STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

MINNESOTA VALLEY REGIONAL
RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

FOR THE 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.

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

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY REDWOOD FALLS, MINNESOTA

For the Year Ended December 31, 2011

Audit Practice Division
Office of the State Auditor
State of Minnesota

This page was left blank intentionally.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

TABLE OF CONTENTS

This page was left blank intentionally.

Introductory Section

This page was left blank intentionally.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

ORGANIZATION
2011

Name	Office	Term Expires
Bob Fox*	Chair	Appointed Yearly
Tom Workman	Vice Chair	Appointed Yearly
Al Kokesch	Secretary/Treasurer	Appointed Yearly
Ron Antony	Member	Appointed Yearly
Harold Pettis	Member	Appointed Yearly
Scott Blumhoefer	Member	Appointed Yearly
Julie Rath	Administrator	Appointed Yearly
David Schauer	Legal Counsel	Appointed Yearly

*Chair 2011 and 2012

This page was left blank intentionally.

Financial Section

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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 year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Minnesota Valley Regional Rail Authority as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.D.7. to the financial statements, the Minnesota Valley Regional Rail Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 establishes new fund balance classifications for the governmental fund types and clarifies the definitions of the governmental fund types.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Minnesota Valley Regional Rail Authority's basic financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013, on our consideration of the Minnesota Valley Regional Rail Authority'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 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	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011
(Unaudited)

As management of the Minnesota Valley Regional Railroad Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2011. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL REPORTING ENTITY

The Minnesota Valley Regional Railroad Authority was established June 21, 1982, under the Regional Railroad Authorities Act, Minn. Stat. § 398A.03. The Authority is governed by a Board composed of one member from the Board of County 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.

FINANCIAL HIGHLIGHTS

The assets of the Minnesota Valley Regional Railroad Authority exceeded its liabilities by $16,324,893 (net assets), of which $16,162,918 is invested in capital assets, net of related debt (Exhibit 1), leaving unrestricted net assets of $161,975.

The Authority's total net assets increased by $4,236,952 in 2011. This is attributable to an increase in intergovernmental revenues for the investment in capital assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. The Minnesota Valley Regional Railroad Authority's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

The first column of each of the first two statements presents governmental fund data. These columns focus on how money flows in and out and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. These columns provide a detailed short-term view of the Authority's operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. We reconcile the relationship (or differences) between governmental funds and governmental activities (reported in the third column) in the center column of each statement.

The third column in each statement presents the governmental activities Statement of Net Assets and the Statement of Activities, which provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. These columns include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating.

Governmental Fund

As compared to 2010, 2011 revenues for the Authority's General Fund increased by $4,256,998 and expenditures increased $4,726,281.

The General Fund fund balance decreased by $446,560 for a negative total unassigned fund balance of $330,538.

The Minnesota Valley Regional Railroad Authority adopts an annually appropriated budget for its General Fund. A budgetary comparison schedule has also been provided as required supplementary information for this fund to demonstrate compliance with the budget.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the Authority's financial position. The Minnesota Valley Regional Railroad Authority's assets exceeded liabilities by $16,324,893 at the close of 2011. The largest portion of the Authority's net assets reflects the Authority's investment in capital assets (for example, land, buildings, equipment and infrastructure, such as the rail bed), less any related debt (still outstanding) used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Governmental Activities
Net Assets

	2011	2010
Assets		
Current and other assets	$ 979,429	$ 166,523
Capital assets	21,056,347	16,998,498
Total Assets	$ 22,035,776	$ 17,165,021
Liabilities		
Long-term liabilities	$ 4,893,429	$ 5,026,579
Other liabilities	817,454	50,501
Total Liabilities	$ 5,710,883	$ 5,077,080
Net Assets		
Invested in capital assets, net of related debt	$ 16,162,918	$ 11,971,919
Unrestricted	161,975	116,022
Total Net Assets	$ 16,324,893	$ 12,087,941

Governmental Activities

The Minnesota Valley Regional Railroad Authority's activities increased the Authority's net assets during 2011 by $4,236,952, representing a 35.1 percent increase, primarily because of the Authority's increase in intergovernmental revenues for the investment in capital assets. Key elements in this increase in net assets are as follows:

