STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

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

YEAR ENDED DECEMBER 31, 2018

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 100 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 Minnesota's local 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, 2018

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, 2018

Board	Representing
Keith Nelson, Vice Chair	St. Louis County
Patrick Boyle, Secretary/Treasurer	St. Louis County
Tom Rukavina	St. Louis County
Frank Jewell, Alternate	St. Louis County
Mike Jugovich, Alternate	St. Louis County
Rick Goutermont, Chair	Lake County
Jeremy Hurd	Lake County
Rich Sve, Alternate	Lake County

Executive Director
Robert Manzoline

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Financial Section

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JULIE BLAHA
STATE AUDITOR

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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, 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 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 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 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, 2018, 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

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (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. 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 audit 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.

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.

/s/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

November 26, 2019

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, 2018

	General Fund	Adjustments	Governmental Activities
Assets and Deferred Outflows of Resources			
Assets			
Current assets			
Cash	$ 1,075,280	$ -	$ 1,075,280
Accounts receivable	47,464	-	47,464
Taxes receivable – delinquent	57,686	-	57,686
Due from other governments	3,241,652	-	3,241,652
Noncurrent assets			
Capital assets			
Non-depreciable	-	2,509,711	2,509,711
Depreciable – net of accumulated depreciation	-	23,271,560	23,271,560
Total Assets	**$ 4,422,082**	**$ 25,781,271**	**$ 30,203,353**
Deferred Outflows of Resources			
Deferred pension outflows	-	40,374	40,374
Total Assets and Deferred Outflows of Resources	**$ 4,422,082**	**$ 25,821,645**	**$ 30,243,727**
Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position			
Liabilities			
Current liabilities			
Accounts payable	$ 1,727,189	$ -	$ 1,727,189
Salaries payable	5,601	-	5,601
Noncurrent liabilities			
Compensated absences payable	-	169,460	169,460
Net pension liability	-	171,975	171,975
Total Liabilities	**$ 1,732,790**	**$ 341,435**	**$ 2,074,225**
Deferred Inflows of Resources			
Unavailable revenue – taxes	$ 50,492	$ (50,492)	$ -
Unavailable revenue – grants	3,156,808	(3,156,808)	-
Deferred pension inflows	-	91,298	91,298
Total Deferred Inflows of Resources	**$ 3,207,300**	**$ (3,116,002)**	**$ 91,298**

The notes to the financial statements are an integral part of this statement.

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, 2018

	General Fund	Adjustments	Governmental Activities
Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position (Continued)			
Fund Balance			
Unassigned	**$ (518,008)**	**$ 518,008**	
Net Position			
Investment in capital assets		$ 25,781,271	$ 25,781,271
Unrestricted		2,296,933	2,296,933
Total Net Position		**$ 28,078,204**	**$ 28,078,204**
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	**$ 4,422,082**	**$ 25,821,645**	**$ 30,243,727**

Reconciliation of the General Fund Balance to Net Position		
Fund Balance – General Fund		**$ (518,008)**
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.		25,781,271
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.		40,374
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.		
Compensated absences payable	$ (169,460)	
Net pension liability	(171,975)	(341,435)
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.		3,207,300
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the General Fund.		(91,298)
Net Position – Governmental Activities		**$ 28,078,204**

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, 2018

	General Fund	Adjustments	Governmental Activities
Revenues			
Taxes	$ 1,442,515	$ (6,625)	$ 1,435,890
Intergovernmental	1,624,448	1,565,596	3,190,044
Charges for services	10,220	-	10,220
Miscellaneous	269,449	-	269,449
Total Revenues	**$ 3,346,632**	**$ 1,558,971**	**$ 4,905,603**
Expenditures/Expenses			
Current			
Economic development			
Administration	$ 1,543,180	$ 3,248	$ 1,546,428
Depreciation	-	822,071	822,071
Capital outlay	2,757,914	(2,757,914)	-
Total Expenditures/Expenses	**$ 4,301,094**	**$ (1,932,595)**	**$ 2,368,499**
Net Change in Fund Balance/Net Position	**$ (954,462)**	**$ 3,491,566**	**$ 2,537,104**
Fund Balance/Net Position – January 1	**436,454**	**25,104,646**	**25,541,100**
Fund Balance/Net Position – December 31	**$ (518,008)**	**$ 28,596,212**	**$ 28,078,204**

The notes to the financial statements are an integral part of this statement.

