

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

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

YEAR ENDED DECEMBER 31, 2011

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, 2011



**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, 2011

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

<u>Alternate Board</u>	
Steve Chaffee	Pine County
Sharla Gardner	Duluth City Council
Joe Gladke	Hennepin County
Barbara Johnson	Minneapolis City Council
Keith Nelson	St. Louis and Lake Counties Regional Railroad Authority
Rhonda Sivarajah	Anoka County
Mike Warring	Isanti County

Executive Director of
Administrative Agency

Robert Manzoline

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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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, 2011, 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, 2011, 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.

As discussed in Note 1 to the financial statements, during the year ended December 31, 2011, the Alliance adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

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 consider 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2013, 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, 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 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

May 3, 2013

/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, 2011**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 467,245	\$ -	\$ 467,245
Due from other governments	62,000	-	62,000
Total Assets	\$ 529,245	\$ -	\$ 529,245
<u>Liabilities and Fund Balance/Net Assets</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 102,978	\$ -	\$ 102,978
Due to other governments	3,326	-	3,326
Total Liabilities	\$ 106,304	\$ -	\$ 106,304
Fund Balance			
Unassigned	422,941	(422,941)	
Net Assets			
Unrestricted		422,941	422,941
Total Liabilities and Fund Balance/Net Assets	\$ 529,245	\$ -	\$ 529,245

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, 2011**

	General Fund	Adjustments	Governmental Activities
Revenues			
Member contributions	\$ 366,000	\$ -	\$ 366,000
Expenditures/Expenses			
Current			
Economic development	265,919	-	265,919
Net Change in Fund Balance/Net Assets	\$ 100,081	\$ -	\$ 100,081
Fund Balance/Net Assets - January 1	322,860	-	322,860
Fund Balance/Net Assets - December 31	\$ 422,941	\$ -	\$ 422,941

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, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Member contributions	\$ 384,000	\$ 384,000	\$ 366,000	\$ (18,000)
Expenditures				
Current				
Economic development	384,000	384,000	265,919	118,081
Net Change in Fund Balance	\$ -	\$ -	\$ 100,081	\$ 100,081
Fund Balance - January 1	322,860	322,860	322,860	-
Fund Balance - December 31	\$ 322,860	\$ 322,860	\$ 422,941	\$ 100,081

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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, 2011**

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, 2011. 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 2011, the Alliance implemented the requirements of Statement No. 54 of the Governmental Accounting Standards Board, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change. Fund balance is now classified as:

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 (ordinance or resolution) of the Alliance’s Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of actions (ordinance or resolution) it employed to previously commit these amounts.

Assigned - amounts the Alliance’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 includes all spendable amounts not contained in the other fund balance classifications.

The Alliance 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.

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

2. Detailed Notes

A. Assets

1. 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, *Deposit and Investment Risk Disclosures*, and Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are disclosed in the St. Louis County Comprehensive Annual Financial Report.

The following is a summary of the Minneapolis-Duluth/Superior Passenger Rail Alliance's cash:

	December 31, 2011
	<hr/>
Cash and pooled investments	<u>\$ 467,245</u>

2. Receivables

Receivables as of December 31, 2011, for the Minneapolis-Duluth/Superior Passenger Rail Alliance's governmental activities are as follows:

Due from other governments	<u>\$ 62,000</u>
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**MINNEAPOLIS-DULUTH/SUPERIOR PASSENGER RAIL ALLIANCE
EVELETH, MINNESOTA**

2. Detailed Notes (Continued)

B. Liabilities

1. Payables

Payables at December 31, 2011, for the Minneapolis-Duluth/Superior Passenger Rail Alliance's governmental activities are as follows:

Accounts	\$ 102,978
Due to other governments	<u>3,326</u>
Total Payables	<u>\$ 106,304</u>

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. 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 2011 and is expected to be completed in June 2013. Costs are estimated at \$2,255,000, consisting of \$1.1 million contributed by the Federal Rail Administration, \$955,000 by the State of Minnesota, and \$200,000 by the Alliance. In 2012, the Alliance received an additional grant of \$55,000 from the State of Minnesota to help pay for costs through June 2013 and is reflected in the total contributed by the State of Minnesota above. Federal Rail Administration funds are being sent to and administered by the Minnesota Department of Transportation. State and federal monies totaling \$737,073 were expended from St. Louis County's Northern Lights Express Special Revenue Fund. State and federal participation as of December 31, 2011, is \$363,840 and \$373,233, respectively.