Governmental Activities
Changes in Net Assets

	2011	2010
Revenues		
Program revenues		
Charges for services	$ 93,225	$ 117,270
Licenses and permits	131,943	-
Intergovernmental	4,729,718	-
Capital contributions	30,000	5,021,936
General revenues		
Interest earnings	3,207	164
Miscellaneous	38,268	129,416
Total Revenues	$ 5,026,361	$ 5,268,786
Expenses		
Program expenses		
Economic development	789,409	414,010
Increase in Net Assets	$ 4,236,952	$ 4,854,776
Net Assets - January 1	12,087,941	7,233,165
Net Assets - December 31	$ 16,324,893	$ 12,087,941

General Fund Budgetary Highlights

There were no differences between the original General Fund expenditure budget and the final budget in 2011.

Budgeted General Fund revenues exceeded actual revenues by $742,302, primarily due to less pass-through intergovernmental revenues recognized than anticipated.

Actual expenditures were less than budgeted expenditures by $282,667. The less-than-expected expenditures reflect less-than-anticipated rehabilitation costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Minnesota Valley Regional Railroad Authority's depreciable capital assets at December 31, 2011, totaled $20,465,347 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, and equipment. The Authority's investment in land improvements, net of depreciation, increased $9,082,935 from the previous year due to the completion of a rail project.

Capital Assets at Year-End
(Net of Depreciation)

	2011	2010
Capital assets not depreciated		
Land	$ 591,000	$ 591,000
Construction in progress	-	5,021,936
Total capital assets not depreciated	$ 591,000	$ 5,612,936
Capital assets depreciated		
Land improvements	$ 23,428,779	$ 13,760,124
Buildings	63,000	63,000
Machinery and equipment	4,000	4,000
Total capital assets depreciated	$ 23,495,779	$ 13,827,124
Less: accumulated depreciation for		
Land improvements	$ 2,991,782	$ 2,406,062
Buildings	34,650	31,500
Machinery and equipment infrastructure	4,000	4,000
Total accumulated depreciation	$ 3,030,432	$ 2,441,562
Total capital assets depreciated, net	$ 20,465,347	$ 11,385,562
Total Capital Assets, Net	$ 21,056,347	$ 16,998,498

Additional information on the Authority's capital assets can be found in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the Authority had total outstanding debt of $4,893,429. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	2011	2010
State loan	$ 4,693,429	$ 4,786,579
Operator loan	200,000	240,000
Total	$ 4,893,429	$ 5,026,579

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 ten percent, up to $600,000; and the Authority will provide ten percent, up to $600,000, which the operator will provide in the form of in-kind work. Repayment 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.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In 2012, MVRRA will be completing four miles of rail rehab and installing lighted gates at crossings in the City of Arlington. When this project is completed, we will be nearing the end of the authorized funding appropriations from the federal government and state bonding dollars for our project.

New sources of funding will continue to be pursued for the remaining 60 miles of track and multiple bridges that need to be repaired or replaced to reach the 286,000 lbs. standard for rail cars of this size.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Minnesota Valley Regional Railroad Authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Julie Rath, Administrator; Minnesota Valley Regional Railroad Authority; 200 South Mill Street; Redwood Falls, Minnesota 56283.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 1

STATEMENT OF NET ASSETS OF GOVERNMENTAL ACTIVITIES
AND GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2011

	General Fund	Adjustments	Governmental Activities
Assets			
Cash and pooled investments	$ 323,773	$ -	$ 323,773
Accounts receivable	51,325	-	51,325
Due from other governments	604,331	-	604,331
Capital assets			
Non-depreciable	-	591,000	591,000
Depreciable - net	-	20,465,347	20,465,347
Total Assets	**$ 979,429**	**$ 21,056,347**	**$ 22,035,776**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 31,050	$ -	$ 31,050
Contracts payable	786,404	-	786,404
Deferred revenue - unavailable	492,513	(492,513)	-
Long-term liabilities			
Due within one year	-	40,000	40,000
Due in more than one year	-	4,853,429	4,853,429
Total Liabilities	**$ 1,309,967**	**$ 4,400,916**	**$ 5,710,883**
Fund Balance			
Unassigned	(330,538)	**$ 330,538**	
Net Assets			
Invested in capital assets - net of related debt		$ 16,162,918	$ 16,162,918
Unrestricted		161,975	161,975
Total Net Assets		**$ 16,324,893**	**$ 16,324,893**
Total Liabilities and Fund Balance/Net Assets	**$ 979,429**	**$ 21,056,347**	**$ 22,035,776**