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, 2018

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		**$ (954,462)**
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	$ 3,207,300	
Unavailable revenue – January 1	(1,649,644)	1,557,656
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	$ 2,757,914	
Current year depreciation	(822,071)	1,935,843
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.		
Change in compensated absences	$ (8,438)	
Change in net pension liability	70,614	
Change in deferred outflows of resources	(33,062)	
Change in deferred inflows of resources	(31,047)	(1,933)
Change in Net Position of Governmental Activities		**$ 2,537,104**

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

EXHIBIT 3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	**$ 1,695,352**	**$ 1,695,352**	**$ 1,442,515**	**$ (252,837)**
Intergovernmental				
Federal				
Payments in lieu of taxes	$ -	$ -	$ 12	$ 12
Railroad Safety Program	-	192,698	-	(192,698)
State				
Department of Transportation	-	170,000	-	(170,000)
Legislative Commission on Minnesota Resources	794,314	868,364	-	(868,364)
Department of Employment and Economic Development	37,300	37,300	969,864	932,564
Department of Natural Resources	5,056,210	3,970,296	300,000	(3,670,296)
Market value credit	-	-	1,614	1,614
Taconite credit	-	-	50,734	50,734
State PERA	-	-	1,492	1,492
State 30% rental	-	-	6	6
Disparity reduction credit	-	-	54,074	54,074
Local				
Other local grants	83,667	83,667	222,652	138,985
Reimbursement for administrative services				
Minneapolis-Duluth/Superior Passenger Rail Alliance	24,000	24,000	24,000	-
Total intergovernmental	**$ 5,995,491**	**$ 5,346,325**	**$ 1,624,448**	**$ (3,721,877)**
Charges for services	**$ 4,500**	**$ 4,500**	**$ 10,220**	**$ 5,720**
Miscellaneous	**$ 62,000**	**$ 62,000**	**$ 269,449**	**$ 207,449**
Total Revenues	**$ 7,757,343**	**$ 7,108,177**	**$ 3,346,632**	**$ (3,761,545)**
Expenditures				
Current				
Economic development	$ 1,552,517	$ 1,934,181	$ 1,543,180	$ 391,001
Capital outlay	6,439,824	2,153,325	2,757,914	(604,589)
Total Expenditures	**$ 7,992,341**	**$ 4,087,506**	**$ 4,301,094**	**$ (213,588)**
Net Change in Fund Balance	**$ (234,998)**	**$ 3,020,671**	**$ (954,462)**	**$ (3,975,133)**
Fund Balance – January 1	**436,454**	**436,454**	**436,454**	**-**
Fund Balance – December 31	**$ 201,456**	**$ 3,457,125**	**$ (518,008)**	**$ (3,975,133)**

The notes to the financial statements are an integral part of this statement.

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1. Summary of Significant Accounting Policies

The St. Louis and Lake Counties Regional Railroad Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2018. 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 alternate members. 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.

Related Organization

The Authority participates in a related organization which is described in Note 5.

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.

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 three parts: investment in capital assets, restricted net position, 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 full 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. 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.

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 accounting principles generally accepted in the United States of America. 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

The Authority's available cash balances are pooled and invested by St. Louis County in accordance with Minnesota statutes. 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 2012 to 2018. 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. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. 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

1. Summary of Significant Accounting Policies

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

4. Capital Assets (Continued)

constructed. Donated capital assets are recorded at acquisition value. 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.

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:

Assets	Years
Infrastructure	20 - 40
Buildings	15 - 40
Machinery, vehicles, and equipment	3 - 15

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports 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. The Authority reports deferred outflows of resources only under the full accrual basis of accounting associated with defined benefit pension plans and, accordingly, is reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports 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 two types of deferred inflows. The governmental fund reports unavailable revenue from delinquent taxes receivable and grant receivables. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the

1. Summary of Significant Accounting Policies

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

5. Deferred Outflows/Inflows of Resources (Continued)

governmental fund balance sheet. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amounts became available. The Authority also reports deferred inflows of resources associated with defined benefit pension plans. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

6. Pension Plan

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. Plan investments are reported at fair value.

7. Unearned Revenue

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

8. 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, attributed to the acquisition, construction, or improvement of the assets.

