

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

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

Year Ended December 31, 2021

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 100 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension – monitors investment, financial, and actuarial reporting for Minnesota’s local public pension funds; and

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

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

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.osa.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor’s web site: www.osa.state.mn.us.

**St. Louis and Lake Counties
Regional Railroad Authority
Eveleth, Minnesota**

Year Ended December 31, 2021



Office of the State Auditor

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

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

TABLE OF CONTENTS

	Exhibit	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor’s Report		2
Basic Financial Statements		
General Fund Balance Sheet and Governmental Activities – Statement of Net Position with Adjustments to Convert Modified to Full Accrual	1	5
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	2	7
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Comparison – General Fund	3	9
Notes to the Financial Statements		10
Required Supplementary Information		
PERA General Employees Retirement Plan		
Schedule of Proportionate Share of Net Pension Liability	A-1	27
Schedule of Contributions	A-2	28
Notes to the Required Supplementary Information		29
Management and Compliance Section		
Independent Auditor’s Report on Minnesota Legal Compliance		33

INTRODUCTORY SECTION

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

ORGANIZATION
DECEMBER 31, 2021

Board

Keith Nelson, Chair
Patrick Boyle, Secretary/Treasurer
Mike Jugovich
Frank Jewell, Alternate
Paul McDonald, Alternate
Rick Goutermont, Vice Chair
Jeremy Hurd
Rich Sve, Alternate

Representing

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

Executive Director

Robert Manzoline

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the PERA retirement plan schedules and related notes be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 21, 2022

BASIC FINANCIAL STATEMENTS

**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, 2021**

	General Fund	Adjustments	Governmental Activities
<u>Assets and Deferred Outflows of Resources</u>			
Assets			
Current assets			
Cash	\$ 2,906,003	\$ -	\$ 2,906,003
Accounts receivable	6,971	-	6,971
Taxes receivable – delinquent	51,356	-	51,356
Due from other governments	1,235,488	-	1,235,488
Noncurrent assets			
Capital assets			
Non-depreciable	-	4,707,627	4,707,627
Depreciable – net of accumulated depreciation	-	25,632,814	25,632,814
Total Assets	\$ 4,199,818	\$ 30,340,441	\$ 34,540,259
Deferred Outflows of Resources			
Deferred pension outflows	-	177,682	177,682
Total Assets and Deferred Outflows of Resources	\$ 4,199,818	\$ 30,518,123	\$ 34,717,941
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 1,061,846	\$ -	\$ 1,061,846
Salaries payable	17,362	-	17,362
Due to other governments	14,635	-	14,635
Noncurrent liabilities			
Compensated absences payable	-	172,480	172,480
Net pension liability	-	183,629	183,629
Total Liabilities	\$ 1,093,843	\$ 356,109	\$ 1,449,952
Deferred Inflows of Resources			
Unavailable revenue – taxes	\$ 43,406	\$ (43,406)	\$ -
Unavailable revenue – grants	565,220	(565,220)	-
Deferred pension inflows	-	170,269	170,269
Total Deferred Inflows of Resources	\$ 608,626	\$ (438,357)	\$ 170,269

**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, 2021**

	General Fund	Adjustments	Governmental Activities
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u> (Continued)			
Fund Balance			
Assigned			
Compensated absences	\$ 141,545	\$ (141,545)	
Future trail maintenance	1,142,785	(1,142,785)	
Unassigned	1,213,019	(1,213,019)	
Total Fund Balance	\$ 2,497,349	\$ (2,497,349)	
Net Position			
Investment in capital assets		\$ 30,340,441	\$ 30,340,441
Unrestricted		2,757,279	2,757,279
Total Net Position		\$ 33,097,720	\$ 33,097,720
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 4,199,818	\$ 30,518,123	\$ 34,717,941
Reconciliation of the General Fund Balance to Net Position			
Fund Balance – General Fund			\$ 2,497,349
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.			30,340,441
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.			177,682
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the General Fund.			
Compensated absences payable		\$ (172,480)	
Net pension liability		(183,629)	(356,109)
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.			608,626
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.			(170,269)
Net Position – Governmental Activities			\$ 33,097,720