Reconciliation of the General Fund Balance to Net Assets

Fund Balance - General Fund	$ (330,538)
Long-term assets deferred in the governmental fund	492,513
Capital assets are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	21,056,347
Long-term liabilities are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	(4,893,429)
Net Assets - Governmental Activities	**$ 16,324,893**

The notes to the financial statements are an integral part of this statement.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Adjustments	Governmental Activities
Revenues			
Licenses and permits	$ 131,943	$ -	$ 131,943
Intergovernmental	4,237,205	492,513	4,729,718
Charges for services	93,225	-	93,225
Investment earnings	3,207	-	3,207
Miscellaneous	38,268	-	38,268
Capital contributions	-	30,000	30,000
Total Revenues	**$ 4,503,848**	**$ 522,513**	**$ 5,026,361**
Expenditures/Expenses			
Current			
Economic development			
Administration	$ 63,457	$ -	$ 63,457
Rehabilitation	4,752,695	(4,027,849)	724,846
Transportation	1,106	-	1,106
Debt service			
Principal	133,150	(133,150)	-
Total Expenditures/Expenses	**$ 4,950,408**	**$ (4,160,999)**	**$ 789,409**
Net Change in Fund Balance/Net Assets	**$ (446,560)**	**$ 4,683,512**	**$ 4,236,952**
Fund Balance/Net Assets - January 1	**116,022**	**11,971,919**	**12,087,941**
Fund Balance/Net Assets - December 31	**$ (330,538)**	**$ 16,655,431**	**$ 16,324,893**

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 2
(Continued)

STATEMENT OF ACTIVITIES OF GOVERNMENTAL ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2011

Reconciliation of the Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities				
Net change in fund balance			**$**	**(446,560)**
In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the fund statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.				
Deferred revenue - December 31	**$**	492,513		
Deferred revenue - January 1		-		492,513
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 capital outlay exceeded depreciation expense in the current period.				
Expenditures for general capital assets and infrastructure	**$**	4,616,719		
Current year depreciation		(588,870)		4,027,849
The fair value of capital asset donations are reported as revenues in the statement of activities but are not reported in governmental funds.				30,000
Incurring long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The adjustment is the payments on debt.				133,150
Change in Net Assets of Governmental Activities			**$**	**4,236,952**

This page was left blank intentionally.

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 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 Minnesota Valley Regional Rail Authority 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 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Authority as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts: invested in capital assets, 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.

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 columns 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 columns (General Fund) 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are available. 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 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. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2011, based on market price.

1. Summary of Significant Accounting Policies

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

2. Receivables

The financial statements of 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 are defined by the Authority as assets with an initial cost of more than $4,000 and an estimated useful life in excess of two years. Capital assets are reported at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are to be recorded at estimated fair 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 the assets' lives are not capitalized.

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

Assets	Years
Land improvements	40
Buildings	20
Machinery and equipment	5

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 not considered to be available to liquidate liabilities of the current period.

1. Summary of Significant Accounting Policies

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

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. Classification of Net Assets

Net assets in the government-wide financial statements are classified in the following categories:

Invested in capital assets, net of related debt - the amount of net assets representing capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

7. Classification of Fund Balances

In 2011, the Authority implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions. The statement requires retroactive restatement of fund balance for the reclassifications made to conform with this statement. Total fund balance did not change.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Classification of Fund Balances (Continued)

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

Nonspendable - amounts that cannot be spent because they are not in spendable form, or 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 in which constraints have been 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 by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Authority's Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. The action must be approved no later than the close of the reporting period and remains binding unless removed in the same manner.

Assigned - amounts the Authority 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 Authority's Board.

Unassigned - the residual classification for the General Fund and includes all spendable amounts not contained in the other fund balance classifications.

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

7. Classification of Fund Balances (Continued)

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

8. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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.

9. Reclassifications

Fund balance account balances were reclassified as of and for the year ended December 31, 2010, as previously reported, due to implementation of GASB 54. Total fund balance did not change. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Application of GASB Statements 63 and 65 may restate portions of these financial statements.

2. Stewardship, Compliance, and Accountability

Deficit Fund Equity

At December 31, 2011, the General Fund had deficit fund balance of $330,538.

3. Detailed Notes

A. Assets

1. Deposits and Investments

The following table presents the Authority's cash and deposit balances at December 31, 2011:

Checking	$ 257,982
Certificates of deposit	65,791
Total Cash and Investments	$ 323,773

During the year ended December 31, 2011, the Authority had no investments other than certificates of deposit.

a. Deposits

The Authority is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to designate a depository for public funds and to invest in certificates of deposit. The Authority is required by Minn. Stat. § 118A.03 to protect deposits with 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 and 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.

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, 2011, the Authority's deposits were not exposed to custodial credit risk.

b. Investments

The Authority may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

(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

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.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The Authority does not have a policy to address this risk. On December 31, 2011, the Authority's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the Authority's investment in a single issuer. The Authority does not have a policy to address this risk.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The Authority does not have a policy to address this risk.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority does not have a policy to address this risk.

3. Detailed Notes

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2011, for the Authority follow:

	Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Accounts receivable	$ 51,325	$ -
Due from other governments	604,331	-
Total	$ 655,656	$ -

3. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 591,000	$ -	$ -	$ 591,000
Construction in progress	5,021,936	-	5,021,936	-
Total capital assets not depreciated	$ 5,612,936	$ -	$ 5,021,936	$ 591,000
Capital assets depreciated				
Land improvements	$ 13,760,124	$ 9,668,655	$ -	$ 23,428,779
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	-	4,000
Total capital assets depreciated	$ 13,827,124	$ 9,668,655	$ -	$ 23,495,779
Less: accumulated depreciation for				
Land improvements	$ 2,406,062	$ 585,720	$ -	$ 2,991,782
Buildings	31,500	3,150	-	34,650
Machinery and equipment	4,000	-	-	4,000
Total accumulated depreciation	$ 2,441,562	$ 588,870	$ -	$ 3,030,432
Total capital assets depreciated, net	$ 11,385,562	$ 9,079,785	$ -	$ 20,465,347
Governmental Activities Capital Assets, Net	$ 16,998,498	$ 9,079,785	$ 5,021,936	$ 21,056,347

3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Depreciation expense of $588,870 was charged to the Authority's economic development function for the year ended December 31, 2011.

B. Liabilities

1. Construction and Other Commitments

The Authority has active construction projects as of December 31, 2011. The projects include the following:

	Spent-to-Date	Remaining Commitment
Bridge projects	$ 64,277	$ 35,400

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	$ 4,786,579	$ -	$ 93,150	$ 4,693,429	$ - *
Operator loan	240,000	-	40,000	200,000	40,000
Total	$ 5,026,579	$ -	$ 133,150	$ 4,893,429	$ 40,000

*****The state loans must be repaid within 15 years, commencing with the project completion, no payment schedule will be 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 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

3. Detailed Notes

   B. Liabilities

      2. Changes in Long-Term Liabilities (Continued)

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.

Annual debt service requirements to maturity for the operator loan as of December 31, 2011, are:

Year Ended	Operator
2012	$ 40,000
2013	40,000
2014	40,000
2015	40,000
2016	40,000
Total	$ 200,000

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 Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. 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

This page was left blank intentionally.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Licenses and permits	$ 121,500	$ 121,500	$ 131,943	$ 10,443
Intergovernmental	5,000,000	5,000,000	4,237,205	(762,795)
Charges for services	115,000	115,000	93,225	(21,775)
Investment earnings	150	150	3,207	3,057
Miscellaneous	9,500	9,500	38,268	28,768
Total Revenues	**$ 5,246,150**	**$ 5,246,150**	**$ 4,503,848**	**$ (742,302)**
Expenditures				
Current				
Economic development				
Administration	$ 54,675	$ 54,675	$ 63,457	$ (8,782)
Rehabilitation	5,022,800	5,022,800	4,752,695	270,105
Transportation	600	600	1,106	(506)
Debt service				
Principal	155,000	155,000	133,150	21,850
Total Expenditures	**$ 5,233,075**	**$ 5,233,075**	**$ 4,950,408**	**$ 282,667**
Change in Fund Balance	**$ 13,075**	**$ 13,075**	**$ (446,560)**	**$ (459,635)**
Fund Balance - January 1	**116,022**	**116,022**	**116,022**	**-**
Fund Balance - December 31	**$ 129,097**	**$ 129,097**	**$ (330,538)**	**$ (459,635)**

The notes to the required supplementary information are an integral part of this schedule.

This page was left blank intentionally.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011

1. General Budget Policies

   The Minnesota Valley Regional Rail Authority Board adopts an estimated revenue and expenditure budget for the General Fund. The budget is prepared on the modified accrual basis of accounting.

   The budgets may be amended or modified at any time by the Authority Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented as required supplementary information.

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 its expenditure budget during 2011.

4. Excess of Expenditures Over Budget

   For the year ended December 31, 2011, expenditures did not exceed the budgeted appropriations in the General Fund.

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT B-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2011

Reimbursement for Services		
Sibley County	**$**	**4,365**
Grants		
State		
Minnesota Department of		
Natural Resources	$	7,250
Public Safety		8,563
Transportation		4,188,485
Total state	**$**	**4,204,298**
Federal		
Department of		
Homeland Security		28,542
Total state and federal grants	**$**	**4,232,840**
Total Intergovernmental Revenue	**$**	**4,237,205**

This page was left blank intentionally.

This page was left blank intentionally.

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

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

A. COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Debt Covenant Violation (10-1)
The Minnesota Valley Regional Rail Authority did not have sufficient insurance on the rail line in accordance with the requirements of the mortgage between the Minnesota Valley Regional Rail Authority, the State of Minnesota, and MinnRail, Inc.

Resolution
Minnesota Prairie Lines, the Minnesota Valley Regional Rail Authority rail operator, insures the rail line sufficient in amount to meet the requirements of the mortgage with the Authority as the insurance certificate holder.

B. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-1 Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: The Authority lacks proper segregation of duties. The Authority has one staff person who is responsible for billing, collecting, recording, and depositing receipts as well as reconciling bank accounts.

Context: Due to the limited number of office personnel within the Authority, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of the Minnesota Valley Regional Rail Authority; however, the Authority's Board and management 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 accounting point of view.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by staff in the normal course of performing their assigned functions.

Cause: The Authority contracts with the Redwood Area Development Corporation for administrative services where only one staff person performs the tasks related to administrative and accounting functions. The Authority has indicated it does not have the economic resources to hire additional qualified accounting staff to adequately segregate the accounting functions.

Recommendation: We recommend that the Authority's Board and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure the internal control policies and procedures are implemented to the extent possible.

<u>Client's Response</u>:

The Authority is aware segregation of duties is not possible with just one contracted staff person.

07-1 <u>Audit Adjustments</u>

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or staff, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Statement on Auditing Standards 115 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit, we identified material adjustments that resulted in significant changes to the Authority's financial statements. The Authority provides cash basis financial statements and prepares some of the modified accrual information necessary to adjust the cash basis financial statements to the modified accrual basis.

Context: The inability to make accrual adjustments or to detect significant misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. Some of the adjustments required additional time by the auditors to determine the correct balances.

Effect: During our audit, we proposed numerous adjustments to convert the Authority's financial records to the financial statements as reported. Material audit adjustments were necessary to adjust the following:

General Fund -

- reduced accounts receivable ($43,141), reduced licenses and permits revenues ($41,682), and reduced intergovernmental state grant revenues ($1,459), as receivables not expected to be collected should not be considered revenue;

- increased due from other governments and increased deferred revenues - unavailable by $492,513 for grant funding to pay rehabilitation construction project expenditures requested but not received within the revenue recognition period;

- increased due from other governments and increased deferred revenues - unavailable by $37,105 for state grant revenues related to 2011 and received in 2012, but not within the revenue recognition period; and

- increased contracts payable and rehabilitation expenditures by $786,404 for work completed on the rail rehabilitation project, which was not considered an expenditure of the current reporting period.

Governmental Activities -

- reduced loans payable liability and increased unrestricted net assets by $93,547 for principal payments on long-term liabilities made prior to January 1, 2011, but not recorded in the general ledger;

- increased loans payable liability ($87,085) and increased principal retirement expenses ($87,085) to reverse journal entries posted to the general ledger for the year ended December 31, 2011, rather than to the year ended December 31, 2010;

- reclassified payments on loans of $31,050 from expenses to a reduction of loans payable liability; and

- reclassified $40,000 of loans payable from noncurrent to current for the portion of debt scheduled to be paid in the following year.

Cause: Authority staff did not detect the errors in the normal course of performing their assigned functions.

Recommendation: We recommend that Authority staff review the trial balances and journal entries in detail to ensure they have an understanding of all audit adjustments made so that, in future audits, this information can be prepared by the Authority. We also recommend the Authority establish internal controls necessary to determine that all adjusting entries are made to ensure the Authority's annual financial statements are reported in accordance with generally accepted accounting principles. The controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

<u>Client's Response</u>:

The Administrator runs the Authority's reports on a cash basis and can provide accrual basis for monthly reports. Staff will secure outside assistance from an outside specialist in Quickbooks to assist with making the proper adjusting entries prior to the next audit.

07-2 <u>Capital Assets Policies and Procedures</u>

Criteria: A capital assets policy should be adopted which defines the Authority's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods. A physical inventory should be taken of capital assets at least every five years.

Condition: The Authority has not adopted a capital assets policy. No physical inventory of capital assets has been conducted since the records were first established.

Context: The Authority maintains its capital assets records on a capital assets software spreadsheet. Additions and deletions are entered into this spreadsheet and depreciation is calculated. However, the capital assets policy utilized by the Authority in maintaining this system have not been formally approved by the Board.

Effect: Without a written capitalization policy, the Authority may capitalize or depreciate assets inconsistently from year to year. Without a physical inventory of capital assets, it is possible that items that were disposed of will not be properly taken off inventory.

Cause: The Authority has not established or approved a capital assets policy, and no one has been assigned the responsibility of setting up a system to do a physical inventory of capital assets.

Recommendation: We recommend the Authority establish a capital assets policy to define the Authority's accounting policies over capital assets. The policy should also establish procedures to identify capital additions and deletions. Also, we recommend a physical inventory of capital assets be performed at least once every five years. This physical inventory can be rotated so that a portion of the capital assets is inventoried each year.

Client's Response:

The Authority will work to develop a policy as suggested in the recommendation.

10-2 Documenting and Monitoring Internal Controls

Criteria: The Authority's management is responsible for developing and monitoring its internal controls. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Authority's Board, management, and for external financial reporting. Written accounting policies and procedures support management's risk identification, evaluation, and mitigation and enable monitoring. Monitoring is required to evaluate whether controls are operating as intended and changes to controls are made when necessary. Significant internal controls to be documented would include areas such as receipts, disbursements, capital assets, and journal entries.

Condition: Inquiries of the Administrator found that significant internal controls of the accounting system have not been documented. The Authority does not have a current and comprehensive accounting policies and procedures manual, including risk assessment and monitoring procedures. Although the Authority may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

Context: Documentation and monitoring of internal controls is necessary to determine controls are in place and operating effectively. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. An accounting policies and procedures manual provides guidance when staffing changes occur; enhances understanding of roles and functions of those involved in the internal control system; establishes responsibilities; improves efficiency and consistency of transaction processing; and improves compliance with established policies. It can also help to prevent deterioration of key elements in the Authority's internal control system and can help to avoid circumvention of the Authority's policies.

Effect: As a result of this condition, the Authority's practices may not be followed as intended by management, and staff may not understand the purpose of internal controls. Weaknesses in internal control may go undetected, which could affect the Authority's ability to detect material misstatements in the financial statements. The lack of risk assessment and monitoring procedures increases the risk of fraud.