1. Summary of Significant Accounting Policies

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

8. Classification of Net Position (Continued)

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 net investment in capital assets.

9. 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.

Committed – amounts that can be used only for the specific purposes imposed by formal action (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 action (resolution) it employed to previously commit these amounts.

1. Summary of Significant Accounting Policies

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

9. Classification of Fund Balances (Continued)

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.

10. 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 certain estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources; 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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations and Deficit Fund Equity

The General Fund incurred expenditures that exceeded appropriations in the amount of $213,588 due to some capital expenditures not being included in the budget. Additionally, the General Fund has a deficit fund equity of $518,008. The deficit fund equity is expected to be eliminated with grant reimbursements to be received from the State of Minnesota during future periods.

3. Detailed Notes

A. Assets

1. Deposits

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 are included in the St. Louis County Comprehensive Annual Financial Report.

The St. Louis and Lake Counties Regional Railroad Authority invests funds in St. Louis County's investment pool; at year end, $1,075,280 is invested in the pool. The fair value of the investment is the fair value per share of the underlying portfolio. The Authority invests in this pool for the purpose of joint investment with the County in order to enhance investment earnings. There are no redemption limits.

2. Receivables

Receivables as of December 31, 2018, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	$ 47,464
Taxes	57,686
Due from other governments	3,241,652
Total Receivables	$ 3,346,802

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Governmental capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 242,311	$ 25,000	$ -	$ 267,311
Construction in progress	804,964	1,437,436	-	2,242,400
Total capital assets not depreciated	$ 1,047,275	$ 1,462,436	$ -	$ 2,509,711
Capital assets depreciated				
Infrastructure	$ 24,096,984	$ 1,295,478	$ -	$ 25,392,462
Buildings	2,601,708	-	-	2,601,708
Machinery, vehicles, and equipment	217,339	-	-	217,339
Total capital assets depreciated	$ 26,916,031	$ 1,295,478	$ -	$ 28,211,509
Less: accumulated depreciation for				
Infrastructure	$ 3,874,086	$ 769,285	$ -	$ 4,643,371
Buildings	136,570	42,250	-	178,820
Machinery, vehicles, and equipment	107,222	10,536	-	117,758
Total accumulated depreciation	$ 4,117,878	$ 822,071	$ -	$ 4,939,949
Total capital assets depreciated, net	$ 22,798,153	$ 473,407	$ -	$ 23,271,560
Total Capital Assets, Net	$ 23,845,428	$ 1,935,843	$ -	$ 25,781,271

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Economic development	$ 822,071

3. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2018, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	$ 1,727,189
Salaries	5,601
Total Payables	$ 1,732,790

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.

The Authority determines the current portion, if any, based on anticipated retirements and any activity that occurs within the first few months of the subsequent year. There was no current portion reported at year-end.

The following is a summary of the changes in long-term compensated absences payable for the year ended December 31, 2018:

Payable – January 1	$ 161,022
Net increase (decrease)	8,438
Payable – December 31	$ 169,460

3. Detailed Notes

B. Liabilities

2. Compensated Absences (Continued)

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 five 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. 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.

C. Defined Benefit Pension Plan

1. Plan Description

All full-time and certain part-time employees of the St. Louis and Lake Counties Regional Railroad Authority are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs. 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security and Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to

3. Detailed Notes

C. Defined Benefit Pension Plan

1. Plan Description (Continued)

new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No St. Louis and Lake Counties Regional Railroad Authority employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.00 percent for the post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will be 2.50 percent. If, after reverting to a 2.50 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 1.00 percent.

The benefit provisions stated in the following paragraph 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 their public service.

Benefits are based on a member’s highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive 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 Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of

3. Detailed Notes

C. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

For General Employees Plan members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90, and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members and are based on years of service and average high-five salary.

3. Contributions

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. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2018.

In 2018, the Authority was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

The Authority's contributions for the General Employees Plan for the year ended December 31, 2018, were $15,830. The contributions are equal to the contractually required contributions as set by state statute.

4. Pension Costs

At December 31, 2018, the Authority reported a liability of $171,975 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation

3. Detailed Notes

C. Defined Benefit Pension Plan

4. Pension Costs (Continued)

as of that date. 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, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the Authority's proportion was 0.0031 percent. It was 0.0038 percent measured as of June 30, 2017. The Authority recognized pension expense of $9,325 for its proportionate share of the General Employees Plan's pension expense.

The Authority also recognized $1,315 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute $16 million to the General Employees Plan for the fiscal years ended June 30, 2018 and 2019, and $6 million thereafter, through calendar year 2031.

The Authority's proportionate share of the net pension liability	$ 171,975
State of Minnesota's proportionate share of the net pension liability associated with the Authority	5,638
Total	$ 177,613

The Authority reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

3. Detailed Notes

C. Defined Benefit Pension Plan

4. Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 5,534	$ 6,632
Changes in actuarial assumptions	21,728	22,310
Difference between projected and actual investment earnings	-	16,663
Changes in proportion	5,182	45,693
Contributions paid to PERA subsequent to the measurement date	7,930	-
Total	$ 40,374	$ 91,298

The $7,930 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2019	$ (1,715)
2020	(26,529)
2021	(27,022)
2022	(3,588)

5. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

3. Detailed Notes

C. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

Inflation	2.50 percent per year
Active member payroll growth	3.25 percent per year
Investment rate of return	7.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 30, 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The long-term expected rate of return on pension plan investments is 7.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36%	5.10%
International stocks	17	5.30
Bonds (fixed income)	20	0.75
Alternative assets (private markets)	25	5.90
Cash	2	0.00

3. Detailed Notes

C. Defined Benefit Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2018, which remained consistent with 2017. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2018:

- The mortality projection scale was changed from MP-2015 to MP-2017.

- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.

8. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate previously disclosed, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.00 percentage point lower or 1.00 percentage point higher than the current discount rate:

	Discount Rate	Proportionate Share of the Net Pension Liability
1% Decrease	6.50%	$ 279,482
Current	7.50	171,975
1% Increase	8.50	83,232

3. Detailed Notes

C. Defined Benefit Pension Plan (Continued)

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan'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; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

4. 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. 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.

5. Related Organization

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 seven-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 $23,750 to the Alliance in 2018. The

5. Related Organization

Minneapolis-Duluth/Superior Passenger Rail Alliance (Continued)

Minneapolis-Duluth/Superior Passenger Rail Alliance does not have any employees of its own. The St. Louis and Lake Counties Regional Railroad Authority contracts with the Alliance to administer its day-to-day activities. In return for services provided, the Alliance reimbursed the Authority $24,000 in 2018.

6. Construction Commitments

At December 31, 2018, the Authority had construction commitments as follows:

	Authorized Amount	Expended to Date	Commitments
Mesabi Trail – Soudan to Ely	$ 1,000,000	$ 324,050	$ 675,950
Mesabi Trail – Hwy. 135 to Embarrass	1,200,000	820,518	379,482
Mesabi Trail – Embarrass to County Road 26	1,800,000	109,504	1,690,496
Mesabi Trail – Various Projects	2,269,000	528,308	1,740,692
Mesabi Trail – Verm. State Park – Trigg Rd.	750,000	138,025	611,975
Mesabi Trail – County Road 88 to Ely	600,000	57,533	542,467
Total	$ 7,619,000	$ 1,977,938	$ 5,641,062

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REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT A-1

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018

Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the St. Louis and Lake Counties Regional Railroad Authority (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2018	0.0031 %	$ 171,975	$ 5,638	$ 177,613	$ 207,467	82.89 %	79.53 %
2017	0.0038	242,589	3,044	245,633	244,307	99.30	75.90
2016	0.0041	332,901	4,395	337,296	250,907	132.68	68.91
2015	0.0037	191,753	N/A	191,753	215,797	88.86	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The measurement date for each year is June 30.
N/A – Not Applicable

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

EXHIBIT A-2

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2018

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2018	$ 15,830	$ 15,830	$ -	$ 211,067	7.50 %
2017	15,299	15,299	-	203,987	7.50
2016	19,775	19,775	-	263,667	7.50
2015	18,508	18,508	-	246,773	7.50

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
The St. Louis and Lake Counties Regional Railroad Authority's year-end is December 31.

Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the fiscal year June 30:

General Employees Retirement Plan

2018

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

2017

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members (30 percent for deferred Minneapolis Employees Retirement Fund members). The revised CSA loads are now 0.00 percent for active member liability, 15 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.
- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21 million in calendar years 2017 and 2018 and returns to $31 million through calendar year 2031. The state’s required contribution is $16 million in PERA’s fiscal years 2018 and 2019 and returns to $6 million annually through calendar year 2031.

Defined Benefit Pension Plan – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan (Continued)

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Management and Compliance Section

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JULIE BLAHA
STATE AUDITOR

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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 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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the St. Louis and Lake Counties Regional Railroad Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

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. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 2003-001, that we consider to be a significant deficiency.

Other Matters

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

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

November 26, 2019

JULIE BLAHA
STATE AUDITOR

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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, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 26, 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 the Authority administers no tax increment financing districts.

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 Other Political Subdivisions*, except as described in the Schedule of Findings and Recommendations as item 2018-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

The St. Louis and Lake Counties Regional Railroad Authority's written response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners 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/Julie Blaha	*/s/Greg Hierlinger*
JULIE BLAHA STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

November 26, 2019

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 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 a 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 segregation of noncompatible duties.

Effect: Inadequate segregation of duties could adversely affect the Authority’s ability to prevent, or detect and correct, 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 limits the internal control that management can design and implement.

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:

It is known and understood that the St. Louis and Lake Counties Regional Railroad Authority (RRA) has limited staff to oversee and monitor operations of the RRA.

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

This condition will be reviewed with the RRA Board Chair and brought to the RRA Board's attention when the year 2018 Annual Audit Report is presented and reviewed.

The RRA Board has and will continue to review monthly expense and budget reports at their monthly Board meetings.

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2018-001

Contracting and Bidding Compliance

Criteria: Minnesota statutes contain requirements for the contracting and bidding processes used by local governments.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018

Condition: During testing of compliance with the State of Minnesota contracting and bidding laws, noncompliance with the following requirements was noted:

- Withholding affidavit for contractors (IC-134 Form): Minn. Stat. § 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the political or governmental subdivision is required to obtain a certificate from the Minnesota Department of Revenue that the contractor or subcontractor has complied with the employee withholding requirements of Minn. Stat. § 290.92. IC-134 Forms were not obtained from the contractor.

- Responsible contractor verification: Minn. Stat. § 16C.285 states that, for each construction contract in excess of $50,000 awarded pursuant to the lowest responsible bidder or through the best value procurement process, the successful contractor must submit verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3. For one of the two contracts tested, no certification was obtained.

Context: The bid process was administered by the Authority's hired project manager, who should have obtained these documents for the Authority. However, the Authority is ultimately responsible to verify that all proper bid documentation has been received.

Effect: Noncompliance with Minn. Stat. §§ 270C.66 and 16C.285.

Cause: The Authority relied on a project manager to obtain all documentation required to comply with Minnesota statutes. The Authority's project manager was not able to provide documentation showing that the Authority complied with these requirements.

Recommendation: We recommend the Authority implement procedures to ensure that contracting and bidding is performed in accordance with applicable statutes for all future contracts.

Client's Response:

2018 Finding

The St. Louis and Lake Counties Regional Railroad Authority (RRA) hired consultant Krech, Ojard & Associates to design, bid and perform construction management for the replacement of railroad signals at Harbor Drive and 45th Ave East, Duluth. Omitted from the bidding documents were the requirements for a Responsible Contractor Verification and submission of an IC-134 form.

A construction contract was awarded to low bidder (only bidder) Progressive Rail Inc. without a Responsible Contractor Verification. Progressive Rail performed the work and completed the project passing inspections from the Minnesota Department of Transportation, Office of Freight & Passenger Rail and the Federal Highway Administration, Department of Federal Railroad Administration.

Progress Rail has been contacted by Krech, Ojard & Associates and RRA numerous times to provide an IC-134 form for the project. Progress Rail has been responsive and as of November 25, 2019 indicates they are working to provide the IC-134 form.

2019 Remedy

In year 2019, RRA hired consultant Krech, Ojard & Associates to design, bid and perform construction management for the rebuilding of Railroad Bridge 4C located at 36th Ave East Duluth. The bidding documents require a Responsible Contractor Verification before a construction contract is awarded and submission of an IC-134 before final contract payments are made.

III. PREVIOUSLY REPORTED ITEM RESOLVED

2015-001 Audit Adjustments