**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, 2021**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Governmental Activities</u>
Revenues			
Taxes	\$ 1,768,532	\$ (7,238)	\$ 1,761,294
Intergovernmental	3,322,200	37,672	3,359,872
Charges for services	4,320	-	4,320
Miscellaneous	124,879	-	124,879
Capital contributions	121,832	-	121,832
Total Revenues	\$ 5,341,763	\$ 30,434	\$ 5,372,197
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 2,363,404	\$ (39,392)	\$ 2,324,012
Depreciation	-	1,054,521	1,054,521
Capital outlay	3,004,946	(3,004,946)	-
Total Expenditures/Expenses	\$ 5,368,350	\$ (1,989,817)	\$ 3,378,533
Net Change in Fund Balance/Net Position	\$ (26,587)	\$ 2,020,251	\$ 1,993,664
Fund Balance/Net Position – January 1	2,523,936	28,580,120	31,104,056
Fund Balance/Net Position – December 31	\$ 2,497,349	\$ 30,600,371	\$ 33,097,720

**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, 2021**

**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	\$	(26,587)
-----------------------------------	-----------	-----------------

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	\$ 608,626	
Unavailable revenue – January 1	<u>(578,192)</u>	30,434

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	\$ 3,004,946	
Current year depreciation	<u>(1,054,521)</u>	1,950,425

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

Change in compensated absences	\$ 24,331	
Change in net pension liability	26,212	
Change in deferred outflows of resources	136,718	
Change in deferred inflows of resources	<u>(147,869)</u>	<u>39,392</u>

Change in Net Position of Governmental Activities	\$	<u><u>1,993,664</u></u>
--	-----------	--------------------------------

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

EXHIBIT 3

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	<u>\$ 1,933,600</u>	<u>\$ 1,933,600</u>	<u>\$ 1,768,532</u>	<u>\$ (165,068)</u>
Intergovernmental				
Federal				
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	\$ -	\$ -	\$ 23,215	\$ 23,215
State				
Department of Public Safety	-	-	7,738	7,738
Legislative- Citizen Commission on Minnesota Resources	4,730,695	1,701,164	1,759,010	57,846
Department of Natural Resources	1,092,189	1,092,189	1,092,389	200
Iron Range Resources and Rehabilitation	277,505	-	172,495	172,495
Market value credit	-	-	1,995	1,995
State PERA	-	680	688	8
State 30% rental	-	-	15	15
Local				
Other local grants	73,500	73,500	241,655	168,155
Reimbursement for administrative services Minneapolis-Duluth/Superior Passenger Rail Alliance	22,550	22,550	23,000	450
Total intergovernmental	<u>\$ 6,196,439</u>	<u>\$ 2,890,083</u>	<u>\$ 3,322,200</u>	<u>\$ 432,117</u>
Charges for services	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,320</u>	<u>\$ 4,320</u>
Miscellaneous	<u>\$ 217,100</u>	<u>\$ 217,100</u>	<u>\$ 124,879</u>	<u>\$ (92,221)</u>
Capital contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,832</u>	<u>\$ 121,832</u>
Total Revenues	<u>\$ 8,347,139</u>	<u>\$ 5,040,783</u>	<u>\$ 5,341,763</u>	<u>\$ 300,980</u>
Expenditures				
Current				
Economic development	\$ 2,153,177	\$ 2,493,280	\$ 2,363,404	\$ 129,876
Capital outlay	<u>6,322,698</u>	<u>2,981,661</u>	<u>3,004,946</u>	<u>(23,285)</u>
Total Expenditures	<u>\$ 8,475,875</u>	<u>\$ 5,474,941</u>	<u>\$ 5,368,350</u>	<u>\$ 106,591</u>
Net Change in Fund Balance	<u>\$ (128,736)</u>	<u>\$ (434,158)</u>	<u>\$ (26,587)</u>	<u>\$ 407,571</u>
Fund Balance – January 1	<u>2,523,936</u>	<u>2,523,936</u>	<u>2,523,936</u>	<u>-</u>
Fund Balance – December 31	<u>\$ 2,395,200</u>	<u>\$ 2,089,778</u>	<u>\$ 2,497,349</u>	<u>\$ 407,571</u>

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2021

1. Summary of Significant Accounting Policies

The St. Louis and Lake Counties Regional Railroad Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2021. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the St. Louis and Lake Counties Regional Railroad Authority are discussed below.

A. Financial Reporting Entity

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

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

Related Organization

The Authority participates in a related organization which is described in Note 4.

B. Basic Financial Statements

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

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Data

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

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

1. Cash

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

2. Taxes Receivable

Taxes receivable consist of uncollected taxes payable in the years 2015 to 2021. 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 acquisition value. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

1. Summary of Significant Accounting Policies

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

3. Capital Assets (Continued)

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

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

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 assets that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The Authority reports deferred outflows of resources only under the full accrual basis of accounting associated with defined benefit pension plans and, accordingly, is reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets 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 three types of deferred inflows. The governmental fund reports unavailable revenue from delinquent taxes receivable and grant receivables. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental fund balance sheet. Unavailable revenue is deferred and recognized as an inflow of resources in the period that the amounts became available. The Authority also reports deferred inflows of resources associated with defined benefit pension plans. These inflows arise only under the full accrual basis of accounting and, accordingly, are reported only in the statement of net position.

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

1. Summary of Significant Accounting Policies

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

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. Classification of Net Position

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

Investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation, attributed to the acquisition, construction, or improvement of the assets.

Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

7. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the Authority is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

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

1. Summary of Significant Accounting Policies

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

7. Classification of Fund Balances (Continued)

Nonspendable – amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – amounts with constraints placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Authority’s Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit these amounts.

Assigned – amounts the Authority’s Board intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board.

Unassigned – the residual classification for the General Fund; it includes all spendable amounts not contained in the other fund balance classifications.

The Authority applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

1. Summary of Significant Accounting Policies

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

8. Use of Estimates

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

2. Detailed Notes

A. Assets

1. Deposits

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

The Authority deposits all its cash with its fiscal agent, St. Louis County. Additional disclosures are included in the St. Louis County Annual Comprehensive Financial Report.

The St. Louis and Lake Counties Regional Railroad Authority invests funds in St. Louis County's investment pool; at year-end, \$2,906,003 is invested in the pool. The fair value of the investment is the fair value per share of the underlying portfolio. The Authority invests in this pool for the purpose of joint investment with the County in order to enhance investment earnings. There are no redemption limits.

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

2. Detailed Notes

A. Assets (Continued)

2. Capital Assets

Governmental capital asset activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 405,070	\$ 51,783	\$ -	\$ 456,853
Construction in progress	2,365,010	2,804,023	918,259	4,250,774
Total capital assets not depreciated	<u>\$ 2,770,080</u>	<u>\$ 2,855,806</u>	<u>\$ 918,259</u>	<u>\$ 4,707,627</u>
Capital assets depreciated				
Infrastructure	\$ 29,642,281	\$ 1,040,091	\$ -	\$ 30,682,372
Buildings	2,601,708	-	-	2,601,708
Machinery, vehicles, and equipment	222,957	27,308	-	250,265
Total capital assets depreciated	<u>\$ 32,466,946</u>	<u>\$ 1,067,399</u>	<u>\$ -</u>	<u>\$ 33,534,345</u>
Less: accumulated depreciation for				
Infrastructure	\$ 6,445,546	\$ 1,002,345	\$ -	\$ 7,447,891
Buildings	263,320	42,251	-	305,571
Machinery, vehicles, and equipment	138,144	9,925	-	148,069
Total accumulated depreciation	<u>\$ 6,847,010</u>	<u>\$ 1,054,521</u>	<u>\$ -</u>	<u>\$ 7,901,531</u>
Total capital assets depreciated, net	<u>\$ 25,619,936</u>	<u>\$ 12,878</u>	<u>\$ -</u>	<u>\$ 25,632,814</u>
Total Capital Assets, Net	<u><u>\$ 28,390,016</u></u>	<u><u>\$ 2,868,684</u></u>	<u><u>\$ 918,259</u></u>	<u><u>\$ 30,340,441</u></u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
Economic development	<u>\$ 1,054,521</u>

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

2. Detailed Notes (Continued)

B. Liabilities

1. Compensated Absences

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

The Authority determines the current portion, if any, based on anticipated retirements and any activity that occurs within the first few months of the subsequent year.

