25% per year | 3.25% per year |
| Investment rate of return    | 7.50%          | 7.50%          |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increase after retirement for retirees are assumed to be 1.25 percent per year.

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

#### GERC

Changes in actuarial assumptions:

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

Changes in plan provisions:

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

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### Note 5. Defined Benefit Pension Plan Statewide (Continued)

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

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

**Discount rate:** The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

|   | 1% Decrease in<br>Discount<br>Rate (6.50%) | 1% Increase in<br>Discount<br>Rate (8.50%) |
|---|--|--|
| Proportionate share of the GERF net pension liability | \$ 1,316,269                               | \$ 809,948                                 |

**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](http://www.mnpera.org).

**Duluth Seaway Port Authority****Notes to Financial Statements**

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**Note 6. Unearned Revenue**

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

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

**Note 7. Marine Terminal Operations**

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

**Note 8. Restricted Assets and Net Position**

Restricted assets and net position are comprised of cash and investments which must be used for a specific purpose as required by contract with outside parties. The following is a summary of the restricted assets and net position at March 31, 2019 and 2018:

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

## **Duluth Seaway Port Authority**

### **Notes to Financial Statements**

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#### **Note 9. Operating Leases**

The Authority leases substantially all of its property and equipment to others. These leases are accounted for as operating leases and expire at various dates through 2073. As of March 31, 2019, minimum lease payments under these operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

Years ending March 31:

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

#### **Note 10. Risk Management**

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

#### **Note 11. Commitments**

The Authority entered into an agreement with the United States Steel Corporation to purchase 123 acres of land located within a Superfund site for \$10,000 an acre. U.S. Steel has been identified as the responsible party. The purchase is contingent upon the remediation of the contaminated soil and the land being delisted from Superfund status. At March 31, 2019, the Authority had expended \$435,028 for this project. If the remediation cost is deemed to be excessive by either the Authority or U.S. Steel, either party may terminate the purchase agreement. The drilling and analyzing the soil has been completed on the property. The Response Action Plans for both the Superfund delisting (Federal Environmental Protection Agency) and the voluntary investigation and clean-up (Minnesota Pollution Control Agency) are being prepared by U.S. Steel and the Authority. By contract with U.S. Steel, the Authority will be responsible for payment of 25 percent of the costs to clean the targeted property. All cost associated with testing and cleaning are being recorded as construction in progress. If terminated, the Authority will write-off the capitalized development costs.

The Authority has entered into several contracts including the purchase of an office building, the Altec building expansion project, and dock fender project. The Authority has approximately \$2,200,000 remaining on these contracts.

## Duluth Seaway Port Authority

### Notes to Financial Statements

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#### Note 12. Pending Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statement not yet implemented by the Authority. Management has not yet evaluated the impact of these statements. Listed below is the statement which may impact future financial statements of the Authority:

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

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

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

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

GASB Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, will be effective for the Authority beginning with its year ending March 31, 2021. This statement establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies accounting for interest costs incurred before the end of a construction period.

GASB Statement No. 90, *Majority Equity Interests*, will be effective for the Authority beginning with its year ending March 31, 2020. This statement clarifies the accounting and financial reporting requirements for government's majority equity interest in an organization that remains legally separate after acquisition. This statement also establishes guidance for remeasuring assets and liabilities of wholly acquired governmental organizations that remain legally separate. That guidance brings the reporting of those acquisitions in line with existing standards that apply to acquisitions that do not remain legally separate.

## **Required Supplementary Information**

**Duluth Seaway Port Authority**

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

| Fiscal Year Ending | Proportion (Percentage) of the Net Pension Liability (NPL) | Proportionate Share (Amount) of the NPL<br>(a) | Covered-Employee Payroll<br>(b) | Proportionate Share of the NPL as a Percentage of its Covered-Employee Payroll<br>(a/b) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------------|--|--|---------------------------------|---|--|
| June 30, 2014      | 0.0156%  | \$ 732,810                                     | \$ 823,803                      | 88.95%  | 78.75%   |
| June 30, 2015      | 0.0155%  | 803,290  | 927,786                         | 86.58%  | 78.19%   |
| June 30, 2016      | 0.0157%  | 1,274,762                                      | 982,357                         | 129.77%   | 68.91%   |
| June 30, 2017      | 0.0158%  | 1,008,662                                      | 1,016,007                       | 99.28%  | 75.90%   |
| June 30, 2018      | 0.0146%  | 809,948  | 978,548                         | 82.77%  | 79.53%   |

**Duluth Seaway Port Authority**

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

| Fiscal Year Ended | Contributions in Relation to the Statutorily Required Contribution |  | Contribution Deficiency (Excess)<br>(a-b) | Covered-Employee Payroll<br>(d) | Contributions as a Percentage of Covered-Employee Payroll<br>(b/d) |
|-------------------|--|--|---|---------------------------------|--|
|                   | Statutorily Required Contribution<br>(a)                           | Statutorily Required Contribution<br>(b) |   |                                 |  |
| March 31, 2015    | \$ 65,537  | \$ 65,537                                | \$ -                                      | \$ 895,902                      | 7.3%   |
| March 31, 2016    | 71,583   | 71,583                                   | -   | 971,670                         | 7.4%   |
| March 31, 2017    | 74,984   | 74,984                                   | -   | 999,793                         | 7.5%   |
| March 31, 2018    | 78,255   | 78,255                                   | -   | 1,043,401                       | 7.5%   |
| March 31, 2019    | 63,579   | 63,579                                   | -   | 847,718                         | 7.5%   |

## **Supplementary Information**

**Duluth Seaway Port Authority**

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

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

**Duluth Seaway Port Authority**

**Schedules of Departmental Operating Revenues and Expenses**

**Administration**

**Years Ended March 31, 2019 and 2018**

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

**Duluth Seaway Port Authority**

**Schedules of Departmental Operating Revenues and Expenses**

**Port Promotion**

**Years Ended March 31, 2019 and 2018**

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

**Duluth Seaway Port Authority**

**Schedules of Departmental Operating Revenues and Expenses**

**Port Development**

**Years Ended March 31, 2019 and 2018**

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

**Duluth Seaway Port Authority**

**Schedules of Departmental Operating Revenues and Expenses**

**Marine Terminal**

**Years Ended March 31, 2019 and 2018**

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



RSM US LLP

## Minnesota Legal Compliance

### Independent Auditor's Report

To the Board of Commissioners  
Duluth Seaway Port Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits of Duluth Seaway Port Authority (Authority) as of and for the year ended March 31, 2019, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 29, 2019.

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

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

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

*RSM US LLP*

Duluth, Minnesota  
July 29, 2019