

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

YEAR ENDED DECEMBER 31, 2014

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.

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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.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

Year Ended December 31, 2014



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

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**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

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**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2014

Board	Representing
Steve Raukar, Chair	St. Louis County
Keith Nelson	St. Louis County
Mike Forsman	St. Louis County
Frank Jewell, Alternate	St. Louis County
Patrick Boyle, Alternate	St. Louis County
Rick Goutermont, Vice Chair	Lake County
Jeremy Hurd	Lake County
Executive Director	
Robert Manzoline	

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
St. Louis and Lake Counties
Regional Railroad Authority
Eveleth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the St. Louis and Lake Counties Regional Railroad Authority as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. 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 Authority'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 Authority'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 St. Louis and Lake Counties Regional Railroad Authority as of December 31, 2014, 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.

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 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. Our opinion on the basic financial statements is not affected by this missing information.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 30, 2015

BASIC FINANCIAL STATEMENTS

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**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2014**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<u>Assets</u>			
Cash and pooled investments	\$ 1,300,317	\$ -	\$ 1,300,317
Accounts receivable	6,959	-	6,959
Taxes receivable - delinquent	86,812	-	86,812
Due from other governments	657,907	-	657,907
Capital assets			
Non-depreciable	-	5,974,682	5,974,682
Depreciable - net of accumulated depreciation	-	9,720,041	9,720,041
Total Assets	<u>\$ 2,051,995</u>	<u>\$ 15,694,723</u>	<u>\$ 17,746,718</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 179,577	\$ -	\$ 179,577
Salaries payable	10,934	-	10,934
Due to other governments	14,929	-	14,929
Unearned revenue	25,425	-	25,425
Noncurrent liabilities			
Compensated absences payable - due within one year	-	10,412	10,412
Compensated absences payable - long term	-	118,757	118,757
Total Liabilities	<u>\$ 230,865</u>	<u>\$ 129,169</u>	<u>\$ 360,034</u>
Deferred Inflows of Resources			
Unavailable revenue - taxes	\$ 76,791	\$ (76,791)	
Unavailable revenue - grants	645,679	(645,679)	
Total Deferred Inflows of Resources	<u>\$ 722,470</u>	<u>\$ (722,470)</u>	

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

**EXHIBIT 1
(Continued)**

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2014**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> (Continued)			
Fund Balance			
Assigned			
Compensated absences	\$ 118,757	\$ (118,757)	
Future trail maintenance	392,783	(392,783)	
Unassigned	587,120	(587,120)	
Total Fund Balance	\$ 1,098,660	\$ (1,098,660)	
Net Position			
Investment in capital assets		\$ 15,694,723	\$ 15,694,723
Unrestricted		1,691,961	1,691,961
Total Net Position		\$ 17,386,684	\$ 17,386,684
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 2,051,995	\$ 15,694,723	\$ 17,746,718
Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ 1,098,660
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.			15,694,723
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the General Fund.			722,470
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.			(129,169)
Net Position - Governmental Activities			\$ 17,386,684

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
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, 2014**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Revenues			
Taxes	\$ 1,225,398	\$ (5,285)	\$ 1,220,113
Intergovernmental	1,230,870	77,753	1,308,623
Charges for services	5,200	-	5,200
Miscellaneous	71,118	-	71,118
Capital contributions	-	27,395	27,395
	<u>-</u>	<u>27,395</u>	<u>27,395</u>
Total Revenues	<u>\$ 2,532,586</u>	<u>\$ 99,863</u>	<u>\$ 2,632,449</u>
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 1,289,184	\$ 38,870	\$ 1,328,054
Depreciation	-	228,795	228,795
Capital outlay	2,290,351	(2,290,351)	-
	<u>2,290,351</u>	<u>(2,290,351)</u>	<u>-</u>
Total Expenditures/Expenses	<u>\$ 3,579,535</u>	<u>\$ (2,022,686)</u>	<u>\$ 1,556,849</u>
Net Change in Fund Balance/Net Position	<u>\$ (1,046,949)</u>	<u>\$ 2,122,549</u>	<u>\$ 1,075,600</u>
Fund Balance/Net Position - January 1	<u>2,145,609</u>	<u>14,165,475</u>	<u>16,311,084</u>
Fund Balance/Net Position - December 31	<u>\$ 1,098,660</u>	<u>\$ 16,288,024</u>	<u>\$ 17,386,684</u>

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

**EXHIBIT 2
(Continued)**

**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, 2014**

**Reconciliation of the Statement of General Fund Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities of Governmental
Activities**

Net Change in Fund Balance	\$	(1,046,949)
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In the General Fund, under the modified accrual basis, receivables not available for expenditures are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the General Fund and the governmental activities is the increase or decrease in unavailable revenue.

Unavailable revenue - December 31	\$ 722,470	
Unavailable revenue - January 1	<u>(650,002)</u>	72,468

The General Fund reports capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Also, in the statement of activities, only the gain or loss on the disposal of assets is reported; whereas, in the General Fund, the proceeds from the sale increase financial resources. Therefore, the change in net position differs from the change in fund balance by the net book value of the assets sold.

Expenditures for general capital assets and infrastructure	\$ 2,290,351	
Capital contributions	27,395	
Current year depreciation	<u>(228,795)</u>	2,088,951

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the General Fund.

Changes in compensated absences		<u>(38,870)</u>
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Change in Net Position of Governmental Activities	\$	<u>1,075,600</u>
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**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

EXHIBIT 3

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,443,332	\$ 1,443,332	\$ 1,225,398	\$ (217,934)
Intergovernmental				
Federal				
Payments in lieu of taxes	\$ -	\$ -	\$ 7	\$ 7
State				
LCMR	160,596	153,680	-	(153,680)
Department of Natural Resources	406,926	857,294	861,812	4,518
Market value credit	-	-	1,247	1,247
Taconite credit	-	-	49,855	49,855
State PERA	-	-	1,632	1,632
State 30% rental	-	-	5	5
Disparity reduction credit	-	-	42,139	42,139
Local				
Other local grants	86,385	60,960	199,173	138,213
Reimbursement for administrative services				
Minneapolis-Duluth/Superior Passenger				
Rail Alliance	75,000	75,000	75,000	-
Total intergovernmental	\$ 728,907	\$ 1,146,934	\$ 1,230,870	\$ 83,936
Charges for services	\$ 9,300	\$ 9,300	\$ 5,200	\$ (4,100)
Miscellaneous	\$ 56,400	\$ 56,400	\$ 71,118	\$ 14,718
Total Revenues	\$ 2,237,939	\$ 2,655,966	\$ 2,532,586	\$ (123,380)
Expenditures				
Current				
Economic development	\$ 1,380,417	\$ 1,281,485	\$ 1,289,184	\$ (7,699)
Capital outlay	1,115,921	2,318,781	2,290,351	28,430
Total Expenditures	\$ 2,496,338	\$ 3,600,266	\$ 3,579,535	\$ 20,731
Net Change in Fund Balance	\$ (258,399)	\$ (944,300)	\$ (1,046,949)	\$ (102,649)
Fund Balance - January 1	2,145,609	2,145,609	2,145,609	-
Fund Balance - December 31	\$ 1,887,210	\$ 1,201,309	\$ 1,098,660	\$ (102,649)

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**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

1. Summary of Significant Accounting Policies

The St. Louis and Lake Counties Regional Railroad Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2014. 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 St. Louis and Lake Counties Regional Railroad Authority are discussed below.

A. Financial Reporting Entity

The St. Louis and Lake Counties Regional Railroad Authority was established July 14, 1986, under the Regional Railroad Authorities Act, Minn. Stat. §§ 398A.01 to 398A.09. It is governed by a Board composed of three members from the St. Louis County Board of Commissioners and two members from the Lake County Board of Commissioners. Both counties also appoint an alternate member. Its purpose is to operate a scenic tourist excursion railway in Northeastern Minnesota and create a paved multi-purpose trail along abandoned rail lines, where possible, which will enable users to access one community from another. The Board is organized with a chair, vice chair, and secretary-treasurer elected each year.

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

B. Basic Financial Statements

Basic financial statements include information on the Authority's activities as a whole and information on the individual fund of the Authority. 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 Authority as a whole.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 Authority's net position is reported in two parts: investment in capital assets and unrestricted net position. The Statement of Activities demonstrates the degree to which the expenses of the Authority 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 of accounting 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 Authority considers all revenues as available if collected within 60 days after the end of the current period. This is a decrease of the period of availability from 90 days in 2013. This change had no effect on revenues or fund balance in the General Fund as of and for the year ended December 31, 2014. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for 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 Authority's policy to use restricted resources first and then unrestricted resources as needed.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

The Authority 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 Authority's Board.

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

1. Cash and Pooled Investments

The Authority'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. Taxes Receivable

Taxes receivable consist of uncollected taxes payable in the years 2008 to 2014. Taxes receivable are offset by unavailable revenue for the amount not collected within 60 days of December 31 to indicate they are not available to pay current expenditures. No provision has been made for an estimated uncollectible amount.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, paved trails, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Capital Assets (Continued)

Property, plant, and equipment of the St. Louis and Lake Counties Regional Railroad Authority are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20 - 40
Buildings	20 - 40
Machinery, furniture, and equipment	3 - 12

4. 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 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 Authority has no items that qualify for reporting in this category.

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, which arises only under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts became available.

5. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

6. Classification of Net Position

Net position in government-wide financial statements is classified in the following categories:

Investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation.

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.

7. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Authority 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 with constraints 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 is imposed by law through constitutional provisions or enabling legislation.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies

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

7. Classification of Fund Balances (Continued)

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Authority'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 (ordinance or resolution) it employed to previously commit these amounts.

Assigned - amounts the Authority'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, it includes all spendable amounts not contained in the other fund balance classifications.

The Authority 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.

8. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Future Change in Accounting Standards

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, replaces Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangement that meet certain criteria. GASB Statement 68 requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for the Authority's calendar year 2015. The Authority has not yet determined the financial statement impact of adopting this new standard.

2. Detailed Notes

A. Assets

1. Deposits and Investments

The Authority 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 Authority's Board. Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral. The Authority may invest in the types of securities authorized by Minn. Stat. §§ 118A.04-.05.

The Authority 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.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

2. Detailed Notes

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2014, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	\$ 6,959
Taxes receivable	86,812
Due from other governments	<u>657,907</u>
Total Receivables	<u>\$ 751,678</u>

3. Capital Assets

Governmental capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 166,211	\$ -	\$ -	\$ 166,211
Construction in progress	<u>5,006,067</u>	<u>2,291,443</u>	<u>1,489,039</u>	<u>5,808,471</u>
Total capital assets not depreciated	<u>\$ 5,172,278</u>	<u>\$ 2,291,443</u>	<u>\$ 1,489,039</u>	<u>\$ 5,974,682</u>
Capital assets depreciated				
Infrastructure	\$ 11,280,512	\$ 1,099,400	\$ -	\$ 12,379,912
Buildings	-	389,639	-	389,639
Machinery, furniture, and equipment	<u>149,702</u>	<u>26,303</u>	<u>-</u>	<u>176,005</u>
Total capital assets depreciated	<u>\$ 11,430,214</u>	<u>\$ 1,515,342</u>	<u>\$ -</u>	<u>\$ 12,945,556</u>
Less: accumulated depreciation for				
Infrastructure	\$ 2,925,761	\$ 219,199	\$ -	\$ 3,144,960
Buildings	-	1,082	-	1,082
Machinery, furniture, and equipment	<u>70,959</u>	<u>8,514</u>	<u>-</u>	<u>79,473</u>
Total accumulated depreciation	<u>\$ 2,996,720</u>	<u>\$ 228,795</u>	<u>\$ -</u>	<u>\$ 3,225,515</u>
Total capital assets depreciated, net	<u>\$ 8,433,494</u>	<u>\$ 1,286,547</u>	<u>\$ -</u>	<u>\$ 9,720,041</u>
Total Capital Assets, Net	<u>\$ 13,605,772</u>	<u>\$ 3,577,990</u>	<u>\$ 1,489,039</u>	<u>\$ 15,694,723</u>

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

2. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Economic development	\$ 228,795

B. Liabilities

1. Payables

Payables at December 31, 2014, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	\$ 179,577
Salaries	10,934
Due to other governments	<u>14,929</u>
Total Payables	<u>\$ 205,440</u>

2. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

2. Detailed Notes

B. Liabilities

2. Compensated Absences (Continued)

The following is a summary of the changes in long-term compensated absences payable for the year ended December 31, 2014:

Payable - January 1	\$ 90,299
Net increase (decrease)	<u>38,870</u>
Payable - December 31	<u>\$ 129,169</u>

Under the St. Louis and Lake Counties Regional Railroad Authority's labor agreements, its employees are granted vacation and sick leave in varying amounts based on length of service. Vacation leave accrual is 5 to 20 days per year. Sick leave accrual is 13 to 16.25 days per year.

Unused, accumulated vacation is paid to employees upon termination. The current portion of unused vacation is recognized as a current liability in the government-wide Statement of Net Position. Vested sick leave is paid to employees at retirement or is used for the payment of employees' health insurance coverage during their retirement. The vested sick leave and unvested sick leave likely to become vested (vesting sick leave) are estimated using the vesting method prescribed by GASB Statement 16. Both vested and vesting amounts are recognized in the government-wide financial statements as liabilities, but not in the governmental fund.

3. Risk Management

The St. Louis and Lake Counties Regional Railroad Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Authority maintains commercial insurance policies to address these risks of loss, either by purchasing the policies directly from commercial insurers or by contractual commitments from third parties to name the Authority as an additional insured on policies of commercial liability insurance maintained by the contracting parties.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

2. Detailed Notes

B. Liabilities

3. Risk Management (Continued)

There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

3. Pension Plans--Defined Benefit Plans

A. Plan Description

All full-time and certain part-time employees of St. Louis and Lake Counties Regional Rail Authority are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund, which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356.

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after five years of credited service.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute. Defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

3. Pension Plans--Defined Benefit Plans

A. Plan Description (Continued)

For General Employees Retirement Fund members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is either 65 or 66 (depending on date hired) for General Employees Retirement Fund members. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the General Employees Retirement Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the State Legislature. The St. Louis and Lake Counties Regional Rail Authority makes annual contributions to the pension plans equal to the amount required by state statutes. General Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary in 2014.

In 2014, the St. Louis and Lake Counties Rail Authority is required to contribute the following percentages of annual covered payroll:

General Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	7.25

**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

3. Pension Plans--Defined Benefit Plans

B. Funding Policy (Continued)

The St. Louis and Lake Counties Regional Rail Authority's contributions for the years ending December 31, 2014, 2013, and 2012, for the General Employees Retirement Fund were:

<u>2014</u>	<u>2013</u>	<u>2012</u>
\$ 14,489	\$ 13,974	\$ 13,678

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. Contribution rates increased on January 1, 2015, in the General Employees Retirement Fund Coordinated Plan (6.50 percent for members and 7.50 percent for employers).

4. Related Organizations

Minneapolis-Duluth/Superior Passenger Rail Alliance

The St. Louis and Lake Counties Regional Railroad Authority, along with several other governmental entities, formed the Minneapolis-Duluth/Superior Passenger Rail Alliance on February 1, 2008, under a Joint Powers Agreement in accordance with Minn. Stat. §§ 471.59, 398A.04, and 398A.06. 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 Alliance is governed by a nine-member Board of Directors composed of one elected official selected by each party represented in the Alliance. Each member of the Alliance contributes funds to the Alliance for use in funding its operations. The Authority contributed \$25,000 to the Alliance in both 2014 and 2013, respectively.

The Minneapolis-Duluth/Superior Passenger Rail Alliance does not have any employees of its own. The St. Louis and Lake Counties Regional Railroad Authority contracted with the Alliance to administer its day-to-day activities. In return for services provided, the Alliance reimbursed the Authority \$75,000 in both 2014 and 2013.

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**ST. LOUIS AND LAKE COUNTIES
REGIONAL RAILROAD AUTHORITY
EVELETH, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014**

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2003-001

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 record recurring and nonrecurring adjustments to the financial statements. Adequate segregation of duties is a key internal control in an organization's accounting system and in meeting management's financial reporting responsibilities.

Condition: The limited number of staff results in lack of segregation of accounting functions necessary to ensure adequate internal accounting control.

Context: It is not unusual for an organization the size of the St. Louis and Lake Counties Regional Railroad Authority to be limited in the internal control that management can design and implement into the organization.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect and correct or prevent misstatements in a timely manner by personnel in the normal course of performing their assigned functions.

Cause: The size and structure of the St. Louis and Lake Counties Regional Railroad Authority limit the internal control that management can design and implement into the organization.

Recommendation: Management should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Commissioners be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and the proper reporting of its financial activity. We recommend the Board of Commissioners continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

Management is aware of internal control responsibility, and the Board of Commissioners is aware that staff limitations are not adequate for the Authority's accounting system. Management has recommended, and the Board of Commissioners has approved, continuation of agreements with the St. Louis County Auditor's Office for accounting and recording services and with the Minnesota State Auditor for the preparation of financial statements.

Finding 2011-002

Fund Balance Reporting

Criteria: Governments are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent.

Condition: As part of the Authority's 2014 budget, the Board of Commissioners assigned \$300,000 of unassigned fund balance for future railroad bridge replacements along the Lakefront Rail Line and assigned \$75,000 of unassigned fund balance for future trail maintenance. Neither assignment was reflected in the Authority's general ledger.

It was also noted that \$1,099,400 of related expenditures were not deducted from fund balance assigned for future Lakefront Rail Line railroad bridge replacements. In addition, \$63,756 in expenditures related to trail maintenance were not deducted from fund balance assigned for future trail maintenance.

Context: Board actions and financial activity affecting fund balance must be accurately reported in a timely manner to the Authority's fiscal agent, St. Louis County, to be correctly reported in the Authority's general ledger.

Effect: Reclassifications of fund balance were required to adjust assigned and unassigned fund balance to reflect the Board of Commissioners' intended use of funds for the replacement of railroad bridges along the Lakefront Rail Line and for future trail maintenance.

Cause: Changes in fund balance were not properly communicated to the Authority's fiscal agent, and the Authority's internal controls did not detect the omission.

Recommendation: We recommend the Authority develop procedures to ensure that financial transactions affecting fund balance are properly classified in the Authority's general ledger in accordance with the requirements of Governmental Accounting Standards Board Statement 54. We also recommend that the Authority review the account balances in its general ledger periodically to ensure the fiscal agent has properly recorded all financial activity to date.

Client's Response:

The procedure for communicating changes to fund balances will be an email communication from the Authority to the Authority's fiscal agent advising/directing changes followed by an email response from the Authority's fiscal agent confirming changes.

II. OTHER ITEM FOR CONSIDERATION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for your calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of the St. Louis and Lake Counties Regional Railroad Authority's government-wide statement of financial position. The Authority's financial position will be immediately impacted by its unfunded share of the pension liability.

Statement 68 changes the amount employers report as pension expense and defers some allocations of expenses to future years—deferred outflows or inflows of resources. It requires pension costs to be calculated by an actuary; whereas, in the past pension costs were equal to the amount of employer contributions sent to PERA during the year. Additional footnote disclosures and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in the St. Louis and Lake Counties Regional Railroad Authority's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will

continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.



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COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Commissioners
St. Louis and Lake Counties
Regional Railroad Authority
Eveleth, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and the General Fund of the St. Louis and Lake Counties Regional Railroad Authority as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Those significant deficiencies are reported in the Schedule of Findings and Recommendations as items 2003-001 and 2011-002.

Other Matters

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the St. Louis and Lake Counties Regional Railroad Authority, and it is reported for that purpose.

The St. Louis and Lake Counties Regional Railroad Authority's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

Purpose of This Report

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the Authority, and is not intended to be, and should not be, used by anyone other than those specified parties

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

December 30, 2015

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR



REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
St. Louis and Lake Counties
Regional Railroad Authority
Eveleth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and the General Fund of the St. Louis and Lake Counties Regional Railroad Authority as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 30, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Authority'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 public indebtedness because the Authority 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 Authority.

In connection with our audit, nothing came to our attention that caused us to believe that the St. Louis and Lake Counties Regional Railroad Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the 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 St. Louis and Lake Counties Regional Railroad Authority and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

December 30, 2015