Cause: The Authority's Administrator and Board have not adopted policies related to controls over accounting or financial reporting. There is no formal documentation identifying management's risk assessment process, how current policies and procedures address the identified risks, and how management monitors the controls established to ensure they are working as planned.

Recommendation: We recommend the Authority document the process it uses to identify and respond to risks that may affect accounting or financial reporting. The Authority should establish an accounting policies and procedures manual for significant internal control systems. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures. We recommend the manual be approved by the Authority's Board to emphasize its importance and authority. We also recommend that a formal plan be developed that calls for monitoring internal controls on a regular basis, no less than annually, to determine whether the established internal controls are still effective or if changes are needed. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Based on the recommendation, the Authority will work to establish an accounting policies and procedures manual. We will need to contract with someone outside of our organization to assist with the development of this manual.

PREVIOUSLY REPORTED ITEMS RESOLVED

Preparation of Financial Statements (07-1)

The Authority has relied on its external auditors to prepare its annual financial statements, including the notes to the financial statements, as part of its external financial reporting process, based upon time constraints, availability of Authority staff, and the cost benefit of using our expertise rather than preparing the financial statements internally. Management oversees and approves this process.

Resolution

The Authority provides basic information necessary for preparation of the Authority's financial statements. The Authority has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements, and the Authority's Board has approved the Administrator to properly oversee the audit process, related financial statement preparation, and financial reporting.

Record Retention (10-3)

The Administrator reported having shredded documents detailing insurance coverage in place for years before 2010 and having deleted the invoice detail for a receivable within QuickBooks. As a result, no record was kept in the general ledger of the prior amount due or the amount written off as an uncollectible account.

Resolution

The Board approved a record retention policy in May 2011. Insurance documentation, starting with 2010, was on file with the Administrator, and the Authority's Board approved uncollectible amounts for the year ended December 31, 2011.

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

11-1 Deficit Fund Balance

Criteria: Assets should exceed liabilities in order for the Authority to meet its obligations and maintain a positive fund balance.

Condition: As of December 31, 2011, the liabilities in the General Fund exceeded assets, resulting in a deficit fund balance amount.

Context: As of December 31, 2011, the General Fund had a deficit fund balance of $330,538, which is a decrease from the $116,022 positive fund balance reported in the prior year.

Effect: The deficit fund balance resulted from the timing of the reimbursement arrangement with the Minnesota Department of Transportation for rehabilitation contracts. The funding was not received prior to the end of the 60-day modified accrual period.

Cause: The Authority receives funding from the Minnesota Department of Transportation to pay the contractors. There appears to be a processing lag between the Authority's request and the receipt of funds.

Recommendation: We recommend that the Authority closely monitor the General Fund's cash balance and fund balance and eliminate the deficit fund balance by increasing revenues.

Client's Response:

The Authority believes this is a timing issue of the pass-through funding during the rehab reimbursement process with the Minnesota Department of Transportation, and we do monitor our fund balances.

PREVIOUSLY REPORTED ITEM RESOLVED

Meeting Minutes (10-4)

While on site to perform audit procedures in March 2011, we noted several deficiencies with the Authority's meeting minutes for the 2008 through 2010 meetings.

Resolution

The Authority's Board minutes for the remainder of 2011 and 2012 were signed, complete, up to date, and filed in the official record or minutes book. The minutes also included reasons for closed meetings and provided detail of contracts and quotes presented for approval.

This page was left blank intentionally.

STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

REBECCA OTTO
STATE AUDITOR

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

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 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 year ended December 31, 2011, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 30, 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 Minnesota Valley Regional Rail Authority is responsible for establishing and maintaining effective 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 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 and other deficiencies that we consider to be significant deficiencies.

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 Authority'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 07-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 00-1, 07-2, and 10-2 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minnesota Valley Regional Rail Authority'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.

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.

Also included in the Schedule of Findings and Recommendations is a management practice comment. We believe this recommendation to be of benefit to the Authority, and it is reported for that purpose.

The Minnesota Valley Regional Rail Authority's written responses to the internal control and management practice findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Authority's responses 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

April 30, 2013