The following is a summary of the changes in long-term compensated absences payable for the year ended December 31, 2021:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 196,811	\$ 44,694	\$ 69,025	\$ 172,480	\$ -

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

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

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

2. Detailed Notes (Continued)

C. Defined Benefit Pension Plan

1. Plan Description

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

The General Employees Plan (accounted for in the General Employees Fund) has multiple benefit structures with members belonging to the Coordinated Plan, the Basic Plan, or the Minneapolis Employees Retirement Fund. Coordinated Plan members are covered by Social Security, and the Basic Plan and Minneapolis Employees Retirement Fund members are not. The Basic Plan was closed to new members in 1967. The Minneapolis Employees Retirement Fund was closed to new members during 1978 and merged into the General Employees Plan in 2015. All new members must participate in the Coordinated Plan, for which benefits vest after five years of credited service. No St. Louis and Lake Counties Regional Railroad Authority employees belong to either the Basic Plan or the Minneapolis Employees Retirement Fund.

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January.

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

2. Detailed Notes

C. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost of living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

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

Benefits are based on a member's highest average salary for any 60 consecutive months of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.20 percent of average salary for each of the first ten years of service and 1.70 percent of average salary for each remaining year. Under Method 2, the annuity accrual rate is 1.70 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

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

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

2. Detailed Notes

C. Defined Benefit Pension Plan (Continued)

3. Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2021.

In 2021, the Authority was required to contribute 7.50 percent of annual covered salary. The employee and employer contribution rates did not change from the previous year.

The Authority's contributions for the General Employees Plan for the year ended December 31, 2021, were \$23,878. The contributions are equal to the statutorily required contributions as set by state statute.

4. Pension Costs

At December 31, 2021, the Authority reported a liability of \$183,629 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2021, 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, 2020, through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2021, the Authority's proportion was 0.0043 percent. It was 0.0035 percent measured as of June 30, 2020. The Authority recognized pension expense of \$8,817 for its proportionate share of the General Employees Plan's pension expense.

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

2. Detailed Notes

C. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The Authority also recognized \$688 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Plan, which qualifies as a special funding situation. Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031.

The Authority's proportionate share of the net pension liability	\$	183,629
State of Minnesota's proportionate share of the net pension liability associated with the Authority		5,695
Total	\$	189,324

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,128	\$ 5,620
Changes in actuarial assumptions	112,120	4,062
Difference between projected and actual investment earnings	-	159,031
Changes in proportion	52,419	1,556
Contributions paid to PERA subsequent to the measurement date	12,015	-
Total	\$ 177,682	\$ 170,269

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

2. Detailed Notes

C. Defined Benefit Pension Plan

4. Pension Costs (Continued)

The \$12,015 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, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2022	\$ 10,672
2023	17,370
2024	10,734
2025	(43,378)

5. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Inflation	2.25 percent per year
Active member payroll growth	3.00 percent per year
Investment rate of return	6.50 percent

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent.

Actuarial assumptions used in the June 30, 2021, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. A review of inflation and investment assumptions dated June 24, 2021, was utilized.

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

2. Detailed Notes

C. Defined Benefit Pension Plan

5. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 6.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric 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 Real Rate of Return</u>
Domestic equities	33.50%	5.10%
International equities	16.50	5.30
Fixed income	25.00	0.75
Private markets	25.00	5.90

6. Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent in 2021, which is a decrease of one percent from 2020. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

2. Detailed Notes

C. Defined Benefit Pension Plan (Continued)

7. Changes in Actuarial Assumptions and Plan Provisions

The following changes in actuarial assumptions occurred in 2021:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

8. Pension Liability Sensitivity

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

	Discount Rate	Proportionate Share of the Net Pension Liability
1% Decrease	5.50%	\$ 374,510
Current	6.50	183,629
1% Increase	7.50	27,000

9. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the internet at www.mnpera.org.

