

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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

YEAR ENDED DECEMBER 31, 2015

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

**Year Ended December 31, 2015**



**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**

TABLE OF CONTENTS

|   | Exhibit | Page |
|---|---------|------|
| <b>Introductory Section</b>   |         |      |
| Organization  |         | 1    |
| <b>Financial Section</b>  |         |      |
| Independent Auditor's Report  |         | 2    |
| Basic Financial Statements  |         |      |
| General Fund Balance Sheet and Governmental Activities -<br>Statement of Net Position with Adjustments to Convert<br>Modified to Full Accrual   | 1       | 4    |
| General Fund Statement of Revenues, Expenditures, and<br>Changes in Fund Balance and Governmental Activities -<br>Statement of Activities with Adjustments to Convert<br>Modified to Full Accrual | 2       | 6    |
| Statement of Revenues, Expenditures, and Changes in<br>Fund Balance - Budgetary Comparison  | 3       | 8    |
| Notes to the Financial Statements   |         | 9    |
| Required Supplementary Information  |         |      |
| PERA General Employees Retirement Fund  |         |      |
| Schedule of Proportionate Share of Net Pension Liability  | A-1     | 28   |
| Schedule of Contributions   | A-2     | 28   |
| <b>Management and Compliance Section</b>  |         |      |
| Schedule of Findings and Recommendations  |         | 29   |
| Communication of Significant Deficiencies and/or Material<br>Weaknesses in Internal Control Over Financial Reporting and<br>Other Matters   |         | 33   |
| Independent Auditor's Report on Minnesota Legal Compliance  |         | 35   |

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

ORGANIZATION  
DECEMBER 31, 2015

Board

Steve Raukar, Chair  
Keith Nelson  
Tom Rukavina  
Frank Jewell, Alternate  
Patrick Boyle, Alternate  
Rick Goutermont, Vice Chair  
Jeremy Hurd  
Rich Sve, Alternate

Representing

St. Louis County  
Lake County  
Lake County  
Lake County

Executive Director

Robert Manzoline

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE 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, 2015, 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, 2015, 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.F. to the financial statements, in 2015 the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 82, *Pension Issues*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

***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 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 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/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 7, 2016

## **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, 2015**

|   | <b>General<br/>Fund</b> | <b>Adjustments</b>    | <b>Governmental<br/>Activities</b> |
|---|-------------------------|-----------------------|------------------------------------|
| <b><u>Assets and Deferred Outflows of Resources</u></b>                                     |                         |                       |                                    |
| <b>Current assets</b>   |                         |                       |                                    |
| Cash and pooled investments   | \$ 560,778              | \$ -                  | \$ 560,778                         |
| Accounts receivable   | 77,918                  | -                     | 77,918                             |
| Taxes receivable - delinquent   | 79,586                  | -                     | 79,586                             |
| Due from other governments  | 1,477,234               | -                     | 1,477,234                          |
| Prepaid items   | 674                     | -                     | 674                                |
| <b>Noncurrent assets</b>  |                         |                       |                                    |
| Capital assets  |                         |                       |                                    |
| Non-depreciable   | -                       | 4,899,707             | 4,899,707                          |
| Depreciable - net of accumulated depreciation   | -                       | 11,740,857            | 11,740,857                         |
| <b>Total Assets</b>   | <b>\$ 2,196,190</b>     | <b>\$ 16,640,564</b>  | <b>\$ 18,836,754</b>               |
| <b>Deferred Outflows of Resources</b>   |                         |                       |                                    |
| Deferred pension outflows   | -                       | 27,879                | 27,879                             |
| <b>Total Assets and Deferred Outflows of Resources</b>                                      | <b>\$ 2,196,190</b>     | <b>\$ 16,668,443</b>  | <b>\$ 18,864,633</b>               |
| <b><u>Liabilities, Deferred Inflows of Resources,<br/>and Fund Balance/Net Position</u></b> |                         |                       |                                    |
| <b>Liabilities</b>  |                         |                       |                                    |
| <b>Current liabilities</b>  |                         |                       |                                    |
| Accounts payable  | \$ 118,137              | \$ -                  | \$ 118,137                         |
| Salaries payable  | 4,369                   | -                     | 4,369                              |
| Due to other governments  | 15,322                  | -                     | 15,322                             |
| Unearned revenue  | 25,425                  | -                     | 25,425                             |
| <b>Noncurrent liabilities</b>   |                         |                       |                                    |
| Compensated absences payable  | -                       | 176,033               | 176,033                            |
| Net pension liability   | -                       | 191,753               | 191,753                            |
| <b>Total Liabilities</b>  | <b>\$ 163,253</b>       | <b>\$ 367,786</b>     | <b>\$ 531,039</b>                  |
| <b>Deferred Inflows of Resources</b>  |                         |                       |                                    |
| Unavailable revenue - taxes   | \$ 69,830               | \$ (69,830)           | \$ -                               |
| Unavailable revenue - grants  | 1,392,838               | (1,392,838)           | -                                  |
| Deferred pension inflows  | -                       | 13,191                | 13,191                             |
| <b>Total Deferred Inflows of Resources</b>  | <b>\$ 1,462,668</b>     | <b>\$ (1,449,477)</b> | <b>\$ 13,191</b>                   |

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

Page 4

**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, 2015**

|  | General<br>Fund     | Adjustments          | Governmental<br>Activities |
|--|---------------------|----------------------|----------------------------|
| <b><u>Liabilities, Deferred Inflows of Resources,<br/>and Fund Balance/Net Position</u></b><br>(Continued)   |                     |                      |                            |
| <b>Fund Balance</b>  |                     |                      |                            |
| Assigned   |                     |                      |                            |
| Compensated absences   | \$ 154,325          | \$ (154,325)         |                            |
| Future trail maintenance   | 372,703             | (372,703)            |                            |
| Unassigned   | 43,241              | (43,241)             |                            |
| <b>Total Fund Balance</b>  | <b>\$ 570,269</b>   | <b>\$ (570,269)</b>  |                            |
| <b>Net Position</b>  |                     |                      |                            |
| Investment in capital assets   |                     | \$ 16,640,564        | \$ 16,640,564              |
| Unrestricted   |                     | 1,679,839            | 1,679,839                  |
| <b>Total Net Position</b>  |                     | <b>\$ 18,320,403</b> | <b>\$ 18,320,403</b>       |
| <b>Total Liabilities, Deferred Inflows of Resources,<br/>and Fund Balance/Net Position</b>   | <b>\$ 2,196,190</b> | <b>\$ 16,668,443</b> | <b>\$ 18,864,633</b>       |
| <b>Reconciliation of the General Fund Balance to Net Position</b>  |                     |                      |                            |
| <b>Fund Balance - General Fund</b>   |                     |                      | <b>\$ 570,269</b>          |
| Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.   |                     |                      | 16,640,564                 |
| Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.                  |                     |                      | 27,879                     |
| 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. |                     |                      | (13,191)                   |
| 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.   |                     |                      | 1,462,668                  |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.  |                     |                      |                            |
| Compensated absences payable   |                     | \$ (176,033)         |                            |
| Net pension liability  |                     | (191,753)            | (367,786)                  |
| <b>Net Position - Governmental Activities</b>  |                     |                      | <b>\$ 18,320,403</b>       |

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

Page 5

**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, 2015**

|   | <b>General<br/>Fund</b> | <b>Adjustments</b>   | <b>Governmental<br/>Activities</b> |
|---|-------------------------|----------------------|------------------------------------|
| <b>Revenues</b>   |                         |                      |                                    |
| Taxes   | \$ 1,244,342            | \$ (6,961)           | \$ 1,237,381                       |
| Intergovernmental   | 613,030                 | 747,159              | 1,360,189                          |
| Charges for services  | 4,979                   | -                    | 4,979                              |
| Miscellaneous   | 204,848                 | -                    | 204,848                            |
| Capital contributions   | -                       | 12,219               | 12,219                             |
|   | <b>\$ 2,067,199</b>     | <b>\$ 752,417</b>    | <b>\$ 2,819,616</b>                |
| <b>Expenditures/Expenses</b>  |                         |                      |                                    |
| <b>Current</b>  |                         |                      |                                    |
| <b>Economic development</b>   |                         |                      |                                    |
| Administration  | \$ 1,472,450            | \$ 52,581            | \$ 1,525,031                       |
| Depreciation  | -                       | 189,518              | 189,518                            |
| <b>Capital outlay</b>   | 1,123,140               | (1,123,140)          | -                                  |
|   | <b>\$ 2,595,590</b>     | <b>\$ (881,041)</b>  | <b>\$ 1,714,549</b>                |
| <b>Net Change in Fund Balance/Net Position</b>                        | <b>\$ (528,391)</b>     | <b>\$ 1,633,458</b>  | <b>\$ 1,105,067</b>                |
| <b>Fund Balance/Net Position - January 1, as restated (Note 1.F.)</b> | <b>1,098,660</b>        | <b>16,116,676</b>    | <b>17,215,336</b>                  |
| <b>Fund Balance/Net Position - December 31</b>                        | <b>\$ 570,269</b>       | <b>\$ 17,750,134</b> | <b>\$ 18,320,403</b>               |

**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, 2015**

**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** \$ (528,391)

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 | \$ 1,462,668     |         |
| Unavailable revenue - January 1   | <u>(722,470)</u> | 740,198 |

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 | \$ 1,123,140     |         |
| Capital contributions                                      | 12,219           |         |
| Current year depreciation                                  | <u>(189,518)</u> | 945,841 |

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                       | \$ (46,864)     |                 |
| Change in net pension liability, as restated          | (13,248)        |                 |
| Change in deferred outflows of resources, as restated | 20,722          |                 |
| Change in deferred inflows of resources               | <u>(13,191)</u> | <u>(52,581)</u> |

**Change in Net Position of Governmental Activities** **\$ 1,105,067**

**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, 2015**

|   | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>        |                           |                                       |
| <b>Revenues</b>   |                         |                     |                           |                                       |
| <b>Taxes</b>  | \$ 1,465,550            | \$ 1,465,550        | \$ 1,244,342              | \$ (221,208)                          |
| <b>Intergovernmental</b>  |                         |                     |                           |                                       |
| Federal   |                         |                     |                           |                                       |
| Payments in lieu of taxes   | \$ -                    | \$ -                | \$ 7                      | \$ 7                                  |
| Disaster Grants - Public Assistance   | -                       | -                   | 49,893                    | 49,893                                |
| State   |                         |                     |                           |                                       |
| Department of Public Safety   | -                       | -                   | 16,630                    | 16,630                                |
| Legislative Commission on Minnesota Resources   | 6,916                   | 71,120              | 168,409                   | 97,289                                |
| Department of Natural Resources   | 1,641,632               | 878,266             | -                         | (878,266)                             |
| Market value credit   | -                       | -                   | 1,546                     | 1,546                                 |
| Taconite credit   | -                       | -                   | 49,159                    | 49,159                                |
| State PERA  | -                       | -                   | 1,706                     | 1,706                                 |
| State 30% rental  | -                       | -                   | 10                        | 10                                    |
| Disparity reduction credit  | -                       | -                   | 43,275                    | 43,275                                |
| Local   |                         |                     |                           |                                       |
| Other local grants  | 85,425                  | 60,000              | 207,395                   | 147,395                               |
| Reimbursement for administrative services<br>Minneapolis-Duluth/Superior Passenger<br>Rail Alliance | 75,000                  | 75,000              | 75,000                    | -                                     |
| <b>Total intergovernmental</b>  | <b>\$ 1,808,973</b>     | <b>\$ 1,084,386</b> | <b>\$ 613,030</b>         | <b>\$ (471,356)</b>                   |
| <b>Charges for services</b>   | <b>\$ 7,400</b>         | <b>\$ 7,400</b>     | <b>\$ 4,979</b>           | <b>\$ (2,421)</b>                     |
| <b>Miscellaneous</b>  | <b>\$ 54,500</b>        | <b>\$ 54,500</b>    | <b>\$ 204,848</b>         | <b>\$ 150,348</b>                     |
| <b>Total Revenues</b>   | <b>\$ 3,336,423</b>     | <b>\$ 2,611,836</b> | <b>\$ 2,067,199</b>       | <b>\$ (544,637)</b>                   |
| <b>Expenditures</b>   |                         |                     |                           |                                       |
| <b>Current</b>  |                         |                     |                           |                                       |
| Economic development  | \$ 1,687,875            | \$ 1,611,417        | \$ 1,472,450              | \$ 138,967                            |
| <b>Capital outlay</b>   | <b>1,648,548</b>        | <b>1,147,419</b>    | <b>1,123,140</b>          | <b>24,279</b>                         |
| <b>Total Expenditures</b>   | <b>\$ 3,336,423</b>     | <b>\$ 2,758,836</b> | <b>\$ 2,595,590</b>       | <b>\$ 163,246</b>                     |
| <b>Net Change in Fund Balance</b>   | <b>\$ -</b>             | <b>\$ (147,000)</b> | <b>\$ (528,391)</b>       | <b>\$ (381,391)</b>                   |
| <b>Fund Balance - January 1</b>   | <b>1,098,660</b>        | <b>1,098,660</b>    | <b>1,098,660</b>          | <b>-</b>                              |
| <b>Fund Balance - December 31</b>   | <b>\$ 1,098,660</b>     | <b>\$ 951,660</b>   | <b>\$ 570,269</b>         | <b>\$ (381,391)</b>                   |

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, 2015

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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, 2015. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the St. Louis and Lake Counties Regional Railroad Authority are discussed below.

A. Financial Reporting Entity

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

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

B. Basic Financial Statements

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

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net position is reported in two parts: investment in capital assets and unrestricted net position. The Statement of Activities demonstrates the degree to which the expenses of the Authority are offset by revenues.

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Authority considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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

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

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1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

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

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

1. Cash and Pooled Investments

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

2. Taxes Receivable

Taxes receivable consist of uncollected taxes payable in the years 2009 to 2015. Taxes receivable are offset by unavailable revenue for the amount not collected within 60 days of December 31 to indicate they are not available to pay current expenditures. No provision has been made for an estimated uncollectible amount.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for example, paved trails, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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1. Summary of Significant Accounting Policies

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

3. Capital Assets (Continued)

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

| Assets                             | Years   |
|------------------------------------|---------|
| Infrastructure                     | 20 - 40 |
| Buildings                          | 20 - 40 |
| Machinery, vehicles, and equipment | 3 - 12  |

4. 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. Currently, the Authority has one item, deferred pension outflows, that qualifies for reporting in this category. These outflows arise only under the accrual basis of accounting and consist of pension plan contributions paid subsequent to the measurement date and also the differences between projected and actual earnings on pension plan investments and, accordingly, are 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 items, unavailable revenue and deferred pension inflows, that qualify for reporting in this category. Unavailable revenue arises only under the modified accrual basis of accounting. 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. Deferred

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

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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)

pension inflows arise only under the full accrual basis of accounting and consist of differences between expected and actual pension plan economic experience and pension plan changes in proportionate share and, accordingly, are reported only in the statement of net position.

5. 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.

6. Unearned Revenue

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

7. 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.

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

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1. Summary of Significant Accounting Policies

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

7. Classification of Net Position (Continued)

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

8. 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 actions (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.

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

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1. Summary of Significant Accounting Policies

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

8. Classification of Fund Balances (Continued)

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.

9. 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.

F. Change in Accounting Principles

During the year ended December 31, 2015, the Authority adopted new accounting guidance by implementing the provisions of GASB Statements 68, 71, and 82. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, requires governments providing defined benefit pensions to employees through pension plans administered through trusts to record their proportionate share of the net pension obligation as a liability on their financial statements along with related deferred outflows of resources, deferred inflows of resources, and pension expense. This statement also requires additional note disclosures and schedules in the required supplementary information.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, addresses an issue regarding amounts associated with contributions made to a pension plan after the measurement date of the net pension liability.

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

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1. Summary of Significant Accounting Policies

F. Change in Accounting Principles (Continued)

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, modifies the measure of payroll that is presented in the required supplementary information schedules.

GASB Statements 68 and 71 require the Authority to report its proportionate share of the PERA total employers' unfunded pension liability. As a result, beginning net position has been restated to record the Authority's net pension liability and related deferred outflows of resources.

|   | Governmental<br>Activities |
|---|----------------------------|
| Net Position, January 1, 2015, as previously reported | \$ 17,386,684              |
| Change in accounting principles                       | (171,348)                  |
| Net Position, January 1, 2015, as restated            | \$ 17,215,336              |

2. Detailed Notes

A. Assets

1. Deposits and Investments

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

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

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

2. Detailed Notes

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2015, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

|                            |                     |
|----------------------------|---------------------|
| Accounts                   | \$ 77,918           |
| Taxes receivable           | 79,586              |
| Due from other governments | <u>1,477,234</u>    |
| Total Receivables          | <u>\$ 1,634,738</u> |

3. Capital Assets

Governmental capital asset activity for the year ended December 31, 2015, was as follows:

|                                       | Beginning<br>Balance | Increase            | Decrease            | Ending<br>Balance    |
|---------------------------------------|----------------------|---------------------|---------------------|----------------------|
| Capital assets not depreciated        |                      |                     |                     |                      |
| Land                                  | \$ 166,211           | \$ 2,450            | \$ -                | \$ 168,661           |
| Construction in progress              | <u>5,808,471</u>     | <u>1,057,454</u>    | <u>2,134,879</u>    | <u>4,731,046</u>     |
| Total capital assets not depreciated  | <u>\$ 5,974,682</u>  | <u>\$ 1,059,904</u> | <u>\$ 2,134,879</u> | <u>\$ 4,899,707</u>  |
| Capital assets depreciated            |                      |                     |                     |                      |
| Infrastructure                        | \$ 12,379,912        | \$ 60,177           | \$ -                | \$ 12,440,089        |
| Buildings                             | 389,639              | 2,142,369           | -                   | 2,532,008            |
| Machinery, furniture, and equipment   | <u>176,005</u>       | <u>7,788</u>        | <u>-</u>            | <u>183,793</u>       |
| Total capital assets depreciated      | <u>\$ 12,945,556</u> | <u>\$ 2,210,334</u> | <u>\$ -</u>         | <u>\$ 15,155,890</u> |
| Less: accumulated depreciation for    |                      |                     |                     |                      |
| Infrastructure                        | \$ 3,144,960         | \$ 142,919          | \$ -                | \$ 3,287,879         |
| Buildings                             | 1,082                | 39,868              | -                   | 40,950               |
| Machinery, furniture, and equipment   | <u>79,473</u>        | <u>6,731</u>        | <u>-</u>            | <u>86,204</u>        |
| Total accumulated depreciation        | <u>\$ 3,225,515</u>  | <u>\$ 189,518</u>   | <u>\$ -</u>         | <u>\$ 3,415,033</u>  |
| Total capital assets depreciated, net | <u>\$ 9,720,041</u>  | <u>\$ 2,020,816</u> | <u>\$ -</u>         | <u>\$ 11,740,857</u> |
| Total Capital Assets, Net             | <u>\$ 15,694,723</u> | <u>\$ 3,080,720</u> | <u>\$ 2,134,879</u> | <u>\$ 16,640,564</u> |

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

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2. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

|                         |                   |
|-------------------------|-------------------|
| Governmental Activities |                   |
| Economic development    | <u>\$ 189,518</u> |

B. Liabilities

1. Payables

Payables at December 31, 2015, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

|                          |                   |
|--------------------------|-------------------|
| Accounts                 | \$ 118,137        |
| Salaries                 | 4,369             |
| Due to other governments | <u>15,322</u>     |
| Total Payables           | <u>\$ 137,828</u> |

2. Compensated Absences

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

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

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2. Detailed Notes

B. Liabilities

2. Compensated Absences (Continued)

The following is a summary of the changes in long-term compensated absences payable for the year ended December 31, 2015:

|                         |                   |
|-------------------------|-------------------|
| Payable - January 1     | \$ 129,169        |
| Net increase (decrease) | <u>46,864</u>     |
| Payable - December 31   | <u>\$ 176,033</u> |

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

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

3. Defined Benefit Pension Plan

A. 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 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. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

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

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3. Defined Benefit Pension Plan

A. Plan Description (Continued)

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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service.

B. 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 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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 five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Fund 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. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service.

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

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3. Defined Benefit Pension Plan

B. Benefits Provided (Continued)

For General Employees Retirement Fund 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.

C. 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. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2015.

In 2015, the Authority was required to contribute the following percentages of annual covered salary:

|                                   |        |
|-----------------------------------|--------|
| General Employees Retirement Fund |        |
| Basic Plan members                | 11.78% |
| Coordinated Plan members          | 7.50   |

The Coordinated Plan member and employer contribution rates each reflect a 0.25 percent increase from 2014.

The Authority's contributions for the General Employees Retirement Fund for the year ended December 31, 2015, were \$18,508. The contributions are equal to the contractually required contributions as set by state statute.

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

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3. Defined Benefit Pension Plan (Continued)

D. Pension Costs

At December 31, 2015, the Authority reported a liability of \$191,753 for its proportionate share of the General Employees Retirement Fund's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Authority's proportion was 0.0037 percent. It was 0.0038 percent measured as of June 30, 2014. The Authority recognized pension expense of \$24,224 for its proportionate share of the General Employees Retirement Fund's pension expense.

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

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
|   | <u>                    </u>          | <u>                    </u>         |
| Differences between expected and actual economic experience   | \$ -                                 | \$ 9,668                            |
| Changes in actuarial assumptions                              | -                                    | -                                   |
| Difference between projected and actual investment earnings   | 18,152                               | -                                   |
| Changes in proportion   | -                                    | 3,523                               |
| Contributions paid to PERA subsequent to the measurement date | <u>9,727</u>                         | <u>-</u>                            |
| Total   | <u>\$ 27,879</u>                     | <u>\$ 13,191</u>                    |

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

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3. Defined Benefit Pension Plan

D. Pension Costs (Continued)

A total of \$9,727 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended<br>December 31 | Pension<br>Expense<br>Amount |
|---------------------------|------------------------------|
| 2016                      | \$ 141                       |
| 2017                      | 141                          |
| 2018                      | 141                          |
| 2019                      | 4,538                        |

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the individual entry age normal actuarial cost method and the following additional actuarial assumptions:

|                              |                       |
|------------------------------|-----------------------|
| Inflation                    | 2.75 percent per year |
| Active member payroll growth | 3.50 percent per year |
| Investment rate of return    | 7.90 percent          |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees was assumed to be 1.0 percent effective every January 1 through 2035, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the General Employees Retirement Fund was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

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

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3. Defined Benefit Pension Plan

E. Actuarial Assumptions (Continued)

In 2015, an updated experience study was done for PERA's General Employees Retirement Fund for the six-year period ending June 30, 2014, which would result in a larger pension liability. However, PERA will not implement the changes in assumptions until its June 30, 2016, estimate of pension liability.

The long-term expected rate of return on pension plan investments is 7.9 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:

| <u>Asset Class</u>   | <u>Target Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic stocks      | 45%                      | 5.50%   |
| International stocks | 15                       | 6.00  |
| Bonds                | 18                       | 1.45  |
| Alternative assets   | 20                       | 6.40  |
| Cash                 | 2                        | 0.50  |

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9 percent. The discount rate did not change since the prior measurement date. 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, each of the pension plan's fiduciary net position 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.

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

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3. Defined Benefit Pension Plan (Continued)

G. Pension Liability Sensitivity

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

|  | 1% Decrease in<br>Discount Rate<br>(6.9%) | Discount Rate<br>(7.9%) | 1% Increase in<br>Discount Rate<br>(8.9%) |
|--|---|-------------------------|---|
| Proportionate share of the General<br>Employees Retirement Fund net<br>pension liability | \$ 301,504                                | \$ 191,753              | \$ 101,116                                |

H. 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](http://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.

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

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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 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 \$20,250 to the Alliance in 2015 and \$25,000 to the Alliance in 2014.

The Minneapolis-Duluth/Superior Passenger Rail Alliance does not have any employees of its own. The St. Louis and Lake Counties Regional Railroad Authority contracted with the Alliance to administer its day-to-day activities. In return for services provided, the Alliance reimbursed the Authority \$75,000 in both 2015 and 2014.

6. Construction Commitments

At December 31, 2015, the Authority had construction commitments as follows:

|   | <u>Authorized<br/>Amount</u> | <u>Expended to Date</u> | <u>Commitments</u> |
|---|------------------------------|-------------------------|--------------------|
| Mesabi Trail - Giant's Ridge<br>to Tower    | \$ 330,000                   | \$ 83,218               | \$ 246,782         |
| Mesabi Trail - Grand Rapids<br>to LaPrairie | 1,250,000                    | 1,181,173               | 68,827             |
| Mesabi Trail - Soudan to<br>Vermillion      | <u>512,000</u>               | <u>64,243</u>           | <u>447,757</u>     |
| Total                                       | <u>\$ 2,092,000</u>          | <u>\$ 1,328,634</u>     | <u>\$ 763,366</u>  |

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

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7. Subsequent Event

On March 2, 2016, the St. Louis and Lake Counties Regional Railroad Authority Board of Commissioners approved a request to proceed with a \$5,870,370 Grant Anticipation Note, Series 2016, pursuant to the Regional Railroad Authorities Act, Minn. Stat. §§ 398A.01 to 398A.10, as amended. The proceeds from the loan will be used to pay the cost of land acquisition, predesign, design, construction, and furnishing and equipping trails to handle bicycles, pedestrians, snowmobiles, ATVs, along or within six miles of the relocated U.S. Highway 53 in the cities of Virginia, Eveleth, Gilbert, and Fayal Township. The loan will be repaid from a General Obligation Bond Proceeds Grant Agreement - Construction Grant from the Minnesota Department of Employment and Economic Development. The note was issued on March 23, 2016.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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

**EXHIBIT A-1**

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

| <b>Measurement Date</b> | <b>Employer's Proportion of the Net Pension Liability (Asset)</b> | <b>Employer's Proportionate Share of the Net Pension Liability (Asset) (a)</b> | <b>Covered Payroll (b)</b> | <b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/b)</b> | <b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b> |
|-------------------------|---|--|----------------------------|---|---|
| 2015                    | 0.0037%   | \$ 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.

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

**EXHIBIT A-2**

**SCHEDULE OF CONTRIBUTIONS  
PERA GENERAL EMPLOYEES RETIREMENT FUND  
DECEMBER 31, 2015**

| <b>Year Ending</b> | <b>Statutorily Required Contributions (a)</b> | <b>Actual Contributions in Relation to Statutorily Required Contributions (b)</b> | <b>Contribution (Deficiency) Excess (b-a)</b> | <b>Covered Payroll (c)</b> | <b>Actual Contributions as a Percentage of Covered Payroll (b/c)</b> |
|--------------------|---|---|---|----------------------------|--|
| 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 Authority's year-end is December 31.

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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, 2015

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2003-001

Internal Control/Segregation of Duties

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

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

**Context:** It is not unusual for an organization the size of the St. Louis and Lake Counties Regional Railroad Authority to be limited in the segregation of non-compatible 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 limit 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 2015 Annual Audit Report is presented and reviewed.*

Finding 2011-002

Fund Balance Reporting

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

**Condition:** As part of the Authority's 2015 budget, the Board of Commissioners assigned \$75,000 of resources for future trail maintenance. This assignment of fund balance was not reflected in the Authority's general ledger. Also, \$95,080 in expenditures relating to trail maintenance were not deducted from fund balance assigned for future trail maintenance. Lastly, in the general ledger, there was \$407,000 assigned for Lakefront Line Railroad bridge replacement. This balance was spent as of December 31, 2014, and no 2015 funds were assigned, thus there should not have been a balance at year-end.

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

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

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

**Recommendation:** We recommend the Authority develop procedures to ensure that financial transactions affecting fund balance are properly classified in the Authority's general ledger. 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:

*RRA will periodically review transactions affecting fund balances with RRA's fiscal agent and general ledger classifications. The fiscal agent, Saint Louis County, will provide management with a form in order to request fund balance entries when they are approved by the board. This will be sent to SLC so that fund balance is kept up to date.*

ITEM ARISING THIS YEAR

Finding 2015-001

Audit Adjustment

**Criteria:** 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 of the financial statements on a timely basis.

**Condition:** During our audit, we proposed an audit adjustment that resulted in a change to the Authority's financial statements. The adjustment was reviewed and approved by the appropriate staff and is reflected in the financial statements.

**Context:** The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustment was found during the audit; however, independent external auditors cannot be considered part of the Authority's internal control.

**Effect:** An audit adjustment was made to decrease accumulated depreciation and depreciation expense by \$1,067,205 due to an overstatement of depreciation for the Mesabi Trail.

**Cause:** The Authority's fiscal agent, St. Louis County, performed a conversion of its capital asset records, beginning with 2015, to its Mitchell Humphrey accounting system. The Mesabi Trail system asset was transferred into the Mitchell Humphrey accounting system with its useful life of 20 years. However, the 2008 and 2009 additions were not entered separately from the 1995 portion of the trail system. Due to 2015 being the final year of life for the 1995 portion of the Mesabi Trail system, the Authority's new capital asset system depreciated the remaining undepreciated value of the 2008 and 2009 additions over one year.

**Recommendation:** We recommend that the Authority and its fiscal agent regularly review the Mitchell Humphrey system together to verify that any changes or additions to the Authority's capital assets are correctly recorded in the system.

Client's Response:

*RRA and RRA's fiscal agent will periodically review changes, additions or deletions to the RRA capital assets for correct recording within the Mitchell Humphrey System. The fiscal agent, Saint Louis County, has taken steps over the past several months to improve not only the recording of assets for RRA, but also their own. They have purchased a module within the accounting system to replace a stand-alone database they had been maintaining in the past. This has led to more accurate and up-to-date asset recording.*



REBECCA OTTO  
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 the auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and the General Fund of the St. Louis and Lake Counties Regional Railroad Authority as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 7, 2016.

### Internal Control Over Financial Reporting

In planning and performing our audit of the St. Louis and Lake Counties Regional Railroad Authority's basic financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or

combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 2015-001 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in the Authority's internal control, identified as items 2003-001 and 2011-002 in the Schedule of Findings and Recommendations, to be significant deficiencies.

### **Other Matters**

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

December 7, 2016

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR



REBECCA OTTO  
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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 7, 2016.

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. The provisions for deposits and investments and claims and disbursements were tested in conjunction with our audit of St. Louis County, the fiscal agent for 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 Other Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of 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/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

December 7, 2016

Page 35