

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

**MINNESOTA VALLEY REGIONAL
RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

YEARS ENDED DECEMBER 31, 2006 AND 2007

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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**MINNESOTA VALLEY REGIONAL
RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

Years Ended December 31, 2006 and 2007



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

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**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

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**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

ORGANIZATION
2006 AND 2007

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bruce Pinske*	Chair	Appointed Yearly
Eugene Short	Vice Chair	Appointed Yearly
Jane Remiger	Secretary/Treasurer	Appointed Yearly
Tom Workman	Member	Appointed Yearly
Charlie Woehler	Member	Appointed Yearly
Robert Fox	Member	Appointed Yearly
Julie Rath	Administrator	Appointed Yearly
David Schauer	Legal Counsel	Appointed Yearly

*Chair 2006, 2007, and 2008

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board Members
Minnesota Valley Regional Rail Authority

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Rail Authority as of and for the years ended December 31, 2006 and 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 basic 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 basic 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 Minnesota Valley Regional Rail Authority as of December 31, 2006 and 2007, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Minnesota Valley Regional Rail Authority has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

The budgetary comparison information on Schedules 1 and 2 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

May 8, 2008

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

BASIC FINANCIAL STATEMENTS

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**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 50,629	\$ -	\$ 50,629
Accounts receivable	16,238	-	16,238
Accrued interest receivable	65	-	65
Capital assets			
Non-depreciable	-	592,450	592,450
Depreciable - net	-	9,147,497	9,147,497
	\$ 66,932	\$ 9,739,947	\$ 9,806,879
Total Assets	\$ 66,932	\$ 9,739,947	\$ 9,806,879
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 18,238	\$ -	\$ 18,238
Due to other governments	540	-	540
Long-term liabilities			
Due within one year	-	51,737	51,737
Due in more than one year	-	5,630,527	5,630,527
	\$ 18,778	\$ 5,682,264	\$ 5,701,042
Total Liabilities	\$ 18,778	\$ 5,682,264	\$ 5,701,042
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	48,154	\$ (48,154)	
	\$ 66,932		
Total Liabilities and Fund Balance	\$ 66,932		
Net Assets			
Invested in capital assets, net of related debt		\$ 4,081,156	\$ 4,081,156
Unrestricted		24,681	24,681
		\$ 4,105,837	\$ 4,105,837
Total Net Assets		\$ 4,105,837	\$ 4,105,837
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 48,154
Capital assets are reported in the Statement of Net Assets but not in the Fund Balance Sheet.			9,739,947
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			(5,682,264)
Net Assets - Governmental Activities			\$ 4,105,837

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental			
U.S. Department of Transportation	\$ 9,858	\$ -	\$ 9,858
Charges for services	54,735	-	54,735
Investment earnings	1,113	-	1,113
Miscellaneous	95,167	-	95,167
Capital contributions	-	1,450	1,450
Total Revenues	\$ 160,873	\$ 1,450	\$ 162,323
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 39,082	\$ -	\$ 39,082
Rehabilitation	9,858	248,977	258,835
Transportation	543	-	543
Debt service			
Principal	116,296	(116,296)	-
Total Expenditures/Expenses	\$ 165,779	\$ 132,681	\$ 298,460
Net Change in Fund Balance/Net Assets	\$ (4,906)	\$ (131,231)	\$ (136,137)
Fund Balance/Net Assets - January 1	53,060	4,188,914	4,241,974
Fund Balance/Net Assets - December 31	\$ 48,154	\$ 4,057,683	\$ 4,105,837

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

Net change in fund balance **\$ (4,906)**

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The adjustment is the amount by which depreciation expense exceeded capital outlay in the current period. (248,840)

The fair value of capital asset donations are reported as revenues in the statement of activities, but are not reported in governmental funds. 1,450

Incurring long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The adjustment is the difference between new debt issued (\$137) and payments on debt. 116,159

Change in Net Assets of Governmental Activities **\$ (136,137)**

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 3

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2007**

	General Fund	Adjustments	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 60,321	\$ -	\$ 60,321
Accounts receivable	47,859	-	47,859
Accrued interest receivable	42	-	42
Capital assets			
Non-depreciable	-	2,551,731	2,551,731
Depreciable - net	-	8,888,800	8,888,800
Total Assets	\$ 108,222	\$ 11,440,531	\$ 11,548,753
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 38,207	\$ -	\$ 38,207
Due to other governments	26	-	26
Deferred revenue - unavailable	9,469	(9,469)	-
Long-term liabilities			
Due within one year	-	51,736	51,736
Due in more than one year	-	5,478,531	5,478,531
Total Liabilities	\$ 47,702	\$ 5,520,798	\$ 5,568,500
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	60,520	\$ (60,520)	
Total Liabilities and Fund Balance	\$ 108,222		
Net Assets			
Invested in capital assets, net of related debt		\$ 5,922,000	\$ 5,922,000
Unrestricted		58,253	58,253
Total Net Assets		\$ 5,980,253	\$ 5,980,253
Reconciliation of the General Fund Balance to Net Assets			
Fund Balance - General Fund			\$ 60,520
Capital assets are reported in the Statement of Net Assets but not in the Fund Balance Sheet.			11,440,531
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			(5,530,267)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			9,469
Net Assets - Governmental Activities			\$ 5,980,253

