

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**MINNEAPOLIS-DULUTH/SUPERIOR
PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

YEAR ENDED DECEMBER 31, 2013

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: www.auditor.state.mn.us.

**MINNEAPOLIS-DULUTH/SUPERIOR
PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

Year Ended December 31, 2013



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

This page was left blank intentionally.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Basic Financial Statements		
General Fund Balance Sheet and Governmental Activities - Statement of Net Position with Adjustments to Convert Modified to Full Accrual	1	5
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and Governmental Activities - Statement of Activities with Adjustments to Convert Modified to Full Accrual	2	6
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Comparison	3	7
Notes to the Financial Statements		8
Management and Compliance Section		
Schedule of Findings and Recommendations		15
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government</i> <i>Auditing Standards</i>		17

This page was left blank intentionally.

This page was left blank intentionally.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2013

<u>Board</u>	<u>Representing</u>
Steve Raukar, Chair	St. Louis and Lake Counties Regional Railroad Authority
Robert Lilligren, Vice Chair	City of Minneapolis
Rick Goutermont	Lake County
Steve Chaffee	Pine County
Diane Gibbs	Mille Lacs Band of Ojibwe
Sharla Gardner	City of Duluth
Larry Southerland	Isanti County
Linda Higgins	Hennepin County

<u>Alternate Board</u>	
Daniel Fanning	City of Duluth
John Quincy	City of Minneapolis
Keith Nelson	St. Louis and Lake Counties Regional Railroad Authority
Gail Kulick	Mille Lacs Band of Ojibwe
Mike Warring	Isanti County
Peter McLaughlin	Hennepin County
Steve Hallan	Pine County

Executive Director of
Administrative Agency

Robert Manzoline

This page was left blank intentionally.

This page was left blank intentionally.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minneapolis-Duluth/Superior
Passenger Rail Alliance
Eveleth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Minneapolis-Duluth/Superior Passenger Rail Alliance as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Alliance'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Alliance'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 Alliance'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Minneapolis-Duluth/Superior Passenger Rail Alliance as of December 31, 2013, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2013 the Alliance adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2015, on our consideration of the Minneapolis-Duluth/Superior Passenger Rail Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Minneapolis-Duluth/Superior Passenger Rail Alliance's internal control over financial reporting and compliance.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 22, 2015

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

EXHIBIT 1

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2013**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 369,508	\$ -	\$ 369,508
<u>Liabilities and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 5,791	\$ -	\$ 5,791
Fund Balance			
Unassigned	363,717	(363,717)	
Net Position			
Unrestricted		363,717	363,717
Total Liabilities and Fund Balance/Net Position	\$ 369,508	\$ -	\$ 369,508

The Minneapolis-Duluth/Superior Passenger Rail Alliance has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Balance Sheet of the General Fund is the same as the Statement of Net Position of the Governmental Activities.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 31,821	\$ -	\$ 31,821
Member contributions	100,000	-	100,000
	\$ 131,821	\$ -	\$ 131,821
Expenditures/Expenses			
Current			
Economic development	234,458	-	234,458
	\$ (102,637)	\$ -	\$ (102,637)
Net Change in Fund Balance/Net Position			
Fund Balance/Net Position - January 1	466,354	-	466,354
Fund Balance/Net Position - December 31	\$ 363,717	\$ -	\$ 363,717

The Minneapolis-Duluth/Superior Passenger Rail Alliance has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Statement of Revenues, Expenditures, and Changes in Fund Balance of the General Fund is the same as the Statement of Activities of the Governmental Activities.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

EXHIBIT 3

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
State				
MnDOT - NLX Environmental Grant	\$ 16,821	\$ 31,821	\$ 31,821	\$ -
Member contributions	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total Revenues	\$ 116,821	\$ 131,821	\$ 131,821	\$ -
Expenditures				
Current				
Economic development	<u>209,821</u>	<u>244,821</u>	<u>234,458</u>	<u>10,363</u>
Net Change in Fund Balance	\$ (93,000)	\$ (113,000)	\$ (102,637)	\$ 10,363
Fund Balance - January 1	<u>466,354</u>	<u>466,354</u>	<u>466,354</u>	<u>-</u>
Fund Balance - December 31	<u>373,354</u>	<u>353,354</u>	<u>363,717</u>	<u>10,363</u>

This page was left blank intentionally.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Summary of Significant Accounting Policies

The Minneapolis-Duluth/Superior Passenger Rail Alliance's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Minneapolis-Duluth/Superior Passenger Rail Alliance are discussed below.

