

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

**YEAR ENDED DECEMBER 31, 2004**

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's 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 State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**Year Ended December 31, 2004**



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

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

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<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 - Statement of Net Assets with Adjustments to Convert Modified to Full Accrual	Exhibit 1	4
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	Exhibit 2	6
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budgetary Comparison	Exhibit 3	7
Notes to the Financial Statements		8
<b>Management and Compliance Section</b>		
Schedule of Findings and Recommendations		18
Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance		20

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

ORGANIZATION  
DECEMBER 31, 2004

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Board

Clair Nelson, Chair  
Willard Clark  
Rick Goutermont, Alternate  
Steve Raukar, Vice Chair  
Bill Kron  
Keith Nelson  
Peg Sweeney, Alternate

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Representing

Lake County  
Lake County  
Lake County  
St. Louis County  
St. Louis County  
St. Louis County  
St. Louis County

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Executive Director

Robert Manzoline

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

### INDEPENDENT AUDITOR'S REPORT

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

We have audited 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, 2004, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2004, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the St. Louis and Lake Counties Regional Railroad Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for*

*State and Local Governments*, as amended; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The St. Louis and Lake Counties Regional Railroad Authority has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 25, 2005

## **BASIC FINANCIAL STATEMENTS**

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

**EXHIBIT 1**

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2004**

	General Fund	Adjustments	Governmental Activities
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 1,004,970	\$ -	\$ 1,004,970
Taxes receivable - delinquent	29,660	-	29,660
Accounts receivable	37,865	-	37,865
Due from other governments	409,838	-	409,838
Prepaid items	13,063	-	13,063
Capital assets			
Non-depreciable	-	115,185	115,185
Depreciable - net of accumulated depreciation	-	6,719,300	6,719,300
	<b>\$ 1,495,396</b>	<b>\$ 6,834,485</b>	<b>\$ 8,329,881</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 40,682	\$ -	\$ 40,682
Salaries payable	2,545	-	2,545
Due to other governments	152,086	-	152,086
Deferred revenue - unavailable	25,170	(25,170)	-
Deferred revenue - unearned	49,275	-	49,275
Long-term liabilities			
Due in more than one year	-	1,481	1,481
	<b>\$ 269,758</b>	<b>\$ (23,689)</b>	<b>\$ 246,069</b>
<b><u>Fund Balance/Net Assets</u></b>			
<b>Fund Balance</b>			
Reserved for prepaid items	\$ 13,063	\$ (13,063)	
Unreserved			
Designated for future trail maintenance	168,569	(168,569)	
Undesignated	1,044,006	(1,044,006)	
	<b>\$ 1,225,638</b>	<b>\$ (1,225,638)</b>	
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,495,396</b>		
<b>Net Assets</b>			
Invested in capital assets		\$ 6,834,485	\$ 6,834,485
Unrestricted		1,249,327	1,249,327
		<b>\$ 8,083,812</b>	<b>\$ 8,083,812</b>

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

***EXHIBIT 1  
(Continued)***

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2004**

**Reconciliation of the General Fund Balance to Net Assets**

<b>Fund Balance - General Fund</b>	<b>\$ 1,225,638</b>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	6,834,485
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	25,170
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(1,481)</u>
<b>Net Assets - Governmental Activities</b>	<b><u>\$ 8,083,812</u></b>

**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, 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, 2004**

	General Fund	Adjustments	Governmental Activities
<b>Revenues</b>			
Taxes	\$ 642,385	\$ (446)	\$ 641,939
Intergovernmental	535,136	-	535,136
Charges for services	13,896	-	13,896
Miscellaneous	78,446	-	78,446
<b>Total Revenues</b>	<b>\$ 1,269,863</b>	<b>\$ (446)</b>	<b>\$ 1,269,417</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Economic development</b>			
Administration	\$ 1,286,004	\$ (1,775)	\$ 1,284,229
Depreciation	-	185,700	185,700
<b>Total Expenditures/Expenses</b>	<b>\$ 1,286,004</b>	<b>\$ 183,925</b>	<b>\$ 1,469,929</b>
<b>Net Change in Fund Balance/Net Assets</b>	<b>\$ (16,141)</b>	<b>\$ (184,371)</b>	<b>\$ (200,512)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>1,241,779</b>	<b>7,042,545</b>	<b>8,284,324</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 1,225,638</b>	<b>\$ 6,858,174</b>	<b>\$ 8,083,812</b>

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

**Net Change in Fund Balance** **\$ (16,141)**

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 (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 25,170	
Deferred revenue - January 1	(25,616)	(446)

Governmental funds report 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.		(185,700)
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Changes in certain long-term liabilities do not require the use of, or provide, current resources and so do not affect the expenditures reported in the fund.