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

3. Risk Management

The St. Louis and Lake Counties Regional Railroad Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. The Authority maintains commercial insurance policies to address these risks of loss, either by purchasing the policies directly from commercial insurers or by contractual commitments from third parties to name the Authority as an additional insured on policies of commercial liability insurance maintained by the contracting parties. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

4. Related Organization

Minneapolis-Duluth/Superior Passenger Rail Alliance

The St. Louis and Lake Counties Regional Railroad Authority, along with several other governmental entities, formed the Minneapolis-Duluth/Superior Passenger Rail Alliance on February 1, 2008, under a joint powers agreement in accordance with Minn. Stat. §§ 471.59, 398A.04, and 398A.06. Its purpose is to collaboratively discuss, study, plan for, promote, and facilitate the development of intercity passenger rail transportation between the Twin Cities Metropolitan and Twin Ports areas. The Alliance is governed by a seven-member Board of Directors composed of one elected official selected by each party represented in the Alliance. Each member of the Alliance contributes funds to the Alliance for use in funding its operations. The Authority contributed \$20,295 to the Alliance in 2021. The Minneapolis-Duluth/Superior Passenger Rail Alliance does not have any employees of its own. The St. Louis and Lake Counties Regional Railroad Authority contracts with the Alliance to administer its day-to-day activities. In return for services provided, the Alliance reimbursed the Authority \$23,000 in 2021.

5. Construction Commitments

At December 31, 2021, the Authority had construction commitments as follows:

	Authorized Amount	Expended to Date	Commitments
Mesabi Trail – County Road 88 to Ely	\$ 600,000	\$ 152,896	\$ 447,104
Mesabi Trail – DMWMA to County Road 21	3,000,000	1,275,580	1,724,420
Mesabi Trail – Bruce Mine	1,000,000	325,523	674,477
Total	<u>\$ 4,600,000</u>	<u>\$ 1,753,999</u>	<u>\$ 2,846,001</u>

REQUIRED SUPPLEMENTARY INFORMATION

**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 PLAN
DECEMBER 31, 2021**

Measurement Date	Employer's Proportion of the Net Pension Liability/ Asset	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the St. Louis and Lake Counties Regional Railroad Authority (b)	Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b)	Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.0043 %	\$ 183,629	\$ 5,695	\$ 189,324	\$ 311,987	58.86 %	87.00 %
2020	0.0035	209,841	6,457	216,298	248,040	84.60	79.06
2019	0.0030	165,863	5,166	171,029	214,347	77.38	80.23
2018	0.0031	171,975	5,638	177,613	207,467	82.89	79.53
2017	0.0038	242,589	3,044	245,633	244,307	99.30	75.90
2016	0.0041	332,901	4,395	337,296	250,907	132.68	68.91
2015	0.0037	191,753	N/A	191,753	215,797	88.86	78.19

This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

The measurement date for each year is June 30.

N/A – Not Applicable

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

EXHIBIT A-2

**SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2021**

Year Ending	Statutorily Required Contributions (a)	Actual Contributions in Relation to Statutorily Required Contributions (b)	Contribution (Deficiency) Excess (b - a)	Covered Payroll (c)	Actual Contributions as a Percentage of Covered Payroll (b/c)
2021	\$ 23,878	\$ 23,878	\$ -	\$ 318,373	7.50 %
2020	21,978	21,978	-	293,040	7.50
2019	16,307	16,307	-	217,427	7.50
2018	15,830	15,830	-	211,067	7.50
2017	15,299	15,299	-	203,987	7.50
2016	19,775	19,775	-	263,667	7.50
2015	18,508	18,508	-	246,773	7.50

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

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2021

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

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

General Employees Retirement Plan

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.

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

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

General Employees Retirement Plan

2020 (Continued)

- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The changes result in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019

- The mortality projection scale was changed from MP-2017 to MP-2018.

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

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

General Employees Retirement Plan (Continued)

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost of living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

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

General Employees Retirement Plan (Continued)

2017

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

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.
- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

MANAGEMENT AND COMPLIANCE SECTION



**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, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 21, 2022.

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 contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

November 21, 2022

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR