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, 2013

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

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

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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, 2013

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, 2013

Board	Representing
Steve Raukar, Chair	St. Louis County
Keith Nelson	St. Louis County
Frank Jewell	St. Louis County
Mike Forsman, Alternate	St. Louis County
Rick Goutermont, Vice Chair	Lake County
Rich Sve	Lake County

Executive Director
Robert Manzoline

After the passing of Lake County Commissioner Paul Bergman on July 20, 2013, Lake County's alternate, Commissioner Rich Sve, was appointed to replace him for the remainder of 2013.

After the passing of St. Louis County Commissioner Steve O'Neil on July 16, 2013, St. Louis County's alternate, Commissioner Frank Jewell, was appointed to replace him for the remainder of 2013.

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
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, 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2013, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2015, on our consideration of the St. Louis and Lake Counties Regional Railroad Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the St. Louis and Lake Counties Regional Railroad Authority's internal control over financial reporting and compliance.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

February 18, 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, 2013

	General Fund	Adjustments	Governmental Activities
Assets			
Cash and pooled investments	$ 2,197,612	$ -	$ 2,197,612
Accounts receivable	7,635	-	7,635
Taxes receivable - delinquent	92,370	-	92,370
Due from other governments	772,926	-	772,926
Capital assets			
Non-depreciable	-	5,172,278	5,172,278
Depreciable - net of accumulated depreciation	-	8,433,494	8,433,494
Total Assets	**$ 3,070,543**	**$ 13,605,772**	**$ 16,676,315**
Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position			
Liabilities			
Current liabilities			
Accounts payable	$ 232,755	$ -	$ 232,755
Salaries payable	10,079	-	10,079
Contracts payable	6,540	-	6,540
Due to other governments	403	-	403
Unearned revenue	25,155	-	25,155
Noncurrent liabilities			
Compensated absences payable - due within one year	-	7,738	7,738
Compensated absences payable - long-term	-	82,561	82,561
Total Liabilities	**$ 274,932**	**$ 90,299**	**$ 365,231**
Deferred Inflows of Resources			
Unavailable revenue - taxes	$ 82,076	$ (82,076)	
Unavailable revenue - grants	567,926	(567,926)	
Total Deferred Inflows of Resources	**$ 650,002**	**$ (650,002)**	

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, 2013

	General Fund	Adjustments	Governmental Activities
Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position (Continued)			
Fund Balance			
Assigned			
Compensated absences	$ 82,561	$ (82,561)	
Future trail maintenance	381,539	(381,539)	
Lakefront Line Railroad Bridge Replacement	640,704	(640,704)	
Unassigned	1,040,805	(1,040,805)	
Total Fund Balance	**$ 2,145,609**	**$ (2,145,609)**	
Net Position			
Investment in capital assets		$ 13,605,772	$ 13,605,772
Unrestricted		2,705,312	2,705,312
Total Net Position		**$ 16,311,084**	**$ 16,311,084**
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	**$ 3,070,543**	**$ 13,605,772**	**$ 16,676,315**

Reconciliation of the General Fund Balance to Net Position

Fund Balance - General Fund	**$ 2,145,609**
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.	13,605,772
Other long-term assets are not available to pay for the current period expenditures and, therefore, are reported as deferred inflows of resources in the General Fund.	650,002
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.	(90,299)
Net Position - Governmental Activities	**$ 16,311,084**

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, 2013

	General Fund	Adjustments	Governmental Activities
Revenues			
Taxes	$ 1,211,099	$ 1,781	$ 1,212,880
Intergovernmental	867,286	399,120	1,266,406
Charges for services	9,150	-	9,150
Miscellaneous	144,560	-	144,560
Capital contributions	-	34,749	34,749
Total Revenues	**$ 2,232,095**	**$ 435,650**	**$ 2,667,745**
Expenditures/Expenses			
Current			
Economic development			
Administration	$ 1,336,500	$ (8,240)	$ 1,328,260
Depreciation	-	221,489	221,489
Capital outlay	1,078,208	(1,078,208)	-
Total Expenditures/Expenses	**$ 2,414,708**	**$ (864,959)**	**$ 1,549,749**
Net Change in Fund Balance/Net Position	**$ (182,613)**	**$ 1,300,609**	**$ 1,117,996**
Fund Balance/Net Position - January 1	**2,328,222**	**12,864,866**	**15,193,088**
Fund Balance/Net Position - December 31	**$ 2,145,609**	**$ 14,165,475**	**$ 16,311,084**

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, 2013

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			**$**	**(182,613)**
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	$	650,002		
Unavailable revenue - January 1		(249,101)		400,901
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	$	1,078,208		
Capital contributions		34,749		
Current year depreciation		(221,489)		891,468
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				8,240
Change in Net Position of Governmental Activities			**$**	**1,117,996**

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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	**$ 1,443,332**	**$ 1,443,332**	**$ 1,211,099**	**$ (232,233)**
Intergovernmental				
Federal				
Payments in lieu of taxes	$ -	$ -	$ 8	$ 8
Highway Planning and Construction	-	5,000	5,000	-
State				
Department of Public Safety	-	-	73,581	73,581
Department of Transportation	-	278,270	278,270	-
LCMR	-	295,431	135,395	(160,036)
Department of Natural Resources	-	863,149	-	(863,149)
Market value credit	-	-	1,273	1,273
Taconite credit	-	-	50,879	50,879
State PERA	-	-	1,421	1,421
State 30% rental	-	-	7	7
Disparity reduction credit	-	-	41,749	41,749
Local				
Other local grants	62,218	87,103	204,703	117,600
Reimbursement for administrative services				
Minneapolis-Duluth/Superior Passenger Rail Alliance	75,000	75,000	75,000	-
Total intergovernmental	**$ 137,218**	**$ 1,603,953**	**$ 867,286**	**$ (736,667)**
Charges for services	**$ -**	**$ -**	**$ 9,150**	**$ 9,150**
Miscellaneous	**$ 60,000**	**$ 60,000**	**$ 144,560**	**$ 84,560**
Total Revenues	**$ 1,640,550**	**$ 3,107,285**	**$ 2,232,095**	**$ (875,190)**
Expenditures				
Current				
Economic development	$ 1,340,950	$ 1,646,071	$ 1,336,500	$ 309,571
Capital outlay	543,000	1,704,214	1,078,208	626,006
Total Expenditures	**$ 1,883,950**	**$ 3,350,285**	**$ 2,414,708**	**$ 935,577**
Net Change in Fund Balance	**$ (243,400)**	**$ (243,000)**	**$ (182,613)**	**$ 60,387**
Fund Balance - January 1	**2,328,222**	**2,328,222**	**2,328,222**	**-**
Fund Balance - December 31	**$ 2,084,822**	**$ 2,085,222**	**$ 2,145,609**	**$ 60,387**

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

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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, 2013

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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 generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the St. Louis and Lake Counties Regional Railroad Authority are discussed below.

Change in Accounting Principles

During 2013, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement 65. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.E.4. in the notes to the financial statements for additional information regarding the Authority's deferred outflows/inflows of resources.

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

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.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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.

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 except for tax revenue as available if collected within 90 days after the end of the current period. Tax revenue is considered available if collected

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

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 2007 to 2013. 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.

1. Summary of Significant Accounting Policies

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

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.

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
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 future period(s) and so will not be recognized as an inflow

1. Summary of Significant Accounting Policies

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

      4. Deferred Outflows/Inflows of Resources (Continued)

         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. 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.

      6. 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:

         Non-spendable - 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.

1. Summary of Significant Accounting Policies

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

6. Classification of Fund Balances (Continued)

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 (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.

7. 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.

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, *Deposits and Investment Risk Disclosure*; 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.

2. Receivables

Receivables as of December 31, 2013, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	$ 7,635
Taxes receivable	92,370
Due from other governments	772,926
Total Receivables	$ 872,931

3. Capital Assets

Governmental capital asset activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 166,211	$ -	$ -	$ 166,211
Construction in progress	4,231,688	1,112,957	338,578	5,006,067
Total capital assets not depreciated	$ 4,397,899	$ 1,112,957	$ 338,578	$ 5,172,278

2. Detailed Notes

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Infrastructure	$ 10,941,934	$ 338,578	$ -	$ 11,280,512
Machinery, furniture, and equipment	149,702	-	-	149,702
Total capital assets depreciated	$ 11,091,636	$ 338,578	$ -	$ 11,430,214
Less: accumulated depreciation for				
Infrastructure	$ 2,712,026	$ 213,735	$ -	$ 2,925,761
Machinery, furniture, and equipment	63,205	7,754	-	70,959
Total accumulated depreciation	$ 2,775,231	$ 221,489	$ -	$ 2,996,720
Total capital assets depreciated, net	$ 8,316,405	$ 117,089	$ -	$ 8,433,494
Total Capital Assets, Net	$ 12,714,304	$ 1,230,046	$ 338,578	$ 13,605,772

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Economic development	$ 221,489

B. Liabilities

1. Payables

Payables at December 31, 2013, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	$ 232,755
Salaries	10,079
Contracts payable	6,540
Due to other governments	403
Total Payables	$ 249,777

2. Detailed Notes

B. Liabilities (Continued)

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 following is a summary of the changes in long-term compensated absences payable for the year ended December 31, 2013:

Payable - January 1	$ 98,539
Net increase (decrease)	(8,240)
Payable - December 31	$ 90,299

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.

2. Detailed Notes

B. Liabilities (Continued)

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. 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 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 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 three years of credited service (five years for those first eligible for membership after June 30, 2010).

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.

3. Pension Plans--Defined Benefit Plans

A. Plan Description (Continued)

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.

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 Railroad 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 are required to contribute 9.10 and 6.25 percent, respectively, of their annual covered salary.

3. Pension Plans--Defined Benefit Plans

B. Funding Policy (Continued)

The St. Louis and Lake Counties Regional Railroad Authority is required to contribute the following percentages of annual covered payroll in 2013:

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

The St. Louis and Lake Counties Regional Railroad Authority's contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund were:

2013	2012	2011
$ 13,974	$ 13,678	$ 13,587

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

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 and $61,750 to the Alliance in 2013 and 2012, respectively.

4. Related Organizations

Minneapolis-Duluth/Superior Passenger Rail Alliance (Continued)

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 2013 and $80,000 in 2012.

5. Construction Commitments

At December 31, 2013, the Authority had construction commitments as follows:

	Authorized Amount	Expended to Date	Commitments
Mesabi Station	$ 2,341,451	$ 2,182,323	$ 159,128
Mesabi Station Garage	258,400	146,094	112,306
Mesabi Trail - Vermillion State Park to Hwy 1/169	1,600,696	630,973	969,723
Lakefront Line Railroad - 36th Avenue East Bridge Replacement	963,600	66,296	897,304
Total	$ 5,164,147	$ 3,025,686	$ 2,138,461

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Management and Compliance Section

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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, 2013

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

INTERNAL CONTROL

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 Directors 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 Directors 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 Directors is aware that staff limitations are not adequate for the Authority's accounting system. Management has recommended, and the Board of Directors 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: In 2013, the Authority's Board of Directors allocated $300,000 of unassigned fund balance to be assigned for future Lakefront Line Railroad bridge replacements. This assignment of fund balance was not reflected in the Authority's general ledger. In addition, $66,296 of expenditures related to the reconstruction of the Lakefront Line Bridge 4c were not deducted from fund balance assigned for future Lakefront Line Railroad bridge replacements. Also, it was noted that expenditures not related to trail maintenance were recorded as reducing the fund balance assigned for future trail maintenance. This resulted in fund balance assigned for trail maintenance being understated by $177,506.

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 increase assigned fund balance and decrease unassigned fund balance to reflect the Board of Directors' intended use of funds for the replacement of railroad bridges along the Lakefront 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 Authority's fiscal agent confirming changes.

PREVIOUSLY REPORTED ITEM RESOLVED

Audit Adjustments and Reclassifications (2011-001)

In the prior year, material audit adjustments to compensated absences and receivables were required to prevent the Authority's financial statements from being materially misstated.

Resolution

In the current year, no material audit adjustments were required to be made.

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

Independent Auditor's Report

Board of Directors
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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the St. Louis and Lake Counties Regional Railroad Authority as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 18, 2015.

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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as items 2003-001 and 2011-002, that we consider to be significant deficiencies.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

St. Louis and Lake Counties Regional Railroad Authority's Response to Findings

The St. Louis and Lake Counties Regional Railroad Authority's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Recommendations. The Authority's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

February 18, 2015