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 4

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General Fund	Adjustments	Governmental Activities
Revenues			
Charges for services	\$ 100,260	\$ -	\$ 100,260
Investment earnings	1,104	-	1,104
Miscellaneous	100,211	9,469	109,680
Capital contributions	-	1,959,281	1,959,281
	\$ 201,575	\$ 1,968,750	\$ 2,170,325
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 36,647	\$ -	\$ 36,647
Rehabilitation	-	258,697	258,697
Transportation	565	-	565
Debt service			
Principal	151,997	(151,997)	-
	\$ 189,209	\$ 106,700	\$ 295,909
Net Change in Fund Balance/Net Assets	\$ 12,366	\$ 1,862,050	\$ 1,874,416
Fund Balance/Net Assets - January 1	48,154	4,057,683	4,105,837
Fund Balance/Net Assets - December 31	\$ 60,520	\$ 5,919,733	\$ 5,980,253

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 **\$ 12,366**

In the funds, under the modified accrual basis, receivables not available for expenditure are deferred.

In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable. 9,469

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The adjustment is the amount by which depreciation expense exceeded capital outlay in the current period. (258,697)

The fair value of capital asset donations are reported as revenues in the statement of activities, but are not reported in governmental funds. 1,959,281

Incurring long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The adjustment is the difference between new debt issued and payments on debt. 151,997

Change in Net Assets of Governmental Activities **\$ 1,874,416**

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007**

1. Summary of Significant Accounting Policies

The Minnesota Valley Regional Rail Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the years ended December 31, 2006 and 2007. 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 Minnesota Valley Regional Rail are discussed below.

A. Financial Reporting Entity

The Minnesota Valley Regional Rail Authority was established June 21, 1982, under the Regional Railroad Authorities Act, Minn. Stat. § 398A.03. It is governed by a Board composed of one member from the Boards of Commissioners of Carver County, Redwood County, Renville County, Sibley County, and Yellow Medicine County, and a representative from the Shipper's Association. The Authority is organized with a chair, a vice chair, and a secretary/treasurer.

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, 2, 3, and 4. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Authority as a whole.

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

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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 Minnesota Valley Regional Rail 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 to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. Budgetary Data

The Minnesota Valley Regional Rail Authority Board adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis of accounting. The budget is adopted on a basis consistent with generally accepted accounting principles.

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2006 and 2007, based on market price.

2. Receivables

The financial statements for the Authority contain no allowance for uncollectible accounts. Uncollectible amounts due for receivables are recognized as bad debts at the time information becomes available that would indicate the uncollectibility of the particular receivable. These amounts are not considered to be material in relation to the financial position or operations of the fund.

3. Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the statement of net assets. Such assets are recorded at historical cost or fair value if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements and buildings	20 to 40
Machinery and equipment	5

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

1. Summary of Significant Accounting Policies

E. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Deferred Revenue

Governmental funds and governmental activities defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

5. Long-Term Liabilities

Long-term liabilities are not reported in the fund. The General Fund reports only liabilities expected to be financed with available, spendable financial resources. The statement of net assets reports long-term liabilities of the governmental activities.

6. Fund Equity

The fund financial statements report 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. The Authority reported no reservations or designations for the years ended December 31, 2006 and 2007.

7. Use of Estimates

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

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget in each of the years ended December 31, 2006 and 2007:

	Expenditures	Budget	Excess
2006	\$ 165,779	\$ 41,051	\$ 124,728
2007	189,209	42,737	146,472

3. Detailed Notes

A. Assets

1. Deposits and Investments

The Authority's total cash deposits as reported in the basic financial statements consisted of \$50,629 at December 31, 2006, and \$60,321 at December 31, 2007.

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Authority to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all Authority deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better, revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2006 and 2007, the Authority's deposits were not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Authority:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

During the years ended December 31, 2006 and 2007, the Authority had no investments.

2. Due From Other Governments

There were no amounts due from other governments at December 31, 2006 or 2007.

3. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 591,000	\$ -	\$ -	\$ 591,000
Construction in progress	-	1,450	-	1,450
Total capital assets not depreciated	<u>\$ 591,000</u>	<u>\$ 1,450</u>	<u>\$ -</u>	<u>\$ 592,450</u>
Capital assets depreciated				
Land improvements	\$ 10,212,045	\$ 9,858	\$ -	\$ 10,221,903
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	-	4,000
Total capital assets depreciated	<u>\$ 10,279,045</u>	<u>\$ 9,858</u>	<u>\$ -</u>	<u>\$ 10,288,903</u>

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	\$ 862,958	\$ 255,548	\$ -	\$ 1,118,506
Buildings	15,750	3,150	-	18,900
Machinery and equipment	4,000	-	-	4,000
Total accumulated depreciation	\$ 882,708	\$ 258,698	\$ -	\$ 1,141,406
Total capital assets depreciated, net	\$ 9,396,337	\$ (248,840)	\$ -	\$ 9,147,497
Governmental Activities Capital Assets, Net	\$ 9,987,337	\$ (247,390)	\$ -	\$ 9,739,947

Capital asset activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 591,000	\$ -	\$ -	\$ 591,000
Construction in progress	1,450	1,959,281	-	1,960,731
Total capital assets not depreciated	\$ 592,450	\$ 1,959,281	\$ -	\$ 2,551,731
Capital assets depreciated				
Land improvements	\$ 10,221,903	\$ -	\$ -	\$ 10,221,903
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	-	4,000
Total capital assets depreciated	\$ 10,288,903	\$ -	\$ -	\$ 10,288,903
Less: accumulated depreciation for				
Land improvements	\$ 1,118,506	\$ 255,547	\$ -	\$ 1,374,053
Buildings	18,900	3,150	-	22,050
Machinery and equipment	4,000	-	-	4,000
Total accumulated depreciation	\$ 1,141,406	\$ 258,697	\$ -	\$ 1,400,103
Total capital assets depreciated, net	\$ 9,147,497	\$ (258,697)	\$ -	\$ 8,888,800
Governmental Activities Capital Assets, Net	\$ 9,739,947	\$ 1,700,584	\$ -	\$ 11,440,531

Depreciation expense of \$258,698 and \$258,697 was charged to economic development for the years ended December 31, 2006 and 2007, respectively.

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes

A. Assets (Continued)

4. Receivables

The Authority did not have any receivables scheduled to be collected beyond one year as of December 31, 2006 or 2007.

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	\$ 4,800,000	\$ -	\$ -	\$ 4,800,000	\$ - *
Shipper's loan	523,213	137	64,559	458,791	- *
Operator loan	440,000	-	40,000	400,000	40,000
County loan	35,210	-	11,737	23,473	11,737
Total	<u>\$ 5,798,423</u>	<u>\$ 137</u>	<u>\$ 116,296</u>	<u>\$ 5,682,264</u>	<u>\$ 51,737</u>

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	\$ 4,800,000	\$ -	\$ -	\$ 4,800,000	\$ - *
Shipper's loan	458,791	-	100,260	358,531	- *
Operator loan	400,000	-	40,000	360,000	40,000
County loan	23,473	-	11,737	11,736	11,736
Total	<u>\$ 5,682,264</u>	<u>\$ -</u>	<u>\$ 151,997</u>	<u>\$ 5,530,267</u>	<u>\$ 51,736</u>

*The state and shipper's loans must be repaid within 15 years, commencing with the project completion. The Shipper's Association is to be repaid first, followed by the state. Until project completion, no payment schedule has been set up.

The Authority received these interest-free rehabilitation loans under Minn. Stat. § 222.50 to provide assistance for improvement of rail service in the state. The state will provide 80 percent of the rehabilitation costs, up to \$4,800,000; the shippers will provide 10 percent, up to \$600,000; and the Authority will provide 10 percent, up to \$600,000, which the operator will provide in the form of in-kind work. Repayment

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

3. Detailed Notes

B. Liabilities

Changes in Long-Term Liabilities (Continued)

to the operator will be 15 annual payments of \$40,000 each, to be funded from the Authority's annual Worldcom payment. The loans will be paid from the Authority's rents as received from the operator. Thus, the amount due within one year cannot be determined. The state's portion is secured by a mortgage on the Authority's property.

The County loan is owed to Sibley County for services rendered and is to be repaid over a four-year period with a minimum payment of \$11,737 per year for three years and the final payment of \$11,736.

Annual debt service requirements to maturity for the operator loan and the County loan are:

	Operator	County
2008	\$ 40,000	\$ 11,736
2009	40,000	-
2010	40,000	-
2011	40,000	-
2012	40,000	-
2013 - 2016	160,000	-
Total	\$ 360,000	\$ 11,736

4. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and natural disasters. To manage these risks, the Authority has joined the Minnesota Counties Insurance Trust. The Authority retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

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**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 9,858	\$ 9,858
Charges for services	-	-	54,735	54,735
Investment earnings	-	-	1,113	1,113
Miscellaneous	84,500	84,500	95,167	10,667
Total Revenues	\$ 84,500	\$ 84,500	\$ 160,873	\$ 76,373
Expenditures				
Current				
Economic development				
Administration	\$ 28,814	\$ 28,814	\$ 39,082	\$ (10,268)
Rehabilitation	-	-	9,858	(9,858)
Transportation	500	500	543	(43)
Debt service				
Principal	11,737	11,737	116,296	(104,559)
Total Expenditures	\$ 41,051	\$ 41,051	\$ 165,779	\$ (124,728)
Change in Fund Balance	\$ 43,449	\$ 43,449	\$ (4,906)	\$ (48,355)
Fund Balance - January 1	53,060	53,060	53,060	-
Fund Balance - December 31	\$ 96,509	\$ 96,509	\$ 48,154	\$ (48,355)

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 40,000	\$ 40,000	\$ 100,260	\$ 60,260
Investment earnings	-	-	1,104	1,104
Miscellaneous	86,300	86,300	100,211	13,911
Total Revenues	\$ 126,300	\$ 126,300	\$ 201,575	\$ 75,275
Expenditures				
Current				
Economic development				
Administration	\$ 30,500	\$ 30,500	\$ 36,647	\$ (6,147)
Transportation	500	500	565	(65)
Debt service				
Principal	11,737	11,737	151,997	(140,260)
Total Expenditures	\$ 42,737	\$ 42,737	\$ 189,209	\$ (146,472)
Change in Fund Balance	\$ 83,563	\$ 83,563	\$ 12,366	\$ (71,197)
Fund Balance - January 1	48,154	48,154	48,154	-
Fund Balance - December 31	\$ 131,717	\$ 131,717	\$ 60,520	\$ (71,197)

**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007**

1. General Budget Policies

The Minnesota Valley Regional Rail Authority Board adopts an estimated revenue and expenditure budget for the General Fund. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the Board. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

The Authority did not amend the expenditure budget during 2006 or 2007.

4. Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget in each of the years ended December 31, 2006 and 2007:

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
2006	\$ 165,779	\$ 41,051	\$ 124,728
2007	189,209	42,737	146,472

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**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

Schedule 3

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007

FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-1 **Internal Accounting Controls**

Due to the Minnesota Valley Regional Rail Authority's size, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small entities, the Authority should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

We recommend that the Authority be aware of the lack of segregation of the accounting functions and continue to implement oversight procedures to ensure that the internal control policies and procedures are being implemented.

Client's Response:

The Authority is aware and ensures that internal control policies and procedures are being implemented.

ITEMS ARISING THIS YEAR

07-1 **Internal Control/General Ledger**

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.

Management has requested that we prepare the annual financial statements and related notes. This arrangement is not unusual for organizations the size of the Minnesota Valley Regional Rail Authority. These decisions were based on the availability of the Authority's staff and the cost benefit of using our expertise.

During our audit, we proposed numerous adjustments to convert the organization's financial records to the financial statements as reported.

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

Client's Response:

The Authority notes recommendation and will continue to implement oversight procedures.

07-2 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the Authority is required to keep records of its capital assets, including infrastructure. The Authority does not maintain its capital asset records on a separate system. Capital asset policies, for use by the Authority to maintain the capital assets, have not been formally approved. A capital assets policy should be adopted that defines the Authority's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

We recommend the Authority Board establish a capital assets policy to define the Authority's accounting policies over capital assets. The policy should establish procedures to identify capital asset additions and deletions, to accurately estimate useful lives, and to address the point when useful lives of current capital assets should be reconsidered.

Client's Response:

The Authority will establish a Capital Assets Policy to identify capital asset additions and deletions.



REBECCA OTTO
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board Members
Minnesota Valley Regional Rail Authority

We have audited the financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Rail Authority as of and for the years ended December 31, 2006 and 2007, and have issued our report thereon dated May 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Minnesota Valley Regional Rail Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's

financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control over financial reporting. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 00-1, 07-1, and 07-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 07-1 to be a material weakness.

Minnesota Legal Compliance

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

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Minnesota Valley Regional Rail Authority complied with the material terms and conditions of applicable legal provisions.

The Authority's written responses to the significant deficiencies and material weaknesses identified in our audit have not been subjected to any auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board and management of the Minnesota Valley Regional Rail Authority and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 8, 2008