Decrease in compensated absences payable		1,775
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<b>Change in Net Assets of Governmental Activities</b>		<b>\$ (200,512)</b>
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**ST. LOUIS AND LAKE COUNTIES  
REGIONAL RAILROAD AUTHORITY  
CHISHOLM, MINNESOTA**

*EXHIBIT 3*

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
<b>Taxes</b>	\$ 651,054	\$ 651,054	\$ 642,385	\$ (8,669)
<b>Intergovernmental</b>				
State				
Market value credit	\$ 61,896	\$ 61,896	\$ 61,896	\$ -
Department of Natural Resources	43,295	43,295	11,162	(32,133)
Department of Transportation	-	-	68,250	68,250
IRRRB	147,483	147,483	25,662	(121,821)
LCMR	395,641	395,641	305,272	(90,369)
MESA	-	-	43,355	43,355
Other	-	-	23	23
Local				
Other local grants	89,568	89,568	19,516	(70,052)
<b>Total intergovernmental</b>	\$ 737,883	\$ 737,883	\$ 535,136	\$ (202,747)
<b>Charges for services</b>	\$ 48,000	\$ 48,000	\$ 13,896	\$ (34,104)
<b>Miscellaneous</b>	\$ 17,000	\$ 17,000	\$ 78,446	\$ 61,446
<b>Total Revenues</b>	\$ 1,453,937	\$ 1,453,937	\$ 1,269,863	\$ (184,074)
<b>Expenditures</b>				
<b>Current</b>				
Economic development	1,479,922	1,577,750	1,286,004	291,746
<b>Net Change in Fund Balance</b>	\$ (25,985)	\$ (123,813)	\$ (16,141)	\$ 107,672
<b>Fund Balance - January 1</b>	1,241,779	1,241,779	1,241,779	-
<b>Fund Balance - December 31</b>	\$ 1,215,794	\$ 1,117,966	\$ 1,225,638	\$ 107,672

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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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) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the St. Louis and Lake Counties Regional Railroad Authority are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The most significant change in the statements is the financial statements were prepared using full accrual accounting for all of the Authority's activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Authority has elected to implement all provisions of the statement in the current year, except a Management's Discussion and Analysis is not included.

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.03. 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, a 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.

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

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1. Summary of Significant Accounting Policies (Continued)

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 assets are reported in two parts: invested in capital assets and unrestricted net assets. 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 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 to be available if collected within 60 days after the end of the current period. Charges for services and interest are considered to be 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.

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

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are 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. The expenditures budget was amended with an increase of \$97,828 in 2004.

E. Assets, Liabilities, and Net Assets or Equity

1. Taxes Receivable

Taxes receivable consist of uncollected taxes payable in the years 1998 to 2004. Taxes receivable are offset by deferred 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.

2. 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 market 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  
CHISHOLM, MINNESOTA**

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1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity

2. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	30 - 70
Building improvements	10 - 20
Furniture, equipment, and vehicles	3 - 15

3. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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1. Summary of Significant Accounting Policies (Continued)

F. Reconciliation of Beginning Fund Balance to Net Assets

The differences between fund balance and net assets at January 1, 2004, are the additions of capital assets and long-term debt and the deferral of unavailable revenues in the fund.

Fund Balance, January 1	\$ 1,241,779
Capital assets (Note 2.A.3.)	7,020,185
Deferred revenue - unavailable	25,616
Compensated absences payable	<u>(3,256)</u>
Net Assets, January 1	<u>\$ 8,284,324</u>

2. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Authority 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 deposits be covered by insurance, surety bond, or collateral. Minn. Stat. §§ 118A.04-.05 authorize the types of securities available to the Authority for investment.

The Authority deposits all its cash with its fiscal agent, St. Louis County. Additional disclosures as required by GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*; 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  
CHISHOLM, MINNESOTA**

2. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2004, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	\$ 37,865
Due from other governments	<u>409,838</u>
Total Receivables	<u>\$ 447,703</u>

3. Capital Assets

Infrastructure capital assets were previously not reported. The beginning balance includes the Lake Front Line railroad and the Mesabi Trail along with accumulated depreciation as of January 1, 2004. Governmental capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 115,185	\$ -	\$ -	\$ 115,185
Capital assets depreciated				
Infrastructure	\$ 7,800,000	\$ -	\$ -	\$ 7,800,000
Machinery, furniture, and equipment	<u>113,000</u>	<u>-</u>	<u>-</u>	<u>113,000</u>
Total capital assets depreciated	<u>\$ 7,913,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,913,000</u>
Less: accumulated depreciation for				
Infrastructure	\$ 980,000	\$ 182,500	\$ -	\$ 1,162,500
Machinery, furniture, and equipment	<u>28,000</u>	<u>3,200</u>	<u>-</u>	<u>31,200</u>
Total accumulated depreciation	<u>\$ 1,008,000</u>	<u>\$ 185,700</u>	<u>\$ -</u>	<u>\$ 1,193,700</u>
Total capital assets depreciated, net	<u>\$ 6,905,000</u>	<u>\$ (185,700)</u>	<u>\$ -</u>	<u>\$ 6,719,300</u>
Capital Assets, Net	<u>\$ 7,020,185</u>	<u>\$ (185,700)</u>	<u>\$ -</u>	<u>\$ 6,834,485</u>

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

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2. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Economic development	<u>\$ 185,700</u>

B. Liabilities

1. Payables

Payables at December 31, 2004, for the St. Louis and Lake Counties Regional Railroad Authority's governmental activities are as follows:

Accounts	\$ 40,682
Salaries	2,545
Due to other governments	<u>152,086</u>
Total Payables	<u>\$ 195,313</u>

2. Deferred Revenue

All of the St. Louis and Lake Counties Regional Railroad Authority's funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

3. 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 both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such

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

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2. Detailed Notes on All Funds

B. Liabilities

3. Compensated Absences (Continued)

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, 2004:

Payable - January 1	\$ 3,256
Net increase (decrease)	<u>(1,775)</u>
Payable - December 31	<u>\$ 1,481</u>

4. Other Employee Benefits

Under the St. Louis and Lake Counties Regional Railroad Authority's personnel policies and union contracts, its employees are granted vacation and sick leave in varying amounts based upon length of service. Vacation leave accrual is 15 days per year. Sick leave accrual is 13 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 Assets. Unvested sick leave of \$36,052 at December 31, 2004, is available to employees in the event of illness-related absences and is not paid to them at termination.

5. 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

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

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2. Detailed Notes on All Funds

B. Liabilities

5. Risk Management (Continued)

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. Employee Retirement Systems and Pension Plans

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 plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public 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.

Public 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.

The 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 and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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

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3. Employee Retirement Systems and Pension Plans

A. Plan Description (Continued)

For Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. 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.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund. That report may be obtained on the web at [mnpera.org](http://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. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The Authority makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary. The Authority is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53

The Authority's contributions for the years ending December 31, 2004, 2003, and 2002, were \$6,713, \$6,355, and \$5,796, respectively, equal to the contractually required contributions for each year as set by state statute.



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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**I. INTERNAL CONTROL**

PREVIOUSLY REPORTED ITEM NOT RESOLVED

03-1 Segregation of Duties

The limited number of office personnel within the St. Louis and Lake Counties Regional Railroad Authority prevents the segregation of accounting functions necessary to ensure adequate internal accounting control. This is not unusual in operations the size of the Authority, and we realize this is somewhat alleviated by the fact that St. Louis County is the Authority's fiscal agent.

We recommend that management be aware of the condition. The most effective system of control lies in management's knowledge of the Authority's operations and periodic review of those operations.

Client's Response:

*Management is aware of the limited internal accounting control due to a limited number of office personnel. Management has extensive knowledge of operations and conducts monthly, periodic, and yearly review of operations.*

ITEM ARISING THIS YEAR

04-1 Improper Revenue Codes on Receipts

There were several receipts that were coded to expenditure accounts, therefore, understating revenues and overstating expenditures.

We recommend that receipts have proper revenue codes on them when sent to the St. Louis County Auditor's Office.

Client's Response:

*Management is aware of the issue. A staff person at the Regional Railroad Authority has been spoken to by the St. Louis County Auditor's Office regarding these incorrect revenue codes. Management and the St. Louis County Auditor's Office will be more cautious of this in the future.*

**II. MANAGEMENT PRACTICIES**

PREVIOUSLY REPORTED ITEMS RESOLVED

**Budget Adoption (02-1)**

Review of the Authority's minutes indicated insufficient information regarding adoption of the budget. The minutes included a tax levy amount but did not include a total estimated revenue amount or expenditure budget amount.

**Resolution**

Minutes of the Authority reflect as an attachment a complete budget with estimated revenue and expenditure detail.

**Capitalization Policy (02-2)**

The Authority did not have a capital assets policy as required by generally accepted accounting principles.

**Resolution**

The Authority completed a capital assets policy by December 31, 2004, as recommended.



# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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PATRICIA ANDERSON  
STATE AUDITOR

## **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE**

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

We have audited the financial statements of 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, 2004, and have issued our report thereon dated October 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### Internal Control Over Financial Reporting

The management of the St. Louis and Lake Counties Regional Railroad Authority is responsible for establishing and maintaining internal control. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the St. Louis and Lake Counties Regional Railroad Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial

reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Recommendations as items 03-1 and 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe neither of the reportable conditions indicated above is a material weakness.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in public indebtedness because the St. Louis and Lake Counties Regional Railroad Authority has no bonded debt, and claims and disbursements because this section is not applicable to this type of entity.

The results of our tests indicate that, for the items tested, the St. Louis and Lake Counties Regional Railroad Authority complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: October 25, 2005