Change in Accounting Principles

During 2013, the Alliance adopted new accounting guidance by implementing the provisions of GASB Statement 65. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.E.2. in the notes to the financial statements for additional information regarding the Alliance's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting this change in accounting principles.

A. Financial Reporting Entity

The Minneapolis-Duluth/Superior Passenger Rail Alliance was established February 1, 2008, under a Joint Powers Agreement in accordance with Minn. Stat. §§ 471.59, 398A.04, and 398A.06. The Alliance is governed by a nine-member Board composed of one elected official selected by each party represented in the Alliance, as well as an additional member from the Mille Lacs Band of Ojibwe. Each party also appoints an alternate member. Its purpose is to collaboratively discuss, study, plan for, promote, and facilitate the development of intercity passenger rail transportation between the Twin Cities Metropolitan and Twin Ports areas. The passenger rail line has been given the title of the Northern Lights Express (NLX). The Board is organized with a chair and a vice chair elected each year.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

St. Louis County, as fiscal agent, reports the transactions of the Alliance in an agency fund on its annual financial statements.

B. Basic Financial Statements

Basic financial statements include information on the Alliance's activities as a whole and information on the individual fund of the Alliance. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Alliance as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Statement of Activities demonstrates the degree to which the expenses of the Alliance are offset by revenues.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Alliance considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the Alliance's policy to use restricted resources first and then unrestricted resources as needed.

D. Budgetary Data

The Alliance adopts estimated revenue and expenditure budgets for the General Fund on a basis consistent with generally accepted accounting principles. The budget can be amended during the year by the Alliance's Board.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Cash and Pooled Investments

The Alliance's available cash balances are pooled and invested by St. Louis County in accordance with Minnesota statutes. The County's cash balances and investments are at fair value based on quoted market prices. Additional disclosures defining cash and pooled investments can be found in the St. Louis County Comprehensive Annual Financial Report.

2. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the Alliance has no items that qualify for reporting in this category.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

2. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the Alliance has no items that qualify for reporting in this category.

3. Classification of Net Position

Net position in the government-wide statement of net position is classified in the following categories:

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that does not meet the definition of restricted or investment in capital assets.

4. Classifications of Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Alliance is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Equity

4. Classifications of Fund Balance (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Alliance's Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of actions (resolutions) it employed to previously commit these amounts.

Assigned - amounts the Alliance's Board intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board.

Unassigned - the residual classification for the General Fund includes all spendable amounts not contained in the other fund balance classifications.

The Alliance applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

2. Detailed Notes

A. Assets

1. Deposits and Investments

The Alliance is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit its cash and to invest in certificates of deposit in financial institutions designated by the St. Louis County Board of Commissioners and the Alliance's Board. Minnesota statutes require that all Alliance deposits be covered by insurance, surety bond, or collateral. The Alliance may invest in the types of securities authorized by Minn. Stat. §§ 118A.04-.05.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

2. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

The Alliance deposits all its cash with its fiscal agent, St. Louis County. Additional disclosures, as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, and Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are disclosed in the St. Louis County Comprehensive Annual Financial Report.

The following is a summary of the Minneapolis-Duluth/Superior Passenger Rail Alliance's cash:

	December 31, 2013
	<hr/>
Cash and pooled investments	\$ 369,508
	<hr/>

B. Liabilities

1. Payables

Payables at December 31, 2013, for the Minneapolis-Duluth/Superior Passenger Rail Alliance's governmental activities are as follows:

Accounts	\$ 5,791
	<hr/>

2. Risk Management

The Minneapolis-Duluth/Superior Passenger Rail Alliance is exposed to limited risks of loss related to theft of assets or errors or omissions. The Alliance reduces the risks of loss by contractual commitments from third parties to name the Alliance as an additional insured on policies of commercial liability insurance maintained by the contracting parties.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

3. Environmental Study

The Minneapolis-Duluth/Superior Passenger Rail Alliance, State of Minnesota, and the Federal Rail Administration acted upon a 2009 environmental study of the proposed NLX corridor that was completed in June 2013. Costs were \$2,255,000, consisting of \$1.1 million contributed by the Federal Rail Administration, \$955,000 by the State of Minnesota, and \$200,000 by the Alliance. In 2012, the Alliance received an additional grant of \$55,000 from the State of Minnesota to help pay for costs through June 2013 and is reflected in the total contributed by the State of Minnesota above. State monies totaling \$31,821 were expended in 2013 for this additional grant. Federal Rail Administration funds are being sent to and administered by the Minnesota Department of Transportation. Federal monies totaling \$30,508 were expended from St. Louis County's Northern Lights Express Special Revenue Fund. In 2012, the Alliance entered a partnership agreement with the State of Minnesota to study the feasibility of a Hinckley Loop. Costs are estimated at \$530,000, consisting of \$475,000 contributed by the Federal Rail Administration, \$39,000 by the State of Minnesota, and \$15,800 by the Alliance. The Alliance has met its match contribution of \$15,800.

4. Administrative Agency

St. Louis and Lake Counties Regional Railroad Authority

The Alliance does not have any employees of its own, and administration of the day-to-day activities of the Alliance has been handled by staff of the St. Louis and Lake Counties Regional Railroad Authority. In return for the Authority providing assistance with administration of the Alliance, the Alliance reimbursed the Authority \$75,000 in 2013 and \$80,000 in 2012.

This page was left blank intentionally.

This page was left blank intentionally.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013**

**FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding 2008-001

Internal Control/Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and recording recurring and nonrecurring adjustments to the financial statements. Adequate segregation of duties is a key internal control in an organization's accounting system.

Condition: The Minneapolis-Duluth/Superior Passenger Rail Alliance contracts with St. Louis and Lake Counties Regional Railroad Authority to administer the activities of the Alliance. The Authority has limited staff which results in a lack of segregation of accounting functions necessary to ensure adequate internal accounting control. Because of this relationship, the Alliance's accounting transactions and financial reporting are exposed to the same risk resulting from a lack of adequate segregation of duties at the Authority.

Context: The Alliance does not have any staff of its own and relies entirely on the staff of the Authority to administer the Alliance's day-to-day operations.

Effect: Inadequate segregation of duties could adversely affect the Alliance's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. Additionally, a material audit adjustment was necessary to reduce member contributions revenue and fund balance by \$24,000 as this was recognized in a previous year.

Cause: The size and structure of the Minneapolis-Duluth/Superior Passenger Rail Alliance limits the internal control that management can design and implement into the organization.

Recommendation: Management should be aware that segregation of duties at the St. Louis and Lake Counties Regional Railroad Authority, which manages the operations of the Minneapolis-Duluth/Superior Passenger Rail Alliance, is not adequate from an internal control point of view. We recommend the Alliance's Board of Directors be mindful that limited staffing at the Authority causes inherent risks in safeguarding the Alliance's assets and the proper reporting of its financial activity. We recommend the Alliance's Board of Directors continue to implement oversight procedures, monitor those procedures to determine if they are still effective internal controls, and work with its fiscal agent to implement procedures to mitigate the risk created from inadequate segregation of duties.

Client's Response:

It is known and understood that the Minneapolis-Duluth/Superior Passenger Rail Alliance (Alliance) has limited staff to oversee and monitor operations of the Alliance.

The St. Louis and Lake Counties Regional Railroad Authority has worked with the St. Louis County Auditor's Office to gain direct access to County's recording systems in year 2013 that will enable Alliance staff to better monitor Alliance transactions and financial reports.

Inadequate segregation of duties and limited staff will continue to be a weakness with the Alliance's internal controls until such time the Alliance elects to hire additional staff or independent auditing services.

This condition will be reviewed with the Alliance Board Chair and brought to the Alliance Board's attention when the year 2013 Annual Audit Report is presented and reviewed at the forthcoming regular Board meeting.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

Board of Directors
Minneapolis-Duluth/Superior
Passenger Rail Alliance
Eveleth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Minneapolis-Duluth/Superior Passenger Rail Alliance as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated January 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Minneapolis-Duluth/Superior Passenger Rail Alliance's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Alliance's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2008-001 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Alliance's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding because no new contracts were entered into in 2013, and public indebtedness because the Alliance has no debt. The provisions for deposits and investments and claims and disbursements were tested in conjunction with our audit of St. Louis County, the fiscal agent of the Alliance.

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

Minneapolis-Duluth/Superior Passenger Rail Alliance's Response to Finding

The Minneapolis-Duluth/Superior Passenger Rail Alliance's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. The Alliance's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Alliance's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

January 22, 2015