# STATE OF MINNESOTA

## Office of the State Auditor

**Rebecca Otto**
**State Auditor**

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

FOR THE YEAR ENDED DECEMBER 31, 2013

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

# MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
# REDWOOD FALLS, MINNESOTA

## For the Year Ended December 31, 2013

**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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# Introductory Section

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

ORGANIZATION
2013

| Name | Office | Term Expires |
|---|---|---|
| Bob Fox* | Chair | Appointed Yearly |
| Tom Workman | Vice Chair | Appointed Yearly |
| Sharon Hollatz | 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 2013 and 2014

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# Financial Section

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**STATE OF MINNESOTA**
OFFICE OF THE STATE AUDITOR

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STATE AUDITOR

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# INDEPENDENT AUDITOR'S REPORT

Board Members
Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota

## Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***
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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2013, the Authority adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

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. The Schedule of Intergovernmental Revenue is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Intergovernmental Revenue 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. Such 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 Schedule of Intergovernmental Revenue is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 5, 2014

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)

As management of the Minnesota Valley Regional Rail 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, 2013. 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 Rail 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 Rail Authority exceeded its liabilities by $20,354,517 (net position), of which $20,041,127 is the net investment in capital assets (Exhibit 1), leaving unrestricted net position of $313,390.

The Authority's total net position decreased $261,513 in 2013.

## 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 Rail 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 provided. 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 Position 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 position are one indicator of whether the financial health of the Authority is improving or deteriorating.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 13 through 25 of this report.

Other information is provided as supplementary information regarding the Minnesota Valley Regional Rail Authority's intergovernmental revenue.

**Governmental Fund**

As compared to 2012, revenues for the Authority's General Fund decreased by $4,982,304 and expenditures decreased $4,521,583, due to the completion of the 2012 Rehabilitation project.

The General Fund balance increased by $83,097, for a total unassigned fund balance of $296,377.

The Minnesota Valley Regional Rail 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.

**Government-Wide Financial Analysis**

Over time, net position serves as a useful indicator of the Authority's financial position. The Minnesota Valley Regional Rail Authority's assets exceeded liabilities by $20,354,517 at the close of 2013. The largest portion of the Authority's net position 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 Position**

| | 2013 | 2012 |
|---|---|---|
| Assets | | |
| Current and other assets | $ 349,225 | $ 490,044 |
| Capital assets | 24,650,406 | 25,122,592 |
| Total Assets | $ 24,999,631 | $ 25,612,636 |
| Liabilities | | |
| Long-term liabilities | $ 4,609,279 | $ 4,749,209 |
| Other liabilities | 35,835 | 247,397 |
| Total Liabilities | $ 4,645,114 | $ 4,996,606 |
| Net Position | | |
| Net investment in capital assets | $ 20,041,127 | $ 20,373,383 |
| Unrestricted | 313,390 | 242,647 |
| Total Net Position | $ 20,354,517 | $ 20,616,030 |

## Governmental Activities

The Minnesota Valley Regional Rail Authority's activities decreased the Authority's net position during 2013 by $261,513, representing a 1.3 percent decrease, primarily because of the Authority's increase in depreciation of the rehabilitation costs of the investments made in capital assets. Key elements in this decrease in net position are as follows:

**Governmental Activities**
**Changes in Net Position**

| | 2013 | 2012 |
|---|---|---|
| Revenues | | |
| Program revenues | | |
| Charges for services | $ 99,840 | $ 107,220 |
| Licenses and permits | 138,800 | 142,856 |
| Intergovernmental | 234,223 | 4,766,704 |
| General revenues | | |
| Interest earnings | 568 | 11,833 |
| Miscellaneous | 92,970 | 69,300 |
| Total Revenues | $ 566,401 | $ 5,097,913 |
| Expenses | | |
| Program expenses | | |
| Economic development | 827,914 | 806,776 |
| Net Change in Net Position | $ (261,513) | $ 4,291,137 |
| Net Position - January 1 | 20,616,030 | 16,324,893 |
| Net Position - December 31 | $ 20,354,517 | $ 20,616,030 |

## General Fund Budgetary Highlights

There were no differences between the original General Fund expenditure budget and the final budget in 2013.

Actual General Fund revenues exceeded budgeted revenues by $356,492, primarily due to more pass-through intergovernmental revenues recognized than anticipated and additional car storage rental income.

Actual expenditures exceeded budgeted expenditures by $273,395. The more-than-expected expenditures reflect more-than-anticipated rehabilitation costs which were expended in 2013 for the 2012 Rehabilitation project.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Minnesota Valley Regional Rail Authority's depreciable capital assets at December 31, 2013, totaled $24,059,406 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, and equipment. The Authority's investment in land improvements increased $4,894,152 from the previous year due to completion of the 2012 Rehabilitation project and moving this project from construction in progress.

**Capital Assets at Year-End**
**(Net of Depreciation)**

| | 2013 | 2012 |
|---|---|---|
| Capital assets not depreciated | | |
| Land | $ 591,000 | $ 591,000 |
| Construction in progress | - | 4,655,115 |
| Total capital assets not depreciated | $ 591,000 | $ 5,246,115 |
| Capital assets depreciated | | |
| Land improvements | $ 28,322,931 | $ 23,428,779 |
| Buildings | 63,000 | 63,000 |
| Machinery and equipment | 4,000 | 4,000 |
| Total capital assets depreciated | $ 28,389,931 | $ 23,495,779 |
| Less: accumulated depreciation for | | |
| Land improvements | $ 4,285,575 | $ 3,577,502 |
| Buildings | 40,950 | 37,800 |
| Machinery and equipment | 4,000 | 4,000 |
| Total accumulated depreciation | $ 4,330,525 | $ 3,619,302 |
| Total capital assets depreciated, net | $ 24,059,406 | $ 19,876,477 |
| Total Capital Assets, Net | $ 24,650,406 | $ 25,122,592 |

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 $4,609,279. Other liabilities and contingencies are described in the notes to the financial statements.

**Outstanding Debt**

| | 2013 | 2012 |
|---|---|---|
| State loan | $ 4,489,279 | $ 4,589,209 |
| Operator loan | 120,000 | 160,000 |
| Total | $ 4,609,279 | $ 4,749,209 |

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 MIC payment. The loans will be paid from the Authority's rents as received from the operator.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

For 2013-14, we are nearing the end of the authorized funding appropriations from the federal government and state bonding dollars for our project. There is approximately $1.7 million in authorized bonding funds available. We plan to use this balance to complete bridge upgrades to 286,000 lbs. standards. There needs to be amended language to the bond authorization before we can move ahead with the use of the funds. This is currently in the 2014 Bonding Bill.

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 Rail 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 Rail Authority; 200 South Mill Street; Redwood Falls, Minnesota 56283.

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# BASIC FINANCIAL STATEMENTS

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MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

*EXHIBIT 1*

## GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL DECEMBER 31, 2013

| | General Fund | Adjustments | Governmental Activities |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and pooled investments | $ 267,799 | $ - | $ 267,799 |
| Accounts receivable | 81,426 | - | 81,426 |
| Capital assets | | | |
| Non-depreciable | - | 591,000 | 591,000 |
| Depreciable - net | - | 24,059,406 | 24,059,406 |
| **Total Assets** | **$ 349,225** | **$ 24,650,406** | **$ 24,999,631** |
| **Liabilities and Fund Balance/Net Position** | | | |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable | $ 35,835 | $ - | $ 35,835 |
| Long-term liabilities | | | |
| Due within one year | - | 141,240 | 141,240 |
| Due in more than one year | - | 4,468,039 | 4,468,039 |
| **Total Liabilities** | **$ 35,835** | **$ 4,609,279** | **$ 4,645,114** |
| **Deferred Inflows of Resources** | | | |
| Unavailable revenue | **$ 17,013** | **$ (17,013)** | |
| **Fund Balance** | | | |
| Unassigned | **$ 296,377** | **$ (296,377)** | |
| **Net Position** | | | |
| Net investment in capital assets | | $ 20,041,127 | $ 20,041,127 |
| Unrestricted | | 313,390 | 313,390 |
| **Total Net Position** | | **$ 20,354,517** | **$ 20,354,517** |
| **Total Liabilities and Fund Balance/Net Position** | **$ 349,225** | **$ 24,650,406** | **$ 24,999,631** |

| | |
|---|---|
| **Reconciliation of the General Fund Balance to Net Position** | |
| Fund Balance - General Fund | $ 296,377 |
| Long-term assets are reported as deferred inflows of resources in the governmental fund. | 17,013 |
| Capital assets are reported on the Statement of Net Position but not on the General Fund Balance Sheet. | 24,650,406 |
| Long-term liabilities are reported in the Statement of Net Position but not on the General Fund Balance Sheet. | (4,609,279) |
| **Net Position - Governmental Activities** | **$ 20,354,517** |

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

*EXHIBIT 2*

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL FOR THE YEAR ENDED DECEMBER 31, 2013

| | General Fund | Adjustments | Governmental Activities |
|---|---|---|---|
| **Revenues** | | | |
| Licenses and permits | $ 121,787 | $ 17,013 | $ 138,800 |
| Intergovernmental | 248,014 | (13,791) | 234,223 |
| Charges for services | 99,840 | - | 99,840 |
| Investment earnings | 568 | - | 568 |
| Miscellaneous | 108,546 | (15,576) | 92,970 |
| **Total Revenues** | **$ 578,755** | **$ (12,354)** | **$ 566,401** |
| **Expenditures/Expenses** | | | |
| **Current** | | | |
| **Economic development** | | | |
| Administration | $ 75,399 | $ - | $ 75,399 |
| Rehabilitation | 280,074 | 472,186 | 752,260 |
| Transportation | 255 | - | 255 |
| **Debt service** | | | |
| Principal | 139,930 | (139,930) | - |
| **Total Expenditures/Expenses** | **$ 495,658** | **$ 332,256** | **$ 827,914** |
| **Net Change in Fund Balance/Net Position** | **$ 83,097** | **$ (344,610)** | **$ (261,513)** |
| **Fund Balance/Net Position - January 1** | **213,280** | **20,402,750** | **20,616,030** |
| **Fund Balance/Net Position - December 31** | **$ 296,377** | **$ 20,058,140** | **$ 20,354,517** |

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

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

*EXHIBIT 2*
*(Continued)*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES WITH ADJUSTMENTS TO RECONCILE BETWEEN MODIFIED AND FULL ACCRUAL FOR THE YEAR ENDED DECEMBER 31, 2013**

| | | | | |
|---|---|---|---|---|
| **Reconciliation of the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities** | | | | |
| Net Change in Fund Balance | | | $ | **83,097** |
| 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 inflows of resources - December 31 | $ | 17,013 | | |
| Deferred inflows of resources - January 1 | | (29,367) | | (12,354) |
| 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 | $ | 239,037 | | |
| Current year depreciation | | (711,223) | | (472,186) |
| 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 position. The adjustment is the payments on debt. | | | | 139,930 |
| **Change in Net Position of Governmental Activities** | | | **$** | **(261,513)** |

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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, 2013. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by the Minnesota Valley Regional Rail Authority are discussed below.

Change in Accounting Principles

During 2013, the Authority adopted new accounting guidance by implementing the provisions of GASB Statement 65. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.4. in the notes to the financial statements for additional information regarding the Authority's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of adopting this change in accounting principle.

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.

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Government-Wide Statements

Basic financial statements include information on the Authority's activities as a whole and information on the individual fund (the General 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 position is reported in two parts: net investment in capital assets and unrestricted net position. The Statement of Activities demonstrates the degree to which the expenses of the Authority are offset by revenues.

The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund are presented on the modified accrual basis 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

The 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

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent that they have matured. Issuances 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, Deferred Outflows/Inflows of Resources, and Net Position or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2013, based on market price.

2. Receivables and Payables

The financial statements of the Authority contain no allowance for uncollectible accounts. Uncollectible receivables are recognized as bad debts at the time information becomes available that indicates the particular receivable is uncollectible. 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 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.

1. Summary of Significant Accounting Policies

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

3. Capital Assets (Continued)

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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Currently, the Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

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 Position reports long-term liabilities of the governmental activities.

1. Summary of Significant Accounting Policies

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

      6. Classification of Net Position

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

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

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

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

      7. Classification of Fund Balances

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

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

      Restricted - amounts 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 imposed by law through constitutional provisions or enabling legislation.

1. Summary of Significant Accounting Policies

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

7. Classification of Fund Balances (Continued)

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.

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; it includes all spendable amounts not contained in the other fund balance classifications.

The Minnesota Valley Regional Rail 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 certain 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.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

| | Expenditures | Final Budget | Excess |
|---|---|---|---|
| General Fund | $ 495,658 | $ 222,263 | $ 273,395 |

3. Detailed Notes

A. Assets

1. Deposits and Investments

The following table presents the Authority's cash and deposit balances at December 31, 2013:

| | |
|---|---|
| Checking | $ 100,730 |
| Savings | 53 |
| Certificates of deposit | 167,016 |
| Total Cash and Investments | $ 267,799 |

During the year ended December 31, 2013, 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 at the close of the financial institution's banking day, not covered by insurance or bonds.

3. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits (Continued)

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.

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, 2013, 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. Detailed Notes

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

(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

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

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

1. Deposits and Investments

b. Investments (Continued)

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, 2013, 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.

2. Receivables

Receivables as of December 31, 2013, for the Authority follow:

| | Receivables | Amounts Not Scheduled for Collection During the Subsequent Year |
|---|---|---|
| Accounts receivable | $ 81,426 | $ - |

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

| | Beginning Balance | Increase | Decrease | Ending Balance |
|---|---|---|---|---|
| Capital assets not depreciated | | | | |
| Land | $ 591,000 | $ - | $ - | $ 591,000 |
| Construction in progress | 4,655,115 | - | 4,655,115 | - |
| Total capital assets not depreciated | $ 5,246,115 | $ - | $ 4,655,115 | $ 591,000 |
| Capital assets depreciated | | | | |
| Land improvements | $ 23,428,779 | $ 4,894,152 | $ - | $ 28,322,931 |
| Buildings | 63,000 | - | - | 63,000 |
| Machinery and equipment | 4,000 | - | - | 4,000 |
| Total capital assets depreciated | $ 23,495,779 | $ 4,894,152 | $ - | $ 28,389,931 |
| Less: accumulated depreciation for | | | | |
| Land improvements | $ 3,577,502 | $ 708,073 | $ - | $ 4,285,575 |
| Buildings | 37,800 | 3,150 | - | 40,950 |
| Machinery and equipment | 4,000 | - | - | 4,000 |
| Total accumulated depreciation | $ 3,619,302 | $ 711,223 | $ - | $ 4,330,525 |
| Total capital assets depreciated, net | $ 19,876,477 | $ 4,182,929 | $ - | $ 24,059,406 |
| Governmental Activities Capital Assets, Net | $ 25,122,592 | $ 4,182,929 | $ 4,655,115 | $ 24,650,406 |

Depreciation expense of $711,223 was charged to the Authority's economic development function for the year ended December 31, 2013.

3. Detailed Notes (Continued)

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| State loan | $ 4,589,209 | $ - | $ 99,930 | $ 4,489,279 | $ 101,240 |
| Operator loan | 160,000 | - | 40,000 | 120,000 | 40,000 |
| Total | $ 4,749,209 | $ - | $ 139,930 | $ 4,609,279 | $ 141,240 |

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 from the Authority's rents as received from the operator. Therefore, the amount due within one year is an estimate as the exact amount 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, 2013, are:

| Year Ended | Operator |
|---|---|
| 2014 | $ 40,000 |
| 2015 | 40,000 |
| 2016 | 40,000 |
| Total | $ 120,000 |

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 prior year or settlements in excess of insurance coverage for any of the past three fiscal years.

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# REQUIRED SUPPLEMENTARY INFORMATION

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

***EXHIBIT A-1***

### BUDGETARY COMPARISON SCHEDULE
### GENERAL FUND
### FOR THE YEAR ENDED DECEMBER 31, 2013

| | Budgeted Amounts | | Actual | Variance with |
|---|---|---|---|---|
| | **Original** | **Final** | **Amounts** | **Final Budget** |
| **Revenues** | | | | |
| Licenses and permits | $ 114,913 | $ 114,913 | $ 121,787 | $ 6,874 |
| Intergovernmental | - | - | 248,014 | 248,014 |
| Charges for services | 100,000 | 100,000 | 99,840 | (160) |
| Investment earnings | - | - | 568 | 568 |
| Miscellaneous | 7,350 | 7,350 | 108,546 | 101,196 |
| **Total Revenues** | **$ 222,263** | **$ 222,263** | **$ 578,755** | **$ 356,492** |
| **Expenditures** | | | | |
| **Current** | | | | |
| **Economic development** | | | | |
| Administration | $ 56,363 | $ 56,363 | $ 75,399 | $ (19,036) |
| Rehabilitation | 25,700 | 25,700 | 280,074 | (254,374) |
| Transportation | 200 | 200 | 255 | (55) |
| **Debt service** | | | | |
| Principal | 140,000 | 140,000 | 139,930 | 70 |
| **Total Expenditures** | **$ 222,263** | **$ 222,263** | **$ 495,658** | **$ (273,395)** |
| **Net Change in Fund Balance** | **$ -** | **$ -** | **$ 83,097** | **$ 83,097** |
| **Fund Balance - January 1** | **213,280** | **213,280** | **213,280** | **-** |
| **Fund Balance - December 31** | **$ 213,280** | **$ 213,280** | **$ 296,377** | **$ 83,097** |

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

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

1. General Budget Policies

   The Minnesota Valley Regional Rail Authority's 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's Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual for the General Fund 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 2013.

4. Excess of Expenditures Over Budget

   For the year ended December 31, 2013, expenditures of $495,658 exceeded the budgeted appropriations of $222,263 by $273,395 in the General Fund.

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## SUPPLEMENTARY INFORMATION

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

*EXHIBIT B-1*

### SCHEDULE OF INTERGOVERNMENTAL REVENUE
### FOR THE YEAR ENDED DECEMBER 31, 2013

| | | |
|---|---|---|
| **Reimbursement for Services** | | |
| Sibley County | $ | 13,791 |
| | | |
| **Grants** | | |
| **State** | | |
| Minnesota Department of Transportation | | 234,223 |
| | | |
| **Total Intergovernmental Revenue** | **$** | **248,014** |

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

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013

## I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2000-001

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 Minnesota Valley Regional Rail Authority lacks proper segregation of duties. 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. As a result, 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 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.

Client's Response:

*The Minnesota Valley Regional Rail Authority (MVRRA) is aware of the lack of segregation of duties and provides staff oversight to monitor the accounting functions. In 2014, billing, collecting, and recording will now be done by a 3rd party entity. Staff will pay bills and reconcile bank statements. Deposits will be direct deposits into our account so staff will handle only the quarterly payments from Minnesota Prairie Line, Inc.*

Finding 2007-002

Capital Assets Policies and Procedures

**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 spreadsheet. Additions and deletions are entered into this spreadsheet and depreciation is calculated. However, the capital assets policy utilized by the Authority in maintaining the spreadsheet has 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:

*MVRRA has a draft policy manual under review by our Legal Counsel. As soon as Legal Counsel has approved this, it will be on our agenda for approval and acceptance going forward.*

Finding 2010-002

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 enables 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:

*In regards to internal controls and monitoring, any significant changes with financial information and journal entries will be approved by the Board at monthly meetings, and the Budget Committee will meet quarterly to review the process.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Audit Adjustment (2007-001)**

During the previous audit, we identified a material adjustment that resulted in a significant change to the Authority's financial statements.

**Resolution**

We noted no material audit adjustments during the current audit. The Authority has continued to implement procedures over financial reporting to detect misstatements in the financial statements.

## II. OTHER FINDINGS AND RECOMMENDATIONS

PREVIOUSLY REPORTED ITEM RESOLVED

**Identification of Federal Awards - Rail Line Relocation and Improvement (CFDA No. 20.320) (2012-001)**

The Authority did not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor did it properly identify and classify, as federal revenues in the general ledger system, amounts received and expended for its 2012 major federal award program. The $1,950,000 award was improperly classified as state revenues in the general ledger accounts.

**Resolution**

The Authority did not expend over $500,000 in federal awards during 2013 and, therefore, was not required to prepare a SEFA.

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# COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board Members
Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, 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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 5, 2014.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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, 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Those significant deficiencies are reported in the Schedule of Findings and Recommendations as items 2000-001, 2007-002, and 2010-002.

**Other Matters**

The Minnesota Valley Regional Rail Authority's written responses to the internal control 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.

**Purpose of This Report**

This communication is intended solely for the information and use of management, the Board members, and others within the Authority, and is not intended to be, and should not be, used by anyone other than those specified parties.

| | |
|---|---|
| */s/Rebecca Otto* | */s/Greg Hierlinger* |
| REBECCA OTTO<br>STATE AUDITOR | GREG HIERLINGER, CPA<br>DEPUTY STATE AUDITOR |

June 5, 2014

**STATE OF MINNESOTA**
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# INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board Members
Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Rail Authority, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 5, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of the Authority's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Minnesota Valley Regional Rail Authority failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the Minnesota Valley Regional Rail Authority and the State Auditor 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

June 5, 2014