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

4. Subsequent Events

Anoka County Regional Rail Authority

On June 12, 2012, the Board of the Anoka County Regional Rail Authority voted to withdraw from the Minneapolis-Duluth/Superior Passenger Rail Alliance. In 2011 and 2012, contributions from the Anoka County Regional Rail Authority amounted to \$57,000 and \$46,313, respectively.

5. Administrative Agency

St. Louis and Lake Counties Regional Railroad Authority

The Alliance does not have any employees of its own, and administration of the day-to-day activities of the Alliance has been handled by staff of the St. Louis and Lake Counties Regional Railroad Authority. In return for the Authority providing assistance with administration of the Alliance, the Alliance reimbursed the Authority \$80,000 and \$88,000 in 2011 and 2010, respectively.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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

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

Condition: The Minneapolis-Duluth/Superior Passenger Rail Alliance contracts with St. Louis and Lake Counties Regional Railroad Authority to administer the activities of the Alliance. The Authority has limited staff which results in a lack of segregation of accounting functions necessary to ensure adequate internal accounting control. Because of this relationship, Alliance accounting transactions and financial reporting are exposed to the same risk resulting from a lack of adequate segregation of duties as the Authority.

Context: The Alliance does not have any staff of its own and relies entirely on the staff of the Authority to administer the Alliance's day-to-day operations.

Effect: Inadequate segregation of duties results in a weakness in the Alliance's internal controls over its accounting functions and the financial reporting process which may affect the ability of the Alliance Board to detect and correct or prevent misstatements in a timely manner. Material audit adjustments were necessary to convert the Alliance's financial records to the financial statements as reported.

Cause: The size and structure of the Minneapolis-Duluth/Superior Passenger Rail Alliance limit the internal control that can be designed and implemented into the organization. During 2011, the Alliance did not have real-time access to its fiscal agent's accounting system which limited its ability to monitor the handling of its accounting.

Recommendation: Management should be aware that segregation of duties at the St. Louis and Lake Counties Regional Railroad Authority, which manages the operations of the Minneapolis-Duluth/Superior Passenger Rail Alliance, is not adequate from an internal control point of view. We recommend the Alliance Board of Directors be mindful that limited staffing at the Authority causes inherent risks in safeguarding the Alliance's assets and the proper reporting of its financial activity. We recommend the Alliance Board of Directors continue to implement oversight procedures, monitor those procedures to determine if they are still effective internal controls, and work with its fiscal agent to implement procedures to mitigate the risk created from inadequate segregation of duties.

Client's Response:

It is known and understood that the Minneapolis-Duluth/Superior Passenger Rail Alliance has limited staff to oversee and monitor operations of the Alliance. The St. Louis and Lake Counties Regional Railroad Authority has worked with the St. Louis County Auditor's Office to gain direct access to the County's recording systems in 2013 that will enable Alliance staff to better monitor Alliance transactions and financial reports.

Inadequate segregation of duties and limited staff will continue to be a weakness with the Alliance internal controls until such time the Alliance elects to hire additional staff or independent accounting services.

This condition will be reviewed with the Alliance Board Chair and brought to the Alliance Board's attention when the 2011 Annual Audit Report is presented and reviewed at the forthcoming regular Board meeting.



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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, 2011, which collectively comprise the Alliance's basic financial statements, and have issued our report thereon dated May 3, 2013. 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

Management of the Minneapolis-Duluth/Superior Passenger Rail Alliance is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Political Subdivisions*, 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 Political Subdivisions* 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 who acts as the fiscal agent of the Alliance.

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.

The Alliance's written response to the internal control finding reported 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

May 3, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR