

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**MINNEAPOLIS-DULUTH/SUPERIOR
PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

YEAR ENDED DECEMBER 31, 2009

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

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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**MINNEAPOLIS-DULUTH/SUPERIOR
PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

Year Ended December 31, 2009



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

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**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

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**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2009**

<u>Board</u>	<u>Representing</u>
Steve Raukar, Chair	St. Louis and Lake Counties Regional Railroad Authority
Dan Erhart, Vice Chair	Anoka County
Jeff Anderson	Duluth City Council
Nick Baker	Douglas County
Paul Bergman	Lake County
Doug Carlson	Pine County
Robert Lilligren	Minneapolis City Council
Larry Southerland	Isanti County
Mark Stenglein	Hennepin County
Sara Treiber	Mille Lacs Band of Ojibwe

<u>Alternate Board</u>	
Steve Chaffee	Pine County
Kurt Daudt	Isanti County
Sharla Gardner	City of Duluth
Joe Gladke	Hennepin County
Elizabeth Glidden	Minneapolis City Council
Keith Nelson	St. Louis and Lake Counties Regional Railroad Authority

Executive Director of
Administrative Agency

Robert Manzoline

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minneapolis-Duluth/Superior
Passenger Rail Alliance

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Minneapolis-Duluth/Superior Passenger Rail Alliance as of and for the year ended December 31, 2009, which collectively comprise the Alliance's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Alliance'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 Minneapolis-Duluth/Superior Passenger Rail Alliance as of December 31, 2009, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Minneapolis-Duluth/Superior Passenger Rail Alliance 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2011, on our consideration of the Minneapolis-Duluth/Superior Passenger Rail Alliance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

February 24, 2011

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

BASIC FINANCIAL STATEMENTS

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**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL
DECEMBER 31, 2009**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 368,324	\$ -	\$ 368,324
Due from other governments	252,797	-	252,797
Total Assets	\$ 621,121	\$ -	\$ 621,121
<u>Liabilities and Fund Balance/Net Assets</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 329,615	\$ -	\$ 329,615
Due to other governments	2,075	-	2,075
Total Liabilities	\$ 331,690	\$ -	\$ 331,690
Fund Balance			
Unreserved			
Undesignated	289,431	\$ (289,431)	
Net Assets			
Unrestricted		\$ 289,431	289,431
Total Liabilities and Fund Balance/Net Assets	\$ 621,121	\$ -	\$ 621,121

The Minneapolis-Duluth/Superior Passenger Rail Alliance has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Balance Sheet of the General Fund is the same as the Statement of Net Assets of the Governmental Activities.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
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, 2009**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental	\$ 302,209	\$ -	\$ 302,209
Member contributions	475,000	-	475,000
	\$ 777,209	\$ -	\$ 777,209
Expenditures/Expenses			
Economic development			
Current	\$ 472,073	\$ -	\$ 472,073
Intergovernmental	302,209	-	302,209
	\$ 774,282	\$ -	\$ 774,282
Net Change in Fund Balance/Net Assets	\$ 2,927	\$ -	\$ 2,927
Fund Balance/Net Assets - January 1	286,504	-	286,504
Fund Balance/Net Assets - December 31	\$ 289,431	\$ -	\$ 289,431

The Minneapolis-Duluth/Superior Passenger Rail Alliance has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Statement of Revenues, Expenditures, and Changes in Fund Balance of the General Fund is the same as the Statement of Activities of the Governmental Activities.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

EXHIBIT 3

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental				
State				
Minnesota Department of Transportation				
Northern Lights Express (NLX) rail	\$ -	\$ -	\$ 189,058	\$ 189,058
Federal				
Federal Rail Administration				
NLX rail passed through State	-	-	113,151	113,151
Total intergovernmental	\$ -	\$ -	\$ 302,209	\$ 302,209
Member contributions	500,000	500,000	475,000	(25,000)
Total Revenues	\$ 500,000	\$ 500,000	\$ 777,209	\$ 277,209
Expenditures				
Economic development				
Current	\$ 500,000	\$ 500,000	\$ 472,073	\$ 27,927
Intergovernmental	-	-	302,209	(302,209)
Total Expenditures	\$ 500,000	\$ 500,000	\$ 774,282	\$ (274,282)
Net Change in Fund Balance	\$ -	\$ -	\$ 2,927	\$ 2,927
Fund Balance - January 1	286,504	286,504	286,504	-
Fund Balance - December 31	\$ 286,504	\$ 286,504	\$ 289,431	\$ 2,927

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**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009**

1. Summary of Significant Accounting Policies

The Minneapolis-Duluth/Superior Passenger Rail Alliance's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2009. 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 Minneapolis-Duluth/Superior Passenger Rail Alliance are discussed below.

A. Financial Reporting Entity

The Minneapolis-Duluth/Superior Passenger Rail Alliance was established February 1, 2008, under a Joint Powers Agreement in accordance with Minn. Stat. §§ 471.59, 398A.04, and 398A.06. The Alliance is governed by a ten-member Board composed of one elected official selected by each party represented in the Alliance, as well as an additional member from the Mille Lacs Band of Ojibwe Tribe. Each party also appoints an alternate member. 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 passenger rail line has been given the title of the Northern Lights Express (NLX). The Board is organized with a chair and a vice chair elected each year.

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

B. Basic Financial Statements

Basic financial statements include information on the Alliance's activities as a whole and information on the individual fund of the Alliance. 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 Alliance as a whole.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
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 Statement of Activities demonstrates the degree to which the expenses of the Alliance 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 Alliance 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 Alliance's policy to use restricted resources first and then unrestricted resources as needed.

D. Budgetary Data

The Alliance 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 Alliance's Board.

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Fund Equity

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

2. Detailed Notes

A. Assets

Deposits and Investments

The Alliance 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 Alliance's Board. Minnesota statutes require that all Alliance deposits be covered by insurance, surety bond, or collateral. The Alliance may invest in the types of securities authorized by Minn. Stat. §§ 118A.04-.05.

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

B. Liabilities

1. Payables

Payables at December 31, 2009, for the Minneapolis-Duluth/Superior Passenger Rail Alliance's governmental activities are as follows:

Accounts	\$ 329,615
Due to other governments	<u>2,075</u>
Total Payables	<u>\$ 331,690</u>

**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

2. Detailed Notes

B. Liabilities (Continued)

2. Risk Management

The Minneapolis-Duluth/Superior Passenger Rail Alliance is exposed to limited risks of loss related to theft of assets or errors or omissions. The Alliance reduces the risks of loss by contractual commitments from third parties to name the Alliance as an additional insured on policies of commercial liability insurance maintained by the contracting parties.

3. Subsequent Events

Environmental Study

The Minneapolis-Duluth/Superior Passenger Rail Alliance, State of Minnesota, and the Federal Rail Administration acted upon a 2009 environmental study of the proposed NLX corridor that continued to take place through 2010. Costs are estimated at \$2.2 million, consisting of \$1.1 million contributed by the Federal Rail Administration, \$900,000 by the State of Minnesota, and \$200,000 to be contributed by the Alliance. Federal Rail Administration funds are being sent to and administered by the Minnesota Department of Transportation. The state and federal monies are then deposited with St. Louis County and, by way of agreement, passed through to the Alliance. The Alliance has met its match contribution of \$200,000. State and federal participation as of December 31, 2009, is \$189,058 and \$113,151, respectively.

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**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

08-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Minneapolis-Duluth/Superior Passenger Rail Alliance's administrative agent, St. Louis and Lake Counties Regional Railroad Authority, and its staffing, limits the internal control that its management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Management has requested that staff from the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for an organization the size of the Minneapolis-Duluth/Superior Passenger Rail Alliance. This decision was based on the availability of the administrative agent's staff and the cost benefit of using this expertise.

During our audit, material adjustments were proposed to convert the Alliance's financial records to the financial statements as reported. Adjustments were needed to recognize additional revenue and to increase related receivables, expenditures, and payables.

We recommend the Board of Directors be mindful that limited staffing causes inherent risks in safeguarding the Alliance's assets and the proper reporting of its financial activity. We recommend the Board of Directors continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

Management is aware of internal control responsibility and the Board of Directors is aware that staff limitations are not adequate for RRA accounting system. Management has recommended, and the Board of Directors has approved, continuation of agreements with St. Louis County Auditors Office and State of Minnesota, Office of the Auditor for accounting, financial statements and recording services.

II. OTHER ITEM FOR CONSIDERATION

GASB Statement 54

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of this standard is to enhance the usefulness of information included in the financial report about fund balance through clearer fund balance classifications that can be more consistently applied, as well as to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance reserved, unreserved, designated, and undesignated are being replaced by nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).
- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified in Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for the year ending December 31, 2011.

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

Board of Directors
Minneapolis-Duluth/Superior
Passenger Rail Alliance

We have audited the financial statements of the governmental activities and the General Fund of the Minneapolis-Duluth/Superior Passenger Rail Alliance as of and for the year ended December 31, 2009, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated February 24, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Minneapolis-Duluth/Superior Passenger Rail Alliance's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Alliance's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations, as item 08-1, to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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 the following: contracting and bidding, because no contracts required testing; public indebtedness, because the Alliance did not issue any debt; and deposits and investments and claims and disbursements, because they are tested in conjunction with the audit of St. Louis County.

The results of our tests indicate that, for the items tested, the Minneapolis-Duluth/Superior Passenger Rail Alliance complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations is an other item for consideration. We believe this information to be of benefit to the Alliance, and it is reported for that purpose.

The Alliance's written response to the material weakness identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Alliance's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Minneapolis-Duluth/Superior Passenger Rail Alliance and